

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
AN AGENCY OF THE STATE OF NORTH DAKOTA

COMPREHENSIVE
FINANCIAL

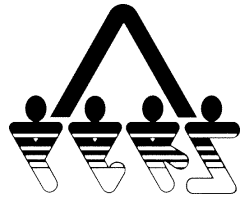
2006
ANNUAL
REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2006



North Dakota Public Employees Retirement System

An Agency of the State of North Dakota



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Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2006

Prepared by the staff of the North Dakota Public Employees Retirement System

400 East Broadway, Suite 505, Bismarck, North Dakota 58501

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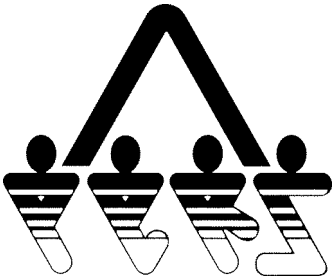
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INTRODUCTORY SECTION

Vertical line

**GFOA
CERTIFICATE OF
ACHIEVEMENT**

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**North Dakota
Public Employees
Retirement System**

For its Comprehensive Annual

Financial Report

for the Fiscal Year Ended

June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Perry

President

Jeffrey R. Emer

Executive Director

LETTER OF
TRANSMITTAL



North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 • Box 1657
Bismarck, ND 58502-1657

Sparb Collins
Executive Director
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December 19, 2006

Board of Trustees
Members of the System

We are pleased to present the Comprehensive Annual Financial Report for the North Dakota Public Employees Retirement System (System) for the fiscal year ended June 30, 2006. The management of the System is responsible for both the accuracy of the data and the completeness and fairness of the presentation.

The report consists of five sections:

1. The Introductory Section contains this Letter of Transmittal and an overview of our administrative organization.
2. The Financial Section contains a letter expressing the opinion of our independent auditor, a narrative introduction and overview in the Management's Discussion and Analysis, the System's financial statements, required supplementary information and other supplementary financial information.
3. The Investment Section contains an overview of the investment portfolio, a summary of the System's investment policies, the asset allocation, largest holdings, and investment performance and fees.
4. The Actuarial Section contains the Actuarial Valuation Certificates and summaries of major actuarial assumptions, plan provisions, and participant data.
5. The Statistical Section contains membership and financial information for the programs administered by the System.

Generally accepted accounting principals (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The System's MD&A can be found immediately following the report of the independent auditors in the Financial Section.

Plan History and Services Provided

The System is the administrator of four defined benefit pension plans and an optional defined contribution retirement plan. The System also manages and administers the retiree health insurance credit program, the uniform group insurance program, the deferred compensation program and the pretax benefits program. Following is a brief overview of the statistical and financial highlights for each of these programs for the fiscal year ended June 30, 2006.

Defined Benefit Pension Plans

The Public Employees Retirement System (PERS) is a cost-sharing multiple-employer retirement plan. PERS was established July 1, 1966 as a defined contribution plan and was changed to a defined benefit plan by the 1977 North Dakota Legislature. PERS covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. It also covers Supreme and District Court Judges, the National Guard Security Officers and Firefighters, and as of August 1, 2004, peace officers and correctional officers employed by political subdivisions. The Highway Patrolmen's Retirement System (HPRS) is a single-employer defined benefit plan established July 1, 1949 that covers substantially all sworn officers of the North Dakota Highway Patrol. The System became the administrator of this plan effective July 1, 1983. The Retirement Plan for Employees of Job Service North Dakota (Job Service Plan) is a single-employer defined benefit plan established July 1, 1961 and is limited to employees participating in the plan as of September 30, 1980. The Old-Age and Survivor Insurance System (OASIS) is a cost-sharing, multi-employer defined benefit plan established July 1, 1947. Participation in the OASIS plan is limited to eligible employees and their beneficiaries as of April 23, 1957. The System became the administrator of the Job Service and OASIS plans effective August 1, 2003.

PERS has 18,102 contributing members and 6,235 retirees and beneficiaries currently receiving benefits. HPRS has 127 contributing members and 100 retirees and beneficiaries. The Job Service Plan has



44 contributing members and 221 retirees and beneficiaries and OASIS has 1 beneficiary. The employers participating in PERS include 92 state agencies and 276 political subdivisions.

PERS, HPRS, Job Service Plan and OASIS are accounted for as pension trust funds.

Defined Contribution Retirement Plan

An optional Defined Contribution Retirement Plan (DC Plan) was established effective January 1, 2000. The DC Plan is available to state employees who are in positions not classified by the Human Resource Management Services division of the State of North Dakota. Employees of the judicial branch or the Board of Higher Education and State Institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Plan. The Plan has 291 participants.

The defined contribution retirement plan is accounted for as a pension trust fund.

Retiree Health Insurance Credit Program

This program was created by the North Dakota Legislature in 1989. It is designed to provide members with a benefit that can be used to offset the cost of their health insurance premiums during their retirement years. Approximately 61% of eligible retirees are receiving benefits under this plan.

This program is advance-funded on an actuarially determined basis. The market value of net assets available to pay benefits as of June 30, 2006 is \$37.9 million, an increase of 11.8% over the previous year. The assets earned an annualized rate of return of 8.47% for the fiscal year ended June 30, 2006, 10.77% for the last three years and 5.43% for the last five years. As of fiscal year end, the program's actuarial value of assets is 41.2% of the actuarial accrued liability, which is an increase from the previous year. Funding progress is covered in more detail in the actuarial section of this report.

The retiree health insurance credit program is accounted for as a pension trust fund.

Uniform Group Insurance Program

Group Health Insurance. The System began administering the group health insurance plan in 1971. There are 23,981 active and retired contracts under this plan as of June 30, 2006, a 1.7% increase from last year at this time. Total covered lives, including spouses and dependents, are 55,414. As of June 30, 2006 there were 167 political subdivisions participating in the group health program, six more than last year. The health insurance premiums paid to Blue Cross Blue Shield for the fiscal year ended June 30, 2006 totaled \$138.5 million. Managed care initiatives such as the Preferred Provider Option and Exclusive Provider Option continue to be an important component of the plan design. However, with medical and prescription drug costs rising at rates of 10%-20% per biennium, the System is in the process of implementing a disease management program, employee wellness initiatives and employer-based wellness programs to help contain costs.

Group Life Insurance. The System began administering the group life insurance plan in 1971. There are 17,610 active and 3,016 retired employees covered under the basic life insurance plan. Active employees have the option of purchasing additional life insurance under the employee supplemental, dependent supplemental, and spouse supplemental provisions of the plan. The life insurance premiums paid to Prudential for the fiscal year ended June 30, 2006 totaled \$2.5 million, a 12% reduction from last year. As of fiscal year end, there is \$961.2 million of life insurance in force for all participants covered by this plan, a 6% increase in coverage from last year.

Voluntary Insurance Products. The 1995 North Dakota Legislature authorized the System to offer voluntary insurance products, specifically dental, vision and long term care insurance. On January 1, 1997, the System began offering a dental plan and long term care plan and on January 1, 2003, a vision plan was offered. There are approximately 4,400 participants in the dental plan, 3,400 participants in the vision plan and 61 participants in the long term care plan.

Employee Assistance Program. The 1997 North Dakota Legislature authorized the System to administer an employer-sponsored Employee Assistance Program (EAP) for all state employees, effective August 1, 1997. The System has contracted with three EAP vendors to provide services to employees and their families. The System collects the monthly premiums from the employers and remits them to the appropriate vendor. Approximately 14,600 state employees are covered under this program.

The uniform group insurance plan is a public entity risk pool and is accounted for as an enterprise fund.

Deferred Compensation Program

This is a voluntary, supplemental retirement plan provided in accordance with Section 457 of the Internal Revenue Code. It allows eligible employees to defer and invest income on a pretax basis to be withdrawn at a later date, usually at retirement. The System has administered the Plan since 1987. Sixteen companies have agreed to provide investment services for the State's deferred compensation program. The System is the trustee for deferred compensation assets totaling \$18.6 million; provider companies hold the remaining plan assets of \$85.9 million in custodial accounts for the exclusive benefit of participants and their beneficiaries. Plan assets increased 15% from last year. Approximately 7,300 employees participate in this program, a 14% increase from last year.

The deferred compensation program is accounted for as an other employee benefit trust fund.

Pretax Benefits Program (FlexComp)

This program was established by the North Dakota Legislature in 1989 in accordance with Section 125 of the Internal Revenue Code. It allows eligible employees to elect to reduce their salaries to pay for qualified insurance premiums, medical expenses, and dependent care expenses on a pretax basis. There are 3,023 participants in the medical and dependent care spending accounts, a decrease of 2.4% from last year. However, employee contributions to the spending accounts stayed steady at \$5.1 million. The employer FICA savings generated from the salary reductions are sufficient to cover the administrative expenses; therefore, this program remains budget neutral.

The pretax benefits program is accounted for as an other employee benefit trust fund.

Major Initiatives

The following is a summary of revisions to the laws governing the System that were passed by the 2005 North Dakota Legislature. All changes were effective August 1, 2005 unless otherwise noted.

- Added a Partial Lump Sum Option form of retirement payment
- Replaced the Five Year Term Certain optional form of retirement benefit with a Twenty Year Term Certain Option
- Provided for a one-time supplemental payment equal to 50% of the monthly retirement benefit, to be paid January 2006
- Changed the method of calculating final average salary for members of the Highway Patrol Retirement System

In addition to the legislative benefit changes, the following significant activities occurred during the fiscal year:

- Transitioned the Group Life Insurance plan to a new carrier
- Expanded the number of providers in the EPO network which resulted in a 36% increase in the number of contracts enrolled in the EPO
- Had the actuary conduct a 5 year experience review for the PERS, Highway Patrol and Retiree Health Insurance Credit plans
- Performed an asset liability study for the defined benefit plans to determine if changes in the asset allocation are necessary to meet liabilities
- Updated investment policies to reflect new capital market assumptions
- Amended the plan document for the 457 deferred compensation plan to include more portability
- Replaced the retiree prescription drug coverage under the Dakota Retiree Carve-Out plan with a Prescription Drug Plan (PDP) in order to comply with the new Medicare Part D requirements that were effective January 1, 2006
- Retained an actuary to calculate the costs of the Other Post Employment Benefits (OPEB) relating to implicit subsidies for retiree health insurance premiums
- Implemented the Employer Based Wellness program and enrolled 222 employers
- Hired a consultant to conduct a feasibility study of the current business application system. Based on the results of the feasibility study, decision was made to proceed with developing an RFP for a system replacement.
- Modified the Audit Committee Charter to allow for a third member from outside the organization
- Put the dental and long term care plans out for bid
- Amended the plan document for the FlexComp plan to allow for a 2 1/2 month grace period for submitting claims for the previous plan year



Financial Information

The financial statements included in this report are the responsibility of the System's management and have been prepared in accordance with generally accepted accounting principles for governmental accounting and reporting as pronounced or adopted by the Governmental Accounting Standards Board and the Financial Accounting Standards Board. Management is also responsible for maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

The expenses of the System are monitored through two budgetary controls. The majority of the administrative expenditures are appropriated each biennium by the North Dakota Legislature; certain statutorily prescribed expenses (including benefit payments, actuarial and consulting fees and audit fees) have received a continuing appropriation from the North Dakota Legislature and are reviewed directly by the System's Board.

Revenues and Expenses

Investment earnings, together with employee and employer contributions, are the funding sources for the benefits provided through the System. The main expenses of the System are benefit payments and the cost of administering the System. The following tables show the combined revenues and expenses of PERS and HPRS for fiscal years 2006 and 2005:

(Millions)	Fiscal Year	Fiscal Year	Change	Percentage
Revenue Type	2006	2005	in \$ s	Change
Employee Contributions	\$ 25.1	\$ 24.6	\$.5	-2.0%
Employer Contributions	22.9	21.6	1.3	6.0
Investments	<u>176.5</u>	<u>184.0</u>	<u>-7.5</u>	<u>-4.1</u>
Total	\$ 224.5	\$ 230.2	\$ -5.7	-2.5%
Expense Type				
Benefits	\$ 60.5	\$ 53.6	\$ 6.9	12.9%
Refunds & Transfers	4.3	4.6	-0.3	-6.5
Administrative Expenses	<u>1.0</u>	<u>1.1</u>	<u>-0.1</u>	<u>-9.1</u>
Total	\$ 65.8	\$ 59.3	\$ 6.5	11.0%

Investment earnings decreased from the previous year as a result of the fund experiencing a lower rate of return on investments for the current fiscal year than the previous fiscal year. The return for fiscal year 2006 was 12.00%, compared to 14.07% for fiscal year 2005. Benefit payments are higher than the previous fiscal year because there are more retired members and beneficiaries receiving benefits from the System and there was an additional payment of \$2.3 million made in January pursuant to legislation passed in 2005.

Funding Status

The funding goal of any retirement system is to accumulate sufficient assets to pay all of its promised benefits as they come due. The annual valuation of the System's assets and liabilities performed by the System's actuary provides the best current estimate of the System's funding status and allows the Board to monitor funding progress.

A common measure of the strength of a pension system is to express the assets as a percentage of liabilities – the greater the percentage, the stronger the funding position of the System. The schedules of funding progress in the Financial Section of this report show both PERS and HPRS to be soundly funded. The July 1, 2006 actuarial valuation reports the actuarial value of assets for PERS at \$1,314.5 million, which is 88.8% of the actuarial accrued liabilities of \$1,480.5 million. The actuarial value of assets for HPRS is \$42.8 million, which is 87.0% of the actuarial accrued liabilities of \$49.1. The Job Service Plan is also soundly funded. The actuarial value of assets for the Job Service Plan is \$70.6 million, which is 100.9% of the actuarial present value of benefits of \$70.0 million.

Investments

The North Dakota State Investment Board (SIB) invests the funds for the PERS, HPRS and Job Service Plan. Chapter 21-10 of the North Dakota Century Code states that the SIB shall apply the prudent investor rule when investing funds under its supervision. The prudent investor rule means that in making investments, the

fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. All funds must be invested exclusively for the benefit of the System's members and all investments are made in accordance with the System's long-term investment objectives and performance goals.

The combined market value of assets for PERS and HPRS as of June 30, 2006 is \$1.632 billion, which is 10.8% higher than the previous year. The market value of assets for Job Service as of June 30, 2006 is \$84.1 million, a 3.4% increase over the previous year. During the fiscal year ended June 30, 2006, the System's portfolio remained broadly diversified with investments in domestic and international equities, domestic and international fixed income securities, real estate, private equity and cash equivalents.

The PERS and HPRS assets had an annualized rate of return of 12.0% for the fiscal year ended June 30, 2006. The annualized rate of return was 14.23% for the last three years and 7.93% for the last five years. The annualized rate of return for the fiscal year ended June 30, 2006 for the Job Service Plan was 7.09%. The annualized rate of return was 11.41% for the last three years and 6.33% for the last five years.

The assets of the defined contribution retirement plan are invested according to the direction of each participating member. The participant can select from thirteen investment categories and a mutual fund window, as provided by the Board. The investment categories are designed to cover a broad range to allow the participant to structure an investment strategy that meets their individual return objectives and risk tolerances. The market value of assets in the defined contribution retirement plan as of June 30, 2006 is \$14.6 million, which is a 12.3% increase from the previous year.

More detailed information on investment policies, investment fees, performance results and asset allocation can be found in the Investment Section of this report.

Independent Audit

The financial statements contained in this report were audited by the accounting firm of Brady, Martz and Associates, under the direction of the North Dakota State Auditor. The auditors' opinion was unqualified for the System for the year ended June 30, 2006.

Achievement Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the North Dakota Public Employees Retirement System for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The North Dakota Public Employees Retirement System has received a Certificate of Achievement for the last ten consecutive years (fiscal years ended June 30, 1996-2005). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Acknowledgements

The preparation of this report is the result of the combined effort of the System's staff. It is intended to provide complete and accurate information concerning the activities and results of operations. Copies of this report are available to employers, members and other interested parties upon request or it can be downloaded from the System's website.

Sincerely,



Sparb Collins
Executive Director



Sharon Schiermeister, CPA
Finance Manager



THE RETIREMENT BOARD

The Retirement Board is the governing authority of the Public Employees Retirement System and consists of seven persons. A North Dakota citizen who is neither a state or political subdivision employee is appointed by the Governor to serve as Chairman of the Board. A member of the Attorney General's legal staff and the State Health Officer are also appointed to serve on the Board. One Board member is elected by retired PERS members and the remaining three Board members are elected from active employees currently contributing to PERS. Three members of the Retirement Board are included in the membership of the North Dakota State Investment Board (SIB). The Retirement Board has specified that the members who serve on the SIB are to be selected from among the four elected members.

The Board members, and their respective terms, are as follows:



Jon Strinden
Chairman
Term expires
6/30/2010



Arvy Smith
Health Department
Appointee



Sandi Tabor
Attorney General
Appointee
Term expires
6/30/2006

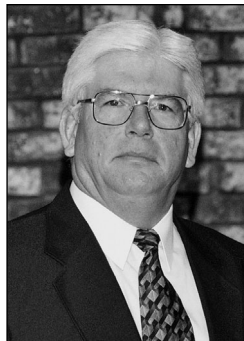
The Board's mission is to design, communicate and efficiently administer a viable employee benefits program within a framework of prudent risk taking, applicable state and federal laws, and professional and ethical standards so as to provide an employee benefit package that is among the best available from public and private employers in the upper midwest.



Joan Erhardt
Member elected
Term expires
6/30/2009



Ron Leingang
Retiree elected
Term expires
6/30/2009

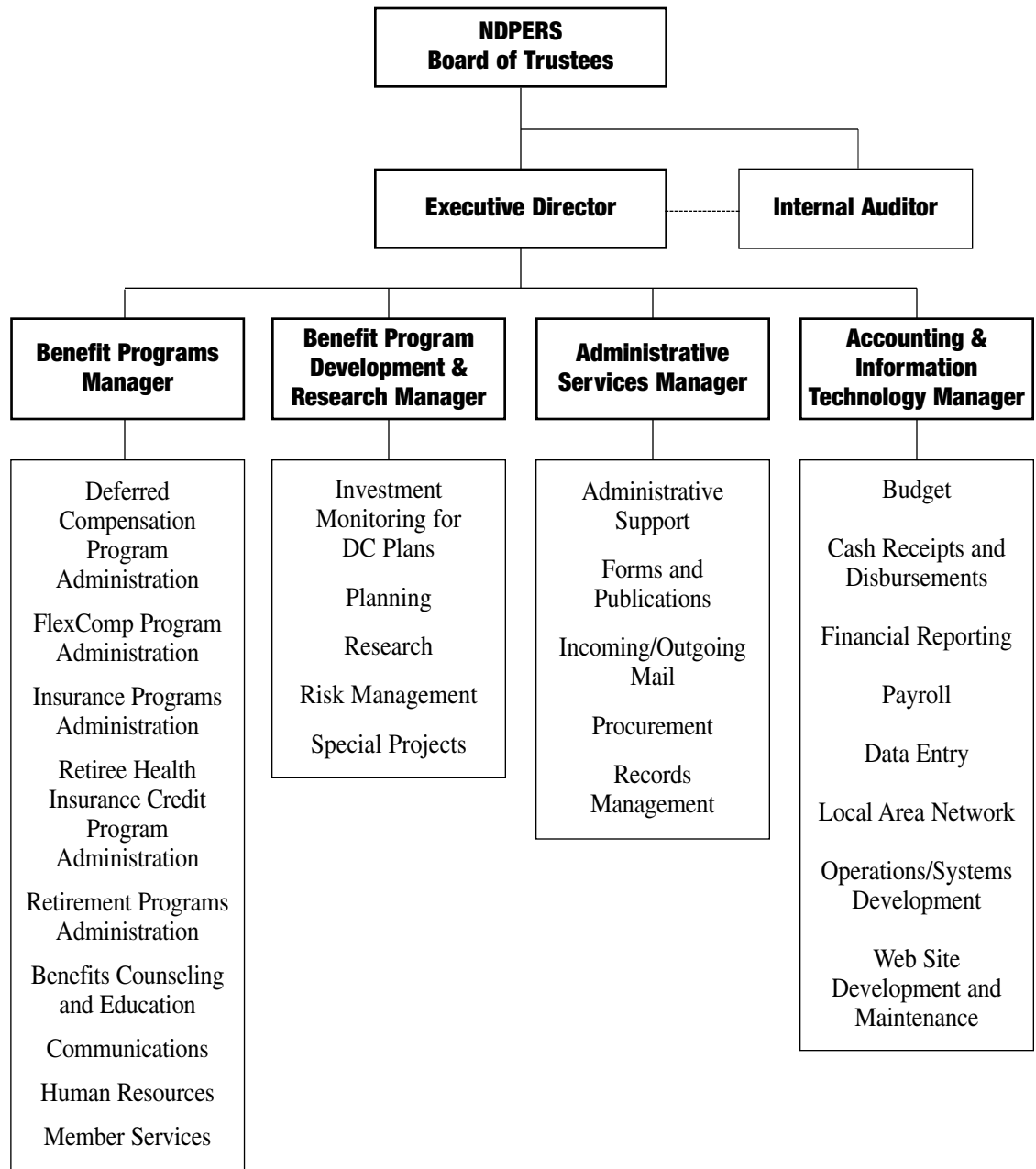


Howard Sage
Member elected
Term expires
6/30/2008



Rosey Sand
Member elected
Term expires
6/30/2007

**ORGANIZATIONAL
CHART**



ADMINISTRATION

Sparb Collins, *Executive Director*

Kathy Allen, *Benefit Programs Manager*

Jamie Kinsella, CPA, CIA, *Internal Auditor*

Deb Knudsen, *Benefit Program Development and Research Manager*

Sharon Schiermeister, CPA, *Accounting and Information Technology Manager*

Cheryl Stockert, *Administrative Services Manager*



**CONSULTING &
PROFESSIONAL
SERVICES****Actuary:**

The Segal Company
Denver, CO

Auditor:

Brady, Martz & Associates, P.C.
Bismarck, ND

Dental Insurance Carrier:

ING Employee Benefits
Minneapolis, MN

Disability Consultant:

Mid Dakota Clinic
Bismarck, ND

Employee Assistance Program Vendors:

Medcenter One
Bismarck, ND

St. Alexius/Heartview
Bismarck, ND

Village Family Services
Fargo, ND

Health Insurance Carrier:

Blue Cross Blue Shield of North Dakota
Fargo, ND

Insurance Consultant:

Gallagher Benefit Services, Inc.
Greenwood Village, CO

Investment Services:

North Dakota Retirement & Investment Office
Bismarck, ND

Legal Counsel:

North Dakota Attorney General's Office
Bismarck, ND

Life Insurance Carrier:

The Prudential Insurance Company of America
Minneapolis, MN

Long Term Care Insurance Carrier:

UNUM
Portland, ME

Vision Insurance Carrier:

Ameritas Life Insurance Corporation
Lincoln, NE



FINANCIAL SECTION

**INDEPENDENT
AUDITOR'S
REPORT**



CPAs & BUSINESS ADVISORS

Governor John Hoeven
The Legislative Assembly

Sparb Collins, Executive Director
North Dakota Public Employees Retirement System

We have audited the accompanying financial statements of the business-type activities and fiduciary funds of the North Dakota Public Employees Retirement System, a department of the State of North Dakota, as of and for the year ended June 30, 2006, which collectively comprise the North Dakota Public Employees Retirement System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the North Dakota Public Employees Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the North Dakota Public Employees Retirement System for the year ended June 30, 2005 were audited by other auditors whose report, dated September 16, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the North Dakota Public Employees Retirement System are intended to present the financial position, the changes in financial position, the cash flows and the change in net plan assets of only that portion of the business-type activities and fiduciary funds of the State of North Dakota that is attributable to the transactions of the North Dakota Public Employees Retirement System. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2006 and 2005, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The actuary for the North Dakota Public Employees Retirement System has determined that the Fund's unfunded actuarial accrued liability is approximately \$166 and \$125 million at June 30, 2006 and 2005, respectively. Also the actuary for the Highway Patrolmen's Retirement System has determined that the Fund's unfunded actuarial accrued liability is approximately \$6 and \$5 million at June 30, 2006 and 2005, respectively. The funding for the actuarial accrued liabilities is predicated on employer and employee funding rates mandated by North Dakota statutes. The actuary has determined that the current statutory contribution rates are insufficient to meet the actuarially determined requirement for the following fiscal year

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the plan net assets of the North Dakota Public Employees Retirement System as of June 30, 2006, and the respective changes in net plan assets, changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 6, 2006 on our consideration of the North Dakota Public Employees Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management's Discussion and Analysis (MD&A) and the Schedules of Employer Contributions, Schedule of Funding Progress and Notes to Required Supplementary Information on pages 42 through 45 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Dakota Public Employees Retirement System's basic financial statements. The Schedule of Investment Expenses and Administrative Expenses-Fiduciary Funds, the Statement of Appropriations, introductory section, investment section, actuarial section, and statistical tables are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Investment Expenses and Administrative Expenses-Fiduciary Funds and the Statement of Appropriations has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole. The introductory section, investment section, actuarial section, and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Brady, Marty

BRADY, MARTZ & ASSOCIATES, P.C.
October 6, 2006

Management's Discussion and Analysis June 30, 2006

Our discussion and analysis of the North Dakota Public Employees Retirement System's (NDPERS) financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the basic financial statements which follow this discussion.

NDPERS administers a total of eight fiduciary funds. This includes four defined benefit pension trust funds (PERS, Highway Patrol, Job Service, and Oasis), one defined contribution pension trust fund, the retiree health insurance credit trust fund, the deferred compensation trust fund and pretax benefits trust fund. NDPERS also administers one proprietary fund, the Uniform Group Insurance Program which is an enterprise fund.

Financial Highlights

Pension and Other Employee Benefit Plans

• As of June 30, 2006 and 2005, the funding ratio (actuarial value of assets divided by actuarial accrued liability) for each of the funds is shown below:

	<u>2006</u>	<u>2005</u>
Public Employees Retirement System	88.8%	90.8%
Highway Patrolmen Retirement System	87.0%	87.9%
Retiree Health Insurance Credit Fund	41.2%	39.6%

NDPERS' funding objective is to meet long-term benefit promises through contributions and investment income. The funding ratio listed above gives an indication of how well this objective has been met to date. The higher the funding ratio, the better the plan is funded.

The funding ratios for PERS and HPRS have decreased as a result of lower investment income due to the national economic slowdown during fiscal years 2001-2003. However, management believes, and actuarial studies concur, that the defined benefit pension plans and retiree health insurance credit fund are adequately funded to meet current obligations. A majority of the investment losses of previous years have been recognized in the actuarial measurements due to the five year smoothing methodology, used by the funds, resulting in a ratio of actuarial value of assets to market value of 82%. Consequently, we expect the funded ratio for PERS and HPRS to increase in future years as long as the investment returns meet or exceed the actuarial assumed rate of 8%.

• Plan net assets for all trust funds administered by NDPERS increased \$170.7 million during the

fiscal year ended June 30, 2006. The increase was primarily due to positive earnings on investments during the fiscal year.

	<u>(In Thousands)</u>
Public Employees Retirement System	\$ 154,234
Highway Patrolmen Retirement System	4,449
Retiree Health Insurance Credit Fund	3,990
Defined Contribution Retirement Fund	1,576
Pretax Benefits Fund	207
Deferred Compensation Plan	3,434
Retirement Plan for Employees of Job Service ND	2,850
OASIS Trust Fund	<u>(9)</u>
Total increase in plan net assets	<u>\$ 170,731</u>

Financial Highlights –

Uniform Group Insurance Program

• Net assets increased by \$515,489, primarily due to earnings on invested cash.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the basic financial statements for NDPERS, which include the fund financial statements, notes to the financial statements, required supplementary information and other supplementary information.

Fund financial statements – There are two financial statements presented for the fiduciary funds. The Statement of Fiduciary Net Assets as of June 30, 2006, indicates the net assets available to pay future payments and gives a snapshot at a particular point in time. The Statement of Changes in Fiduciary Net Assets for the year ended June 30, 2006, provides a view of the current year's additions and deductions to the individual trust funds.

There are three financial statements presented for the proprietary fund. The Statement of Net Assets as of June 30, 2006, provides a snapshot at a particular point in time of the net assets available for use by this program. The Statement of Revenues, Expenses, and Changes in Fund Net Assets for the year ended June 30, 2006, provides a view of the current year's operating and non-operating revenues and expenses for the enterprise fund. The Statement of Cash Flows for the year ended June 30, 2006 shows the cash used by operating activities as well as the net increase in cash due to operating and investing activities.

Notes to the financial statements – The notes provide additional information that is essential for a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 26-41 of this report.

Required supplementary information – The required supplementary information consists of a

MANAGEMENT'S DISCUSSION AND ANALYSIS

Schedule of Employer Contributions and a Schedule of Funding Progress and related notes concerning the funding status for the defined benefit pension trust funds. These schedules provide historical trend information, which contributes

to understanding the changes in the funded status of the funds over time.

Other supplementary schedules – The Schedule of Investment and Administrative Expenses and Statement of Appropriations are presented for the purpose of additional analysis.

Financial Analysis

The financial results for fiscal year 2006 and 2005 are summarized below. The information in the tables below is condensed from the Financial Statements.

Statement of Fiduciary Net Assets (in thousands)

	<u>June 30, 2006</u>	<u>% Change</u>	<u>June 30, 2005</u>	<u>% Change</u>	<u>June 30, 2004</u>
Assets					
Cash	\$ 2,079	(13.6)%	\$ 2,406	(2.0)%	\$ 2,455
Receivables	9,240	8.1%	8,548	17.5%	7,273
Investments, at fair value	1,786,864	10.6%	1,616,117	12.9%	1,431,362
Securities lending collateral	157,620	19.3%	132,092	21.0%	109,141
Prepaid benefits	-	(100)%	40	8.1%	37
Equipment, net of accumulated depreciation	<u>2</u>	<u>(84.6)%</u>	<u>13</u>	<u>(45.8)%</u>	<u>24</u>
Total assets	<u>1,955,805</u>	<u>11.2%</u>	<u>1,759,216</u>	<u>13.5%</u>	<u>1,550,292</u>
Liabilities					
Long-term liabilities outstanding	95	41.8%	67	(9.5)%	74
Other liabilities	<u>159,761</u>	<u>19.3%</u>	<u>133,932</u>	<u>21.1%</u>	<u>110,633</u>
Total liabilities	<u>159,856</u>	<u>19.3%</u>	<u>133,999</u>	<u>21.0%</u>	<u>110,707</u>
Net assets available for benefits	<u>\$1,795,949</u>	<u>10.5%</u>	<u>\$1,625,217</u>	<u>12.9%</u>	<u>\$1,439,585</u>

The total assets for all fiduciary funds as of June 30, 2006 were \$1.8 billion and were comprised mainly of investments and invested securities lending collateral. For the fiscal year ended June 30, 2006, plan net assets increased by \$170.7 million. This increase was primarily due to gains in the financial markets during the fiscal year. For the fiscal year ended June 30, 2005, plan net assets increased by \$185.6 million, also due to financial market gains.

Total liabilities as of June 30, 2006 were \$159.9 million and were primarily comprised of securities lending collateral. Total liabilities increased \$25.9 million and \$185.6 million from June 30, 2005 and 2004, respectively, due to increases in securities lending collateral at year-end.

Statement of Changes in Fiduciary Net Assets (in thousands)

	<u>June 30, 2006</u>	<u>% Change</u>	<u>June 30, 2005</u>	<u>% Change</u>	<u>June 30, 2004</u>
Additions					
Contributions	\$ 59,043	6.1%	\$ 55,642	(55.2)%	\$ 124,161
Investment income	188,057	(5.7)%	199,444	(1.4)%	202,357
Other	<u>4,473</u>	<u>(14.1)%</u>	<u>5,207</u>	<u>27.2%</u>	<u>4,093</u>
Total additions	<u>251,573</u>	<u>(3.4)%</u>	<u>260,293</u>	<u>(21.3)%</u>	<u>330,611</u>
Deductions					
Benefit payments	74,571	9.1%	65,524	5.8%	61,915
Refunds/Transfers	4,690	(1.5)%	7,578	92.4%	3,939
Administrative expenses	<u>1,581</u>	<u>1.5%</u>	<u>1,558</u>	<u>3.5%</u>	<u>1,506</u>
Total deductions	<u>80,842</u>	<u>8.3%</u>	<u>74,660</u>	<u>10.8%</u>	<u>67,360</u>
Changes in net assets available for benefits	<u>\$170,731</u>	<u>8.0%</u>	<u>\$ 185,633</u>	<u>(29.5)%</u>	<u>\$ 263,251</u>

Additions. Contributions and returns on invested funds are the primary additions that are accumulated and used to pay benefits for each of the plans. Contributions for the year ended June 30, 2006 increased by \$3.4 million and decreased by \$68.5 million for the year ended June 30, 2005. In 2004, there was a one-time transfer of \$67 million from Job Service and a one-time transfer of \$3.8 million from the Teachers Fund for Retirement. Without the asset transfers, contributions increased by \$2.3 million (4.3%) in 2005 and \$1.8 million (3.4%) in 2004. This year, the plans experienced positive investment earnings totaling



\$188.1 million, compared to 199.4 million in 2005. The decrease in Other Additions in 2006 and increase in 2005 is primarily due to changes in the volume of service purchase contributions.

Deductions. Expenses include benefit payments, refunds/transfers, and administrative expenses. Expenses for the year ended June 30, 2006 totaled \$80.8, an increase of \$6.2 million over 2005. The increase was primarily due to growth in the benefits paid to plan participants as a result of an increase in the number of benefit recipients and the one-time payment of a '13th check' to pensioners during the fiscal year. In the previous fiscal year, expenses totaled \$74.7 million, an increase of \$7.3 million over 2004. Of the total increase, \$3.6 million was due to the increase in the number of benefit recipients and \$3.7 million was due to an increase in the amount of refunds issued to terminated participants.

Statement of Proprietary Fund Net Assets

	<u>June 30, 2006</u>	<u>% Change</u>	<u>June 30, 2005</u>	<u>% Change</u>	<u>June 30, 2004</u>
Assets					
Cash	\$10,071	12.6%	\$ 8,945	134.7%	\$ 3,812
Receivables	<u>1,965</u>	<u>20.5%</u>	<u>1,631</u>	<u>3297.9%</u>	<u>48</u>
Total assets	<u>12,036</u>	<u>13.8%</u>	<u>10,576</u>	<u>174.0%</u>	<u>3,860</u>
Liabilities					
Long-term liabilities outstanding	47	(7.8)%	51	0.0%	51
Other liabilities	<u>8,650</u>	<u>12.3%</u>	<u>7,702</u>	<u>543.4%</u>	<u>1,197</u>
Total liabilities	<u>8,697</u>	<u>12.2%</u>	<u>7,753</u>	<u>521.2%</u>	<u>1,248</u>
Net assets	<u>\$ 3,339</u>	<u>18.3%</u>	<u>\$ 2,823</u>	<u>8.1%</u>	<u>\$ 2,612</u>

As of June 30, 2006, net assets are \$3.3 million, which is 18.3% higher than a year ago. The increase is due to higher cash and receivables balances as of fiscal year end, offset by an increase in deferred premiums and amounts held in custody for others. As of June 30, 2005, assets and liabilities increased significantly. This resulted from underwriting gains that were recognized in both the health and life insurance plans.

The net assets of the proprietary fund consist primarily of cash and are to be used for the following:

- To pay the administrative expenses of the uniform group insurance program
- To reduce premium payments or premium increases, or
- To increase insurance coverage

Statement of Changes in Proprietary Fund Net Assets (in thousands)

	<u>June 30, 2006</u>	<u>% Change</u>	<u>June 30, 2005</u>	<u>% Change</u>	<u>June 30, 2004</u>
Operating Revenues					
Administrative Fee	\$ 863	4.1%	\$ 829	1.7%	\$ 815
Non-Operating Revenues					
Investment Income	<u>420</u>	<u>90.0%</u>	<u>221</u>	<u>220.3%</u>	<u>69</u>
Total Revenues	<u>1,283</u>	<u>22.2%</u>	<u>1,050</u>	<u>18.8%</u>	<u>884</u>
Operating Expenses					
Administrative expenses	<u>768</u>	<u>(8.5)%</u>	<u>839</u>	<u>17.7%</u>	<u>713</u>
Change in Net Assets	<u>\$ 515</u>	<u>144.1%</u>	<u>\$ 211</u>	<u>23.4%</u>	<u>\$ 171</u>

Net assets increased by \$515,489 for the fiscal year ended June 30, 2006, which is 144.1% more than the increase of \$211,487 for the previous fiscal year. This was the result of an increase in investment income in addition to a decrease in administrative expenses. For the fiscal year ended June 30, 2005, net assets increased by 23.4% due to increases in investment income offset by an increase in administrative expenses.

Contacting NDPERS Financial Management

This financial report is designed to provide our members, annuitants, employers, business partners and the general public with a general overview of the System's financial activities. If you have questions about this report or need additional financial information, contact the North Dakota Public Employees Retirement System, PO Box 1657, Bismarck, ND 58502.

**BASIC
FINANCIAL
STATEMENTS**

**Statement of Net Assets
Proprietary Funds
June 30, 2006 and 2005**

**Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Years Ended June 30, 2006 and 2005**

	Uniform Group Insurance Program	2006	2005
ASSETS			
Current assets:			
Cash and cash equivalents	\$	10,070,692	8,944,841
Accounts receivable		1,908,862	1,561,303
Due from fiduciary funds		37,713	68,554
Due from other state agencies		18,894	1,467
Total current assets		<u>12,036,161</u>	<u>10,576,165</u>
LIABILITIES			
Current liabilities:			
Salaries payable	35,296		42,291
Accounts payable	26,567		34,926
Due to fiduciary funds	4,263		-
Due to other state agencies	5,313		18,788
Accrued compensated absences	2,250		2,444
Amounts held in custody for others	6,128,160		5,704,417
Deferred premiums	2,448,378		1,898,803
Total current liabilities		<u>8,650,227</u>	<u>7,701,669</u>
Noncurrent liabilities			
Accrued compensated absences	46,987		51,038
Total liabilities		<u>8,697,214</u>	<u>7,752,707</u>
NET ASSETS			
Unrestricted		<u>3,338,947</u>	<u>2,823,458</u>
Total net assets		<u>\$ 3,338,947</u>	<u>\$ 2,823,458</u>
OPERATING REVENUES:			
Administrative fee	\$	863,709	\$ 828,875
Total operating revenues		<u>863,709</u>	<u>828,875</u>
OPERATING EXPENSES:			
Salaries and wages	493,974		504,759
Operating expenses	119,161		170,932
Professional fees	123,379		91,566
Data processing	31,523		71,454
Total operating expenses		<u>768,037</u>	<u>838,711</u>
Operating income (loss)		<u>95,672</u>	<u>(9,836)</u>
NON-OPERATING REVENUES:			
Investment income	419,817		221,323
		<u>419,817</u>	<u>221,323</u>
Change in net assets		<u>515,489</u>	<u>211,487</u>
Total net assets - beginning of year		<u>2,823,458</u>	<u>2,611,971</u>
Total net assets - ending of year		<u>\$ 3,338,947</u>	<u>\$ 2,823,458</u>



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

Statement of Cash Flows
Proprietary Funds
For the years ended June 30, 2006 and 2005

	Uniform Group Insurance Program	
	<u>2006</u>	<u>2005</u>
Cash Flows From Operating Activities:		
Premiums collected	\$ 144,228,123	\$ 129,346,034
Claims experience gains	423,743	4,871,330
Administrative fees collected	1,079,139	896,824
Payments to suppliers	(291,634)	(351,356)
Premiums paid	(144,228,123)	(129,346,034)
Payments to employees	(505,214)	(505,558)
Net Cash Provided By Operating Activities	<u>706,034</u>	<u>4,911,240</u>
Cash Flows From Investing Activities:		
Investment Income	<u>419,817</u>	<u>221,323</u>
Net Increase in Cash and Cash Equivalents	1,125,851	5,132,563
Cash and Cash Equivalents Balance - Beginning of Year	<u>8,944,841</u>	<u>3,812,278</u>
Cash and Cash Equivalents Balance - End of Year	<u>\$ 10,070,692</u>	<u>\$ 8,944,841</u>
Reconciliation of Operating Income to Net Cash Provided		
Operating Income (Loss)	\$ 95,672	\$ (9,836)
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided		
By Operating Activities:		
Premiums Collected and BCBS Surplus Used	144,228,123	129,346,034
Premiums Paid	(144,228,123)	(129,346,034)
Changes in Assets and Liabilities:		
Increase in Accounts Receivable	(347,559)	(1,526,503)
(Increase) Decrease in Due From Other Funds	30,841	(58,621)
(Increase) Decrease in Due From Other State Agencies	(17,427)	1,484
Decrease in Salaries Payable	(6,995)	(1,066)
Increase (Decrease) in Accrued Compensated Absences	(4,245)	267
Decrease in Accounts Payable	(8,359)	(401)
Increase (Decrease) in Due To Other State Agencies	(13,475)	9,602
Increase in Amounts Held in Custody for Others	423,743	4,871,330
Increase(Decrease) in Due To Other Funds	4,263	(26,605)
Decrease in Deferred Premiums	549,575	1,651,589
Total Adjustments	<u>610,362</u>	<u>4,921,076</u>
Net Cash Provided By Operating Activities	<u>\$ 706,034</u>	<u>\$ 4,911,240</u>

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

Statement of Plan Net Assets
Fiduciary Funds
June 30, 2006

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
ASSETS:								
Cash	\$ 938,935	\$ -	\$ 35,946	\$ 7,031	\$ 1,039,572	\$ 53,756	\$ -	\$ 4,116
Receivables:								
Contribution receivable	3,323,400	-	399,426	84,262	449,981	-	12,133	-
Interest receivable	4,112,869	134,064	338,916	-	-	-	241,253	-
Accounts receivable	2,358	-	-	-	-	-	-	-
Due from fiduciary funds	84,851	-	-	-	7,160	10,027	17,474	-
Due from proprietary funds	4,263	-	-	-	-	-	-	-
Due from other state agencies	17,277	-	-	-	-	-	-	-
Total receivables	7,545,018	134,064	738,342	84,262	457,141	10,027	270,860	-
Investments, at fair value:								
Domestic equities	646,730,358	21,081,002	18,898,089	-	-	-	29,583,714	-
International equities	229,885,053	7,493,397	5,756,082	-	-	-	4,113,357	-
Fixed income	-	-	-	2,541,004	-	-	-	-
International fixed income	80,143,010	2,612,364	-	-	-	-	4,343,337	-
Domestic fixed income	446,549,622	14,555,855	12,588,394	-	-	-	46,004,886	-
Real estate	95,188,500	3,102,791	-	-	-	-	-	-
Mutual funds	-	-	-	12,079,894	-	18,496,704	-	-
Annuities	-	-	-	-	-	125,907	-	-
Venture Capital	65,604,727	2,138,470	-	-	-	-	-	-
Invested Cash	16,576,583	540,335	-	-	-	-	100,613	30,000
Total investments	1,580,677,853	51,524,214	37,242,565	14,620,898	-	18,622,611	84,145,907	30,000
Prepaid Benefits	-	-	-	-	-	-	-	-
Invested securities	-	-	-	-	-	-	-	-
lending collateral	140,864,975	4,591,674	-	-	-	-	12,162,923	-
Equipment (net of accumulated depreciation)	1,902	-	-	-	-	-	-	-
Total assets	\$ 1,730,028,683	\$ 56,249,952	\$ 38,016,853	\$ 14,712,191	\$ 1,496,713	\$ 18,686,394	\$ 96,579,690	\$ 34,116

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

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
LIABILITIES:								
Salaries payable	\$ 45,256	\$ -	\$ -	\$ -	\$ 13,487	\$ 19,184	\$ -	\$ -
Accounts payable	1,789,504	-	15,870	68	2,450	5,479	49,329	752
Due to fiduciary funds	17,474	29,851	61,286	3,889	1,088	2,175	3,749	-
Due to proprietary funds	-	-	33,587	2,100	-	-	2,026	-
Due to other state agencies	16,742	-	875	97	356	503	2,013	-
Deferred contributions	-	-	-	-	-	17,193	-	-
Securities lending collateral	140,864,975	4,591,674	-	-	-	-	12,162,923	-
Accrued compensated absences	54,644	-	-	-	17,737	27,274	-	-
Total liabilities	142,788,595	4,621,525	111,618	6,154	35,118	71,808	12,220,040	752
NET ASSETS:								
Held in trust for pension benefits	1,587,240,088	51,628,427	-	14,706,037	-	18,614,586	84,359,650	33,364
Held in trust for postemployment healthcare benefits	-	-	37,905,235	-	-	-	-	-
Held in trust for pretax benefits	-	-	-	-	1,461,595	-	-	-
(A schedule of pension funding progress for each plan is presented on page 50)								
Total net assets held in trust	\$ 1,587,240,088	\$ 51,628,427	\$ 37,905,235	\$ 14,706,037	\$ 1,461,595	\$ 18,614,586	\$ 84,359,650	\$ 33,364

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

Statement of Plan Net Assets
Fiduciary Funds
June 30, 2005

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
ASSETS:								
Cash	\$ 1,459,546	\$ -	\$ 39,309	\$ -	\$ 832,188	\$ 31,959	\$ -	\$ 43,113
Receivables:								
Contribution receivable	3,399,826	-	385,062	83,315	448,672	-	12,740	-
Interest receivable	3,515,733	116,073	291,578	-	-	-	170,656	-
Accounts receivable	702	-	-	-	-	-	-	-
Due from fiduciary funds	99,555	-	-	-	-	-	5,790	-
Due from other state agencies	18,797	-	-	-	-	-	-	-
Total receivables	7,034,613	116,073	676,640	83,315	448,672	-	189,186	-
Investments, at fair value:								
Domestic equities	576,666,504	19,038,863	16,824,540	-	-	-	28,459,555	-
International equities	227,079,805	7,497,126	5,038,121	-	-	-	4,011,809	-
Fixed income	-	-	11,478,767	2,608,552	-	-	-	-
International fixed income	65,563,923	2,164,618	-	-	-	-	3,673,111	-
Domestic fixed income	408,345,202	13,481,671	-	-	-	-	44,733,645	-
Real estate	72,742,734	2,401,629	-	-	-	-	-	-
Mutual funds	-	-	-	10,438,493	-	15,129,972	-	-
Annuities	-	-	-	-	-	76,988	-	-
Venture Capital	58,423,596	1,928,877	-	-	-	-	-	-
Invested Cash	17,287,192	570,742	-	-	-	-	451,414	-
Total investments	1,426,108,956	47,083,526	33,341,428	13,047,045	-	15,206,960	81,329,534	-
Prepaid Benefits	-	-	-	-	-	-	40,075	-
Invested securities	-	-	-	-	-	-	-	-
lending collateral	117,643,354	3,884,040	-	-	-	-	10,564,632	-
Equipment (net of accumulated depreciation)	12,779	-	-	-	-	-	-	-
Total assets	\$ 1,552,259,248	\$ 51,083,639	\$ 34,057,377	\$ 13,130,360	\$ 1,280,860	\$ 15,238,919	\$ 92,123,427	\$ 43,113

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

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
LIABILITIES:								
Salaries payable	\$ 45,274	\$ -	\$ -	\$ -	\$ 7,906	\$ 10,600	\$ -	\$ -
Accounts payable	1,439,448	-	13,800	62	7,853	5,188	47,795	732
Due to fiduciary funds	5,790	20,402	79,153	-	-	-	-	-
Due to proprietary funds	20,103	-	48,451	-	-	-	-	-
Due to other state agencies	16,393	-	812	29	361	965	2,001	-
Deferred contributions	31,872	-	-	-	-	31,663	-	-
Securities lending collateral	117,643,354	3,884,040	-	-	-	-	10,564,632	-
Accrued compensated absences	50,621	-	-	-	10,060	9,659	-	-
Total liabilities	119,252,855	3,904,442	142,216	91	26,180	58,075	10,614,428	732
NET ASSETS:								
Held in trust for pension benefits	1,433,006,393	47,179,197	-	13,130,269	-	15,180,844	81,508,999	42,381
Held in trust for postemployment healthcare benefits	-	-	33,915,161	-	-	-	-	-
Held in trust for pretax benefits	-	-	-	-	1,254,680	-	-	-
(A schedule of pension funding progress for each plan is presented on page 50)								
Total net assets held in trust	\$ 1,433,006,393	\$ 47,179,197	\$ 33,915,161	\$ 13,130,269	\$ 1,254,680	\$ 15,180,844	\$ 81,508,999	\$ 42,381

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

Statement of Changes in Plan Net Assets – Fiduciary Funds
For the Year Ended June 30, 2006

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
ADDITIONS:								
Contributions:								
From employer	\$ 21,969,517	\$ 931,206	\$ 5,373,091	\$ 518,221	\$ -	\$ -	\$ -	\$ -
From employee	20,805,715	574,341	7,210	503,075	5,127,952	2,325,190	150,633	-
Transfers from other plans	-	-	-	41,271	-	-	-	-
From external plans	-	-	-	16,650	-	453,807	-	-
From pretax benefits fund	-	-	-	500	-	245,000	-	-
Total contributions	42,775,232	1,505,547	5,380,301	1,079,717	5,127,952	3,023,997	150,633	-
Investment income:								
Net increase in fair value of investments	147,256,275	4,847,290	1,796,221	823,818	-	898,077	4,905,261	-
Interest and dividends	35,778,459	1,174,599	1,102,168	538,394	25,885	728,073	1,916,260	1,211
Less investment expense	(12,410,974)	(407,286)	(69,457)	(10,792)	-	(45,570)	(1,073,229)	-
Net investment income	170,623,760	5,614,603	2,828,932	1,351,420	25,885	1,580,580	5,748,292	1,211
Securities lending activity:								
Securities lending income	5,194,469	170,565	-	-	-	-	442,673	-
Less securities lending expenses	(4,938,531)	(162,158)	-	-	-	-	(424,954)	-
Net securities lending income	255,938	8,407	-	-	-	-	17,719	-
Repurchase service credit	3,702,908	-	211,601	-	-	-	25,927	-
FICA tax savings	-	-	-	-	512,563	-	-	-
Miscellaneous income	11,218	219	-	8,442	52	-	-	-
Total additions	217,369,056	7,128,776	8,420,834	2,439,579	5,666,452	4,604,577	5,942,571	1,211
DEDUCTIONS:								
Benefits paid to participants	57,820,126	2,662,076	-	855,838	5,042,509	943,172	3,062,585	9,005
Refunds	4,236,429	-	4,291	-	-	-	-	-
Prefunded credit applied	-	-	4,337,900	-	-	-	-	-
Transfers to other plans	41,271	-	-	-	245,500	-	-	-
Total deductions	62,097,826	2,662,076	4,342,191	855,838	5,288,009	943,172	3,062,585	9,005
Administrative expenses	1,037,535	17,470	88,569	7,973	171,528	227,663	29,335	1,223
Total deductions	63,135,361	2,679,546	4,430,760	863,811	5,459,537	1,170,835	3,091,920	10,228
Change in net assets	154,233,695	4,449,230	3,990,074	1,575,768	206,915	3,433,742	2,850,651	(9,017)
Net assets - beginning of year	1,433,006,393	47,179,197	33,915,161	13,130,269	1,254,680	15,180,844	81,508,999	42,381
Net assets - end of year	\$ 1,587,240,088	\$ 51,628,427	\$ 37,905,235	\$ 14,706,037	\$ 1,461,595	\$ 18,614,586	\$ 84,359,650	\$ 33,364

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

Statement of Changes in Plan Net Assets – Fiduciary Funds
For the Year Ended June 30, 2005

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
ADDITIONS:								
Contributions:								
From employer	\$ 20,704,241	\$ 867,803	\$ 5,085,050	\$ 504,440	\$ -	\$ -	\$ -	\$ -
From employee	19,671,214	535,233	7,061	489,750	5,120,693	2,179,991	163,594	-
Transfers from other plans	-	-	-	21,131	-	-	-	-
From external plans	-	-	-	83,194	-	-	-	-
From pretax benefits fund	-	-	-	6,526	-	201,958	-	-
Total contributions	40,375,455	1,403,036	5,092,111	1,105,041	5,120,693	2,381,949	163,594	-
Investment income:								
Net increase								
In fair value of investments	149,878,152	4,992,110	1,833,279	554,901	-	710,941	9,452,747	-
Interest and dividends	33,056,983	1,101,266	922,864	332,256	13,319	369,170	1,682,114	569
Less investment expense	(5,144,472)	(171,716)	(62,164)	(9,474)	-	(78,254)	(268,358)	-
Net investment income	177,790,663	5,921,660	2,693,979	877,683	13,319	1,001,857	10,866,503	569
Securities lending activity:								
Securities lending income	2,203,222	73,255	-	-	-	-	205,406	-
Less securities lending expenses	(1,951,521)	(64,883)	-	-	-	-	(187,850)	-
Net securities lending income	251,701	8,372	-	-	-	-	17,556	-
Repurchase service credit	4,426,282	-	246,500	-	-	-	1,143	-
FICA tax savings	-	-	-	-	512,245	-	-	-
Miscellaneous income	13,399	101	-	7,135	71	-	-	-
Total additions	222,857,500	7,333,169	8,032,590	1,989,859	5,646,328	3,383,806	11,048,796	569
DEDUCTIONS:								
Benefits paid to participants	51,286,688	2,351,564	-	298,217	5,108,677	2,263,415	2,817,963	20,977
Refunds	4,433,294	95,601	1,880	-	-	-	-	-
Prefunded credit applied	-	-	4,193,687	-	208,484	-	-	-
Transfers to other plans	21,131	-	-	-	-	-	-	-
Total deductions	55,741,113	2,447,165	4,195,567	298,217	5,317,161	2,263,415	2,817,963	20,977
Administrative expenses	1,072,277	16,058	85,262	13,735	145,850	199,656	24,019	1,360
Total deductions	56,813,390	2,463,223	4,280,829	311,952	5,463,011	2,463,071	2,841,982	22,337
Change in net assets	166,044,110	4,869,946	3,751,761	1,677,907	183,317	920,735	8,206,814	(21,768)
Net assets - beginning of year	1,266,962,283	42,309,251	30,163,400	11,452,362	1,071,363	14,260,109	73,302,185	64,149
Net assets - end of year	\$ 1,433,006,393	\$ 47,179,197	\$ 33,915,161	\$ 13,130,269	\$ 1,254,680	\$ 15,180,844	\$ 81,508,999	\$ 42,381

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 & 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Public Employees Retirement System (System) is an agency of the State of North Dakota, operating through the legislative authority of North Dakota Century Code 54-52-03. As a state agency, the System is considered to be a department of the State of North Dakota and is included in the State's Comprehensive Annual Financial Report as a pension trust fund.

The System is governed by a seven-member board. Three of the members are appointed and the remaining four are elected by the participants of the retirement plans.

The System administers four defined benefit pension plans and one defined contribution retirement plan. The System also manages and administers the retiree health insurance credit program, the uniform group insurance program, the deferred compensation program and the pretax benefits program.

For financial reporting purposes, the System has included all funds, and has considered all potential component units for which the System is financially accountable, and other organizations for which the nature and significance of their relationship with the System are such that exclusion would cause the System's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the System to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the System.

Based upon these criteria, there are no component units to be included within the System as a reporting entity and the System is part of the State of North Dakota as a reporting entity.

Fund Financial Statements

The System's only nonfiduciary activity is the administration and management of the uniform group insurance program. This program is a business-type activity that relies to a significant extent on fees and charges for support and is shown in the separate proprietary fund financial statements.

All other activities of the system are pension and other employee benefit trust funds and are shown in the separate fiduciary fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the System are reported using the economic resources measurement focus and the accrual basis of accounting.

This measurement focus includes all assets and liabilities associated with the operations of the proprietary and fiduciary funds on the statements of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The proprietary fund is used to account for the operations of the Uniform Group Insurance Program. The System has been given the responsibility to manage this public entity risk pool. The Uniform Group Insurance Program is an insurance purchasing pool which provides the employees of the State of North Dakota, or any of its political subdivisions, institutions, departments, or agencies, economies of scale in purchasing health, life, dental, vision and long-term care insurance. Since there is no pooling of risk, the disclosures relating to public entity risk pools are not applicable. Accordingly, this proprietary fund only reports administrative revenues and expenses.

The fiduciary fund consists of the pension and other employee benefit trust funds that are used to account for assets held by the department in a trust capacity. These include:

1. Public Employees Retirement System – a cost-sharing multiple-employer defined benefit retirement plan.
2. Highway Patrolmen's Retirement System – a single-employer defined benefit retirement plan.
3. Defined Contribution Retirement Plan – an optional defined contribution retirement plan covering specified employee positions in the State of North Dakota.
4. Retiree Health Insurance Credit Fund – an advance funded plan to offset the member's cost of health insurance during their retirement.
5. Pretax Benefits Program – allows eligible employees to elect to reduce their salaries to pay for eligible dependent care and medical expenses.
6. Deferred Compensation Plan – voluntary, supplemental retirement plan provided in accordance with Section 457 of the Internal Revenue Code.
7. Retirement Plan for Employees of Job Service North Dakota – a single-employer defined benefit retirement plan.



8. Oasis Trust Fund – a cost-sharing multiple employer defined benefit retirement plan.

The System follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America for governmental entities.

In accordance with GASB Statement No. 20, the System follows all applicable GASB pronouncements as well as private-sector standards of accounting and financial reporting issued on or before November 30, 1989 unless those standards conflict with GASB pronouncements. The System also has the option of following subsequent private-sector guidance for business-type activities and enterprise funds, subject to this same limitation.

Proprietary Funds are accounted for on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred, regardless of the timing of related cash flows. The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are administrative fees charged to the participants in the Uniform Group Insurance Program. Operating expenses include salaries and wages and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The fiduciary fund is accounted for on the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each system.

Budgetary Process

The System operates through a biennial appropriation provided by the State Legislature. The System prepares a biennial budget on the modified accrual basis, which is included in the Governor's budget presented to the General Assembly at the beginning of each legislative session. The General Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. Before signing the appropriation bills, the Governor has line item veto powers over legislation, subject to legislative

override. Once passed and signed, the appropriation becomes the system's financial plan for the next two years. Changes to the appropriation are subject to approval by the Emergency Commission.

The Statement of Appropriations has been prepared using the accrual basis of accounting. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under the North Dakota Century Code (NDCC), Section 54-44.1-11. Expenditures not subject to appropriation of a specific amount include professional fees, depreciation expense, benefits and refunds paid to participants, prefunded credits applied and employee reimbursements in the Pretax Benefits Program.

There were no supplemental appropriations during the fiscal year ending June 30, 2006 and 2005.

The legal level of budgetary control is at the appropriation and expenditure line item level, with administrative controls established at lower levels of detail in certain instances.

Investments

Investments are stated at fair value. Fair value is, "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than a forced liquidation sale." Fair value was determined by reference to published market data for publicly traded securities or through the use of independent valuation services and appraisers for other investments. Investments in the external investment pool are stated at fair value, which is the same as the value of the pool shares.

Net increases (decreases) are determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expense of the fund, except for the Defined Contribution Retirement Plan and the Deferred Compensation Plan consists of those administrative expenses directly related to the RIO investment operations. Investment expense of the Defined Contribution Retirement Plan and the Deferred Compensation Plan consist of administrative expenses directly related to each plan.

Securities Lending

GASB Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions," establishes accounting and financial reporting standards for securities lending

transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets. Cash received as collateral and investments made with that cash must also be reported as assets. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them.

Securities are loaned versus collateral that may include cash, U.S. government securities and irrevocable letters of credit. U.S. securities are loaned versus collateral valued at 102% of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the market value of the securities plus any accrued interest.

For securities loaned at year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System.

Types of securities used for lending purposes are equity securities and bonds and notes. The carrying amount and fair value of the securities on loan are the same.

Non-cash collateral cannot be pledged or sold unless the borrower defaults.

All securities loans can be terminated on demand by either the lender or the borrower, although the average term of overall loans is 118 days.

Cash open collateral is invested in a short-term investment pool, the Core USA Collateral Section, which had an average weighted maturity of 41 days as of this statement date. Cash collateral may also be invested separately in "term loans", in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower.

There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent.

There are no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month.

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and Northern Trust (custodian of investments for RIO) has failed to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust's

responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending. Northern Trust indemnifies the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay income distributions on them.

Derivative Securities

The System's investment policy allows investment managers to use derivative securities. Managers are specifically permitted to use Treasury futures and options, S & P 500 index futures and options, and currency forwards and futures to hedge portfolio risk, but not to speculate or to leverage the portfolio. Managers may use their discretion to use other derivatives to enhance returns, reduce risk, or facilitate the management of index funds. The System's policy with respect to these derivatives is that their use may not increase the credit, market or legal risk level associated with a fully invested portfolio of common stocks or fixed income obligations, depending on the manager's designated role.

Accounts Receivable and Credit Policy

Accounts receivable primarily include amounts due for contributions, insurance premiums, employee pretax benefit deductions and accrued interest on investments. Management reviews all receivables at year-end and assesses collectibility. All remaining receivables are considered collectible.

Capital Assets and Depreciation

Capital assets are presented in the accompanying financial statements at cost or estimated historical cost. Donated capital assets are stated at fair market value at the time of donation. Capital assets acquired via lease agreements are capitalized at the inception of the agreement. For the years ending June 30, 2006 and 2005 the System capitalized equipment costing over \$5,000 in accordance with Section 54-27-21 of the North Dakota Century Code.

The capital assets are depreciated on a straight-line basis over estimated useful lives ranging from 5 to 10 years.

Accrued Compensated Absences

Annual leave is a part of permanent employees' compensation as set forth in Section 54-06-14 of the North Dakota Century Code. Employees are entitled to earn annual leave based on tenure of employment, within a range of a minimum of one



working day per month of employment, to a maximum of two working days per month of employment, to be fixed by rules and regulations adopted by the employing unit. No more than 240 hours of annual leave may be carried forward beyond April 30th of each year. Employees are paid for unused annual leave upon termination or retirement. Permanent employees accrue sick leave from the first day of employment at the rate of eight hours per month with unlimited accumulation. Employees with at least 10 years of state employment are paid one-tenth of their accumulated sick leave under Section 54-06-14 of the North Dakota Century Code when the employee leaves the employ of the state.

The System's liability for accumulated unpaid leave is reported in the applicable funds.

Deferred Contributions/Premiums

Deferred contributions consist of monies collected from participating employers, for retirement contributions, before the contributions are due. Deferred premiums consist of monies collected by the System from individuals or participating employers, for insurance premiums, before the premiums are due.

Transfers To Other Plans

Transfers to other plans consist of monies transferred from the Public Employees Retirement System Defined Benefit Plan to the Defined Contribution Retirement Plan pursuant to Section 54-52.6 Subsection 3 of the North Dakota Century Code. Each eligible employee who elects to terminate membership in the Defined Benefit Plan has a lump sum amount transferred to the participating member's account under the Defined Contribution Retirement Plan. For new employees electing to transfer to the Defined Contribution Retirement Plan, the lump sum transferred is the actual employee and employer contributions plus interest.

**NOTE 2
DEPOSITS AND INVESTMENTS**

Deposits

According to North Dakota Century Code 21-04-01, the System is required to bank at the state-owned and operated Bank of North Dakota. The System receives interest for funds on deposit in all accounts.

Cash and cash equivalents for reporting purposes, includes cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes

investments with original maturity of three months or less. Investments are stated at fair value.

	<u>2006</u>	<u>2005</u>
Cash Deposits at the Bank of North Dakota recorded as Cash and Cash Equivalents	\$2,512,478	\$3,129,573
Cash Deposits at State Treasury recorded as Cash and Cash Equivalents	722,249	146,718
Cash held by the North Dakota Retirement and Investment Office recorded as Cash and Cash Equivalents	1,924,166	1,370,670
Guaranteed Investment Contract with Blue Cross Blue Shield recorded as Cash and Cash Equivalents	7,021,155	6,703,995
Certificates of Deposit at the Bank of North Dakota recorded as Cash and Cash Equivalents	<u>-</u>	<u>21,866,456</u>
	<u>\$12,180,048</u>	<u>\$33,217,412</u>

At June 30, 2006 and 2005 the carrying amount of the System's cash deposits were \$5,158,893 and \$26,513,417 and the bank balances were \$9,538,959 and \$32,350,563. Included in these amounts were certificates of deposit recorded as investments with a carrying value and bank balance of \$21,866,456 at June 30, 2005. The System had no certificates of deposit recorded as investments at June 30, 2006. All of the System's deposits are uncollateralized, a class three risk as defined by the Government Accounting Standards Board.

Custodial Risk

For deposits, custodial risk is the risk that in the event of the failure of a depository financial institution, the System will not be able to recover the deposits. The System does not have a formal policy that limits custodial risk for deposits. Deposits at the Bank of North Dakota and the State Treasury are uncollateralized but are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Investments

Total investments of the System at fair value as of June 30, 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Equity securities	\$963,541,052	\$884,616,323
Bonds and notes	609,338,472	552,049,489
Real estate	98,291,291	75,144,363
Venture capital	67,743,197	60,352,473
Mutual funds	12,079,894	10,438,493
Invested cash	17,217,531	18,309,348
Deferred compensation plans		
Annuities	125,907	76,988
Mutual funds	18,496,704	15,129,972
Securities lending		
short-term collateral		
investment pool	<u>157,619,572</u>	<u>132,092,026</u>
	<u>\$1,944,453,620</u>	<u>\$1,748,209,475</u>

The calculation of realized gains and losses is independent of the calculation of net increase (decrease) in the fair value of plan investments and unrealized gains and losses on investments sold in the current year that had been held for more than one year and were included in the net increase (decrease) reported in the prior year(s) and the current year.

All investments of the fund, except for the Defined Contribution Retirement Plan, Deferred Compensation Plan and Oasis Trust Fund are to be made by the North Dakota State Investment Board (SIB). Chapter 21-10-07 of the North Dakota Century Code requires that all investments made by this state agency, be made using the prudent investor rule.

Investments of the Oasis Fund consisted of three separate \$10,000 certificates of deposit on June 30, 2006, held at the Bank of North Dakota, valued at cost. Investments of the Defined Contribution Retirement Plan and the Deferred Compensation Plan are participant directed and are held by Fidelity Investments.

Credit Risk

All investments of the fund, except for the Defined Contribution Retirement Plan, Deferred Compensation Plan and Oasis Trust Fund, are invested in an external investment pool managed by SIB. The pool is not rated.

Investments of the Defined Contribution Retirement Plan and the Deferred Compensation Plan are invested in mutual funds directed by the participants. The mutual funds are not rated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates. The SIB has chosen to use the Segmented Time Distribution disclosure method. Tables detailing the System's portion of the investment pool are reported below. Readers may refer to the North Dakota Retirement and Investment Office financial statements regarding highly sensitive securities that are disclosed at the SIB level.

PERS and HPRS Plan

	<u>Market Value</u>		<u>Less Than 1 Year</u>		<u>1-6 Years</u>		<u>6-10 Years</u>		<u>Over 10 Years</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Asset Backed Securities	\$ 13,136	\$ 5,562	\$ 185	\$ 1,015	\$ -	\$ 318	\$ 107	\$ 129	\$ 12,844	\$ 4,100
Commercial Mortgage-Backed	1,452	914	-	-	39	60	234	-	1,179	854
Commercial Paper	53	-	53	-	-	-	-	-	-	-
Corporate Bonds	136,229	132,753	2,703	1,212	45,939	42,288	49,362	53,769	38,225	35,484
Corporate Convertible Bonds	34,245	21,265	180	96	7,860	5,583	2,416	521	23,789	15,065
Government Agencies	17,774	24,335	-	1,666	11,576	17,663	2,114	3,640	4,084	1,366
Government Bonds	85,993	56,751	949	1,983	47,939	29,473	12,716	9,172	24,389	16,123
Government Mortgage-Backed	20,634	14,092	-	1	-	-	-	-	20,634	14,091
Index Linked Government Bonds	1,863	3,589	-	-	91	2,095	580	719	1,192	775
Municipal/Provincial Bonds	4,492	4,321	-	135	1,772	2,842	2,061	702	659	642
Non-Government Backed CMOs	10,510	5,169	-	-	1,240	-	52	11	9,218	5,158
Short Term Bills and Notes	8,040	-	8,040	-	-	-	-	-	-	-
Pooled Investments	<u>88,103</u>	<u>36,949</u>	<u>-</u>	<u>-</u>	<u>2,112</u>	<u>-</u>	<u>85,991</u>	<u>36,949</u>	<u>-</u>	<u>-</u>
	<u>\$422,524</u>	<u>\$305,700</u>	<u>\$12,110</u>	<u>\$6,108</u>	<u>\$118,568</u>	<u>\$100,322</u>	<u>\$155,633</u>	<u>\$105,612</u>	<u>\$136,213</u>	<u>\$93,658</u>

Job Service Retirement Plan

	Market Value		Less Than 1 Year		1-6 Years		6-10 Years		Over 10 Years	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Asset Backed Securities	\$ 327	\$ 648	\$ 22	\$ 133	\$ -	\$ 42	\$ 13	\$ 17	\$ 292	\$ 456
Commercial Mortgage-Backed	175	120	-	-	5	8	28	-	142	112
Commercial Paper	6	-	6	-	-	-	-	-	-	-
Corporate Bonds	9,479	9,374	242	64	3,779	3,438	2,730	3,121	2,728	2,751
Corporate Convertible Bonds	3,882	2,618	-	3	772	601	287	66	2,823	1,948
Government Agencies	1,958	2,514	-	218	1,210	1,744	255	373	493	179
Government Bonds	7,780	6,020	55	110	4,651	3,339	956	691	2,118	1,880
Government Mortgage-Backed	2,491	1,846	-	-	-	-	-	-	2,491	1,846
Index Linked Government Bonds	225	470	-	-	11	274	70	94	144	102
Municipal/Provincial Bonds	305	294	-	18	117	154	108	38	80	84
Non-Government Backed CMOs	1,263	676	-	-	150	-	52	1	1,113	675
Short Term Bills and Notes	442	-	442	-	-	-	-	-	-	-
Pooled Investments	7,542	2,263	-	-	-	-	7,542	2,263	-	-
	<u>\$35,875</u>	<u>\$26,843</u>	<u>\$ 767</u>	<u>\$546</u>	<u>\$10,695</u>	<u>\$9,600</u>	<u>\$11,989</u>	<u>\$6,664</u>	<u>\$12,424</u>	<u>\$10,033</u>

All securities subject to interest rate risk disclosure in the Retiree Health Insurance Credit Fund are pooled investments maturing in over 10 years. The market value of these securities is \$12,906.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The System does not have a formal investment policy governing foreign currency risk. The System is invested in an external investment pool managed by SIB. A table detailing the System's portion of the investment pool is reported below.

PERS and HPRS Plan

Currency (in thousands)	Short term		Debt		Equity		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Australian dollar	\$ (5,320)	\$ (5,034)	\$ 4,254	\$ 4,243	\$ 4,164	\$ 3,892	\$ 3,098	\$3,101
Brazilian real	-	1,786	1,874	-	-	-	1,874	1,786
British pound sterling	(7,185)	(5,747)	1,936	1,476	22,793	24,506	17,544	20,235
Canadian dollar	(607)	(1,461)	2,505	4,744	3,858	1,586	5,7567	4,869
Columbian peso	-	-	164	-	-	-	164	-
Danish krone	(274)	(202)	-	-	647	848	373	646
Euro	(19,293)	(19,326)	5,320	5,175	39,156	43,054	25,183	28,903
Hong Kong dollar	(414)	(442)	-	-	2,706	1,932	2,292	1,490
Indonesian rupiah	-	-	1,461	-	-	-	1,461	-
Japanese yen	236	(5,993)	-	-	34,884	26,585	35,120	20,652
Malaysian ringgit	-	-	882	-	-	-	882	-
Mexican peso	131	68	3,003	1,554	-	-	3,134	1,622
New Zealand dollar	(1,219)	(1,259)	1,327	1,411	-	-	108	152
Norwegian krone	(253)	(349)	-	-	1,224	1,316	971	967
Polish zloty	159	-	2,809	2,490	-	-	2,968	2,490
Singapore dollar	(234)	(405)	4,213	1,967	790	656	4,769	2,218
South African rand	-	-	145	-	-	-	145	-
South Korean won	-	-	406	-	1,593	-	1,999	-
Swedish krona	(611)	(521)	2,920	-	2,619	2,665	4,928	2,144
Swiss franc	(3,907)	(4,478)	-	-	8,717	9,689	4,810	5,211
Thai baht	669	656	1,317	-	-	-	1,986	656
International commingled funds (various currencies)	-	-	41,590	33,565	109,690	113,899	151,280	147,464
	<u>\$ (38,122)</u>	<u>\$ (42,647)</u>	<u>\$ 76,126</u>	<u>\$ 56,625</u>	<u>\$ 232,841</u>	<u>\$ 230,628</u>	<u>\$ 270,845</u>	<u>\$ 244,606</u>

Job Service Retirement Plan

Currency (in thousands)	Short term		Debt		Equity		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Australian dollar	\$ (250)	\$ (246)	\$ 223	\$ 230	\$ 107	\$ 103	\$ 80	\$ 87
Brazilian real	-	97	58	-	-	-	58	97
British pound sterling	(185)	(152)	87	80	586	64-9	488	577
Canadian dollar	37	(39)	108	257	99	42	244	260
Columbian peso	-	-	-	-	-	-	-	-
Danish krone	(7)	(5)	-	-	17	22	10	17
Euro	(642)	(645)	279	280	1,007	1,141	644	776
Hong Kong dollar	(11)	(12)	-	-	70	51	59	39
Indonesian rupiah	-	-	43	-	-	-	43	-
Japanese yen	379	(19)	-	-	897	705	1,276	686
Malaysian ringgit	-	-	46	-	-	-	46	-
Mexican peso	4	4	95	84	-	-	99	88
New Zealand dollar	(64)	(68)	70	77	-	-	6	9
Norwegian krone	(7)	(9)	-	-	31	35	24	26
Polish zloty	8	-	147	135	-	-	155	135
Singapore dollar	(6)	(11)	155	107	20	17	169	113
South African rand	-	-	8	-	-	-	8	-
South Korean won	-	-	-	-	41	-	41	-
Swedish krona	(16)	(14)	153	-	67	71	204	57
Swiss franc	(100)	(119)	-	-	224	257	124	138
Thai baht	35	36	21	-	-	-	56	36
International commingled funds (various currencies)	-	-	2,181	1,819	826	811	3,007	2,630
	<u>\$ (825)</u>	<u>\$ (1,202)</u>	<u>\$ 3,674</u>	<u>\$ 3,069</u>	<u>\$ 3,992</u>	<u>\$ 3,904</u>	<u>\$ 6,841</u>	<u>\$ 5,771</u>

**NOTE 3
DUE TO/ FROM FIDUCIARY FUNDS,
PROPRIETARY FUNDS AND STATE
AGENCY TRANSACTIONS**

The June 30, 2006 due from/to fiduciary and proprietary funds are summarized as follows:

Fund	Due From Fiduciary and Proprietary Funds	Due To Fiduciary and Proprietary Funds
Fiduciary		
Public Employees		
Retirement System	\$ 89,114	\$ 17,474
Highway Patrolmen's		
Retirement System	-	29,851
Retiree Health Insurance		
Credit Fund	-	94,873
Retirement Plan for Employees		
of Job Service ND	17,474	5,775
Defined Contribution		
Retirement Plan	-	5,989
Deferred Compensation		
Plan	10,027	2,175
Proprietary		
Uniform Group Insurance		
Program	37,713	4,263
	<u>\$ 161,488</u>	<u>\$ 161,488</u>

The June 30, 2005 due from/to fiduciary and proprietary funds are summarized as follows:

Fund	Due From Fiduciary and Proprietary Funds	Due To Fiduciary and Proprietary Funds
Fiduciary		
Public Employees		
Retirement System	\$ 99,555	\$ 25,893
Highway Patrolmen's		
Retirement System	-	20,402
Retiree Health Insurance		
Credit Fund	-	127,604
Retirement Plan for Employees		
of Job Service ND	5,790	-
Proprietary		
Uniform Group Insurance		
Program	68,554	-
	<u>\$ 173,899</u>	<u>\$ 173,899</u>



The June 30, 2006 due from/to state agencies are summarized as follows:

<u>Fund</u>	<u>Due From State Agencies</u>	<u>Due To State Agencies</u>
Fiduciary		
Public Employees Retirement System		
Dept. of		
Emergency Services	\$ (60)	\$ -
Adjutant General	2,177	-
State Investment Board	15,160	-
ITD	-	16,557
Attorney General	-	185
Total	<u>\$ 17,277</u>	<u>\$ 16,742</u>
Retiree Health Insurance Credit Fund		
State Investment Board	<u>\$ -</u>	<u>\$ 875</u>
Defined Contribution Plan		
ITD	\$ -	\$ 17
Attorney General	-	80
Total	<u>-</u>	<u>97</u>
Pretax Benefits Program		
ITD	\$ -	\$ 340
Attorney General	-	16
Total	<u>\$ -</u>	<u>\$ 356</u>
Deferred Compensation Plan		
ITD	\$ -	\$ 384
Attorney General	-	119
Total	<u>\$ -</u>	<u>\$ 503</u>
Retirement Plan for Employees of Job Service ND		
State Investment Board	<u>\$ -</u>	<u>\$ 2,013</u>
Proprietary		
Uniform Group Insurance Program		
State Hospital	(1,664)	-
Job Service	554	-
Dept. of Health	556	-
Adjutant General	18,330	-
Legal Council of Indigents	562	-
ND Securities	556	-
ITD	-	4,980
Attorney General	-	333
Total	<u>\$ 18,894</u>	<u>\$ 5,313</u>

The June 30, 2005 due from/to state agencies are summarized as follows:

<u>Fund</u>	<u>Due From State Agencies</u>	<u>Due To State Agencies</u>
Fiduciary		
Public Employees Retirement System		
DOT	\$ -	\$ 93
Office of Administrative Hearings	-	36
State Investment Board	18,797	-
ITD	-	14,778
Attorney General	-	1,008
Central Services	-	478
Total	<u>\$ 18,797</u>	<u>\$ 16,393</u>
Retiree Health Insurance Credit Fund		
State Investment Board	<u>\$ -</u>	<u>\$ 812</u>
Defined Contribution Plan		
ITD	\$ -	\$ 17
Attorney General	-	12
Total	<u>-</u>	<u>29</u>
Pretax Benefits Program		
ITD	\$ -	\$ 231
Central Services	-	75
Attorney General	-	55
Total	<u>\$ -</u>	<u>\$ 361</u>
Deferred Compensation Plan		
ITD	\$ -	\$ 305
Attorney General	-	90
DOT	-	270
Central Services	-	300
Total	<u>\$ -</u>	<u>\$ 965</u>
Retirement Plan for Employees of Job Service ND		
Job Service ND	<u>\$ -</u>	<u>\$ 2,001</u>
Proprietary		
Uniform Group Insurance Program		
DOT	\$ -	\$ 98
State Hospital	489	-
Human Services	978	-
ITD	-	17,656
Attorney General	-	619
Central Services	-	415
Total	<u>\$ 1,467</u>	<u>\$ 18,788</u>

The June 30, 2006 operating transfers in/out are summarized as follows:

<u>Fund Type / Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Fiduciary Funds		
Defined Contribution		
Retirement Fund	\$ 41,771	\$ -
Pretax Benefits Program	-	245,500
Deferred Comp Plan	245,500	-
Public Employees		
Retirement System	-	41,271

The June 30, 2005 operating transfers in/out are summarized as follows:

<u>Fund Type / Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Fiduciary Funds:		
Defined Contribution		
Retirement Fund	\$ 27,657	\$ -
Pretax Benefits Program	-	208,484
Deferred Comp Plan	201,958	-
Public Employees		
Retirement System	-	21,131

**NOTE 4
CAPITAL ASSETS**

A statement of changes in equipment and accumulated depreciation for the Public Employees Retirement System Fiduciary Fund for the years ended June 30, 2006 and 2005 is as follows:

	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Net Equipment</u>
Balance -			
June 30, 2004	\$ 59,978	\$ 36,322	\$ 23,656
Additions	-	10,877	(10,877)
Deletions	(5,594)	(5,594)	-
Balance -			
June 30, 2005	54,384	41,605	12,779
Additions	-	10,877	(10,877)
Deletions	-	-	-
Balance -			
June 30, 2006	\$ 54,384	\$ 52,482	\$ 1,902

NOTE 5 – LEASE OBLIGATIONS

Operating Lease:

The department has entered into an operating lease for office space until June 30, 2007. The lease contains a clause stating that renewal is dependent on appropriation funding by the State Legislature. Lease obligations for operating and capital leases are payable from all funds of the System. Expenditures for the operating lease were \$83,133 and \$80,525 for the year ended June 30, 2006 and June 30, 2005. The future minimum lease payments for the fiscal year ending June 30, 2007 is \$83,102.



NOTE 6

CHANGE IN LONG-TERM LIABILITIES

	<u>Proprietary Fund</u>	<u>Fiduciary Fund</u>	<u>Fiduciary Fund</u>
	Accrued Comp. Absences	Accrued Comp. Absences	Capital Lease Payable
Balance-			
June 30, 2004	\$ 53,215	\$ 75,289	\$ 6,752
Increases	36,435	47,919	-
Decreases	(36,168)	(52,868)	(6,752)
Balance-			
June 30, 2005	53,482	70,340	-
Increases	32,501	65,781	-
Decreases	(36,746)	(36,746)	-
Balance-			
June 30, 2006	\$ 49,237	\$ 99,655	\$ -
Balance -			
due within one year	\$ 2,250	\$ 4,554	\$ -

For the government activities, the accrued compensated absences and capital lease payable are generally liquidated by excess revenue in the Uniform Group Insurance Program and the Pension Trust Funds.

NOTE 7

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

All eligible employees of the System, except those electing to participate in the North Dakota Defined Contribution Retirement Plan, contribute to the North Dakota Public Employees Retirement System (PERS), a state-wide cost-sharing multiple-employer defined benefit pension plan which is detailed in the notes that follow.

The System is required to contribute to PERS at an actuarially determined rate for permanent employees. The System's contributions to PERS for the years ended June 30, 2006, 2005 and 2004, were \$81,231, \$78,052 and \$74,077 equal to the required contributions for each year.

There were no contributions to the North Dakota Defined Contribution Retirement Plan as none of the eligible employees of the System have elected to participate in this plan.

NOTE 8 – DESCRIPTION OF PLANS

General

The System administers four defined benefit pension plans and a defined contribution plan. The Public Employees Retirement System (PERS) is a cost-sharing multiple-employer retirement plan. The PERS was established July 1, 1966 as a defined contribution plan and was changed to a defined benefit plan by the 1977 North Dakota Legislature. The PERS is administered in accordance with Chapter 54-52 of the North Dakota

Century Code The Highway Patrolmen's Retirement System (HPRS) was established July 1, 1949 and is administered in accordance with Chapter 39-03 of the North Dakota Century Code. The HPRS is a single- employer defined benefit plan. The North Dakota Defined Contribution Retirement Plan was established on January 1, 2000 and is administered in accordance with Chapter 54-52.6 of the North Dakota Century Code. The Retirement Plan for Employees of Job Service North Dakota is a single-employer defined benefit public employee retirement plan administered by the Agency. The plan is established under NDCC 52-11-01 with benefit provisions established through the plan document, as amended. The OASIS (Old-Age and Survivor Insurance System) is a cost-sharing, multi-employer defined benefit public retirement plan. The trust fund was established effective July 1, 1947 by NDCC 52-093.

The costs of administering the plans are financed through the contributions and investment earnings of each plan.

The following brief description of the PERS and the HPRS, the Defined Contribution Plan, the Retirement Plan for Employees of Job Service North Dakota and OASIS is provided for general information purposes only. Participants should refer to the applicable chapters of the North Dakota Century Code for more complete information.

The PERS covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions (Main System). It also covers Supreme and District Court Judges and the National Guard Security Officers and Firefighters and as of August 1, 2004, peace officers and correctional officers employed by political subdivisions. The HPRS covers substantially all sworn officers of the North Dakota Highway Patrol. The Defined Contribution Plan covers state employees who are in positions not classified by the central personnel division of the State of North Dakota. Employees of the judicial branch or the Board of Higher Education and State institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Defined Contribution Plan. The Retirement Plan for Employees of Job Service North Dakota is limited to employees participating in the plan as of September 30, 1980. Participation in the OASIS plan is limited to eligible employees and their beneficiaries as of April 23, 1957.

The systems are not subject to the provisions of the Employee Retirement Income Security Act of 1974. The number of participating political subdivisions in the PERS was:

	<u>2006</u>	<u>2005</u>
Cities	73	71
Counties	44	44
School Districts	101	98
Other	<u>58</u>	<u>55</u>
Total participating political subdivisions	<u>276</u>	<u>268</u>

Employee membership data is as follows:

	PERS		HPRS	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Retirees & Beneficiaries				
Currently Receiving Benefits	6,187	5,887	100	92
Special Prior Service Retirees	48	63	-	-
Terminated Vested Participants	2,566	1,189	4	2
Inactive Participants	1,876	3,196	2	2
Active Plan Participants:				
Vested	13,700	13,735	63	72
Nonvested	<u>4,402</u>	<u>4,196</u>	<u>64</u>	<u>53</u>
Total Plan Membership	<u>28,779</u>	<u>28,266</u>	<u>233</u>	<u>221</u>

	Job Service		OASIS	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Retirees & Beneficiaries				
Currently Receiving Benefits	221	217	1	1
Terminated Vested Participants	-	-	-	-
Inactive Participants	5	5	-	-
Active Plan Participants:				
Vested	44	52	-	-
Nonvested	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Plan Membership	<u>270</u>	<u>274</u>	<u>1</u>	<u>1</u>

Every permanent state employee who is at least 18 years old and who is in a position not classified by the central personnel division of the State of North Dakota may be eligible to participate in a defined contribution pension plan administered by the North Dakota Public Employees Retirement System. Employees of the judicial branch or the Board of Higher Education and State Institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Plan.

The defined contribution plan had 291 and 295 participants as of June 30, 2006 and 2005 respectively.

Pension Benefits

PERS

Benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the main system are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 120 months of service, for each year of service. The Plan permits early retirement at ages 55-64 with three or more years of service.

Supreme and District Court Judges are entitled to unreduced monthly pension benefits beginning at normal retirement age of (65) or the Rule of 85. The monthly pension benefit is equal to a percentage of average monthly salary using the highest 36 consecutive months out of the last 120 months of service. The percentage is equal to 3.50 percent of average monthly salary multiplied by the first ten years of service, plus 2.80 percent of the average monthly salary times the second ten years of service, plus 1.25 percent of average monthly salary times years of service in excess of twenty years. The judicial retirement formula is only applied to eligible judicial service. Non-judicial service benefits are calculated using the 2.00 percent multiplier. The Plan permits early retirement at ages 55-64 with five or more years of service.

Members of the National Guard System are entitled to unreduced monthly pension benefits at normal retirement age (55). Members of the Law Enforcement System are entitled to unreduced monthly pension benefits at normal retirement age (55) or the Rule of 85. The monthly pension benefit for the National Guard/Law Enforcement is equal to 2.00 percent of their average monthly salary, using the highest 36 months out of the last 120 months of service, for each year of service. The Plan permits early retirement at ages 50-55 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, level social security or term-certain annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.



HPRS

Benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members are entitled to unreduced pension benefits upon attainment of age 55 and ten years of eligible employment or when the sum of age and years of credited service equals or exceeds 80. The annual pension benefit is equal to a percentage of average monthly salary using the highest 36 consecutive months out of the last 120 months of service (effective August 1, 2005 the highest 36 months out of the last 120 months). The percentage is equal to the sum of the first 25 years of service multiplied by 3.60 percent and 1.75 percent multiplied by years of service in excess of 25, if any. The Plan permits early retirement at ages 50-54, with ten or more years of service.

Defined Contribution Plan

Members are entitled to their vested account balance. A participating member is immediately 100% vested in the member's contributions. A participating member vests in the employer contributions made on the member's behalf as follows:

Upon completion of two years of service	50%
Upon completion of three years of service	75%
Upon completion of four years of service	100%

Members may elect to receive their account balance in a lump sum, lump sum direct rollover or periodic distribution.

Retirement Plan for Employees of Job Service North Dakota

Benefits are established through the plan document, as amended. The System provides a post-retirement cost-of living adjustment each year based on the Consumer Price Index. Employees are entitled to annual pension benefits beginning at normal retirement age (65). Employees may elect optional retirement eligibility at age 62 with 5 years of credited service, at age 60 with 20 years of credited service, or at age 55 with 30 years of credited service. Pension benefits are calculated based on the final average earnings (basic monthly earnings averaged over the highest three consecutive years of basic earnings) of the employee multiplied by the sum of:

- 1.5% times years of credited service up to 5 plus
- 1.75% times years of credited service between 6 and 10 plus
- 2.0% times years of credited service in excess of 10

OASIS

Benefits are set by statute. On a biennial basis, legislation has been introduced to the North Dakota legislature to increase the primary benefit amount in (c) below. Eligible individuals are entitled to primary insurance benefits at normal retirement age of

65. The primary insurance benefit is the sum of a) 50% of the amount of the average monthly wage if the average monthly wage does not exceed seventy-five dollars or \$37.50 or 15% of the amount by which the average monthly benefit exceeds seventy five dollars and does not exceed two hundred and fifty dollars; b) 1% of the amount computed under (a), multiplied by the number of years in which two hundred or more of wages were paid to the individual; and c) \$826.64.

PERS

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System and National Guard, or less than five years of service for Supreme and District Court Judges, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System and National Guard, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50 percent of the member's accrued normal retirement benefit, or 60 monthly payments equal to the member's accrued normal retirement benefit calculated as if the member were age 65 the day before death occurred or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

For Judges who have earned more than five years of credited service, the death benefit is the greater of (i) lump sum payment of accumulated contributions, and (ii) 100% of the members' accrued benefit (not reduced on account of age), payable for the spouse's lifetime.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25 percent of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the System in the North Dakota Administrative Code.

For Judges only, the disability benefit formula is 70% of final average salary minus Social Security and Workers Compensation benefits.

HPRS

Death and disability benefits are set by statute. If an active member dies with less than ten years of credited service, a death benefit equal to the value of the member's accumulated contributions, plus interest is paid to the member's beneficiary. If the member has earned more than ten years of credited service, the surviving spouse, if any, will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50 percent of the member's accrued normal retirement benefit or 60 monthly payments equal to the member's accrued normal retirement benefit calculated as if the member were age 55 the day before death occurred. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to any designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are up to 70 percent of their final average salary, reduced by worker's compensation, with a minimum benefit of \$100. To qualify under this section the member must meet the criteria established by the System for being totally disabled and apply for benefits within one year of termination.

Defined Contribution Plan

Upon the death of a participating member or former participating member, the vested account balance of that deceased participant is available to the participant's designated beneficiary(ies).

A member who becomes totally and permanently disabled while employed by the State is eligible to receive a distribution of the vested account balance. To qualify under this section, the member must meet the criteria established by the System for being totally disabled.

Retirement Plan for Employees of Job Service North Dakota

The plan provides retirement, disability and death benefits. If the death of a participant occurs prior to his/her annuity starting date, the surviving spouse who has been married at least two years prior to the participant's death or, if married less than two years is a parent of a child of this marriage, then the spouse shall receive monthly benefits. The amount is the greater of the benefit had the participant retired on the day before he/she died and elected the Contingent Annuitant Option with 55% of his/her retirement benefit continued to his/her spouse of 55% of the smaller of 40% of the deceased participant's average monthly earnings or the deceased participant's normal retirement benefit obtained by increasing their credited service by the period of time between their date of

death and the date they would have attained age 60. Upon remarriage of the surviving spouse before age 60, the death benefits will cease.

If a participant becomes totally disabled, he/she will be eligible for a monthly disability benefit that shall be equal to the greater of 40% of the participant's average annual earnings or the accrued benefit determined as their date of disability.

OASIS

Eligible surviving spouses are entitled to three-fourths of the primary insurance benefit of the insured individual.

Refunds of Member Contributions

Upon termination, if a member of PERS or HPRS is not vested (is not 65 or does not have three years of service for the Main System and National Guard, or five years of service for the Supreme and District Court Judges, credited for the PERS, or is not 60 or does not have ten years of service credited for the HPRS), they will receive the accumulated member contributions plus interest. If a member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Contributions

Contribution rates for PERS and HPRS are set by state statute, actuarially determined based on the entry age normal actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost, (2) an amount for amortization of the unfunded accrued liability over an open period of 20 years, and (3) the amount necessary to provide for operating expenses. Contribution rates for the Defined Contribution Plan are set by state statute and are a percentage of salaries and wages. Contribution rates for the Job Service Retirement Plan are established in the plan document, as amended, actuarially determined using the frozen initial liability actuarial cost method. Contributions to OASIS are set by statute. Contributions are required only to the extent the trust fund does not have sufficient funds to meet current benefit payments. A tax will be assessed on participating state and local government employers when the trust fund does not have sufficient funds to meet current benefit obligations. No contributions have been collected since 1989.

PERS

Member contributions are established at 4 percent of regular compensation with the exception of Supreme and District Court judge contributions which are established at 5 percent of total compensation. During the 1983-1985 biennium the State

and some of the participating political subdivisions implemented the employer pickup provision of the IRS code whereby a portion of all of the required member contributions are made by the employer. The State is paying the full member contribution with the exception of the Supreme and District court judges for which the State is paying 4 of the 5 percent contribution. Some of the political subdivisions are paying all or part of the member contributions.

Employer contributions of 4.12 percent of covered compensation are set by statute. The employer contribution rate for the Supreme and District Court Judges is also set by statute at 14.52 percent and the contribution rate for the National Guard Security Officers and Firefighters is set by the Board as follows:

National Guard is at 8.33 percent (6.50 percent effective 10/1/05)

Law Enforcement with previous service is 8.31 percent

Law Enforcement without previous service is 6.43 percent

The entry age normal cost method determines the amount of contributions necessary to fund: (a) the current service cost, which represents the estimated amount necessary to pay for the benefits earned by members during the current service year and, (b) the prior service cost, which represents the amount necessary to pay for benefits earned prior to the effective date of the plan.

Except for Supreme and District Court Judges, the member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan.

The minimum member contribution is \$25 and the maximum may not exceed the following:

1 to 12 months of service - Greater of one percent of monthly salary or \$25

13 to 24 months of service - Greater of two percent of monthly salary or \$25

25 to 36 months of service - Greater of three percent of monthly salary or \$25

Longer than 36 months of service - Greater of four percent of monthly salary or \$25

An open period of 20 years to fund accrued liabilities for the Public Employees Retirement System and the Supreme and District Court Judges has been adopted for the July 1, 1996 valuation and adopted for the National Guard Security Officers and Firefighters for the July 1, 1998 valuation.



Currently, employer contributions are sufficient to meet these funding schedules.

HPRS

Employees' contributions are established at 10.3 percent of total compensation of which the state is paying 4 percent. Employer contributions of 16.7 percent of covered compensation are set by statute. The entry age normal cost method determines the amount of contributions necessary to fund; (a) the current service cost, which represents the estimated amount necessary to pay for benefits earned by employees during the current service year and, (b) the prior service cost, which represents the amount necessary to pay for benefits earned prior to the effective date of the plan.

An open period of 20 years to fund accrued liabilities for the Highway Patrolmen's Retirement System has been adopted for the July 1, 1996 valuation. Currently, employer contributions are sufficient to meet this funding schedule.

The following schedule represents the annual pension costs and net pension obligations:

Annual required contributions	\$ 904,817
Interest on net pension obligations	(51,324)
Adjustment to annual required contributions	<u>44,774</u>
Annual pension costs	898,267
Contributions made	<u>931,206</u>
Increase in net pension obligations	(32,939)
Net pension obligations, beginning of year	<u>(641,545)</u>
(Assets in excess of) net pension obligations, end of year	\$ <u>(674,484)</u>

Defined Contribution Plan

Member contributions are established at 4 percent and employer contributions are established at 4.12 percent of regular compensation.

Retirement Plan for Employees of Job Service North Dakota

Employees' contributions are established at 7.0 percent of total compensation of which the state is paying 4 percent. The funding policy of the plan provides for employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. Effective July 1, 1999, the "scheduled contribution" will be zero as long as the plan's actuarial value of assets exceeds the actuarial present value of projected benefits.

The following schedule represents the annual pension costs and net pension obligation for the year ended June 30:

Annual required contributions	\$ -
Interest on net pension obligation	(133,186)
Adjustment to annual required contributions	<u>(136,928)</u>
Annual pension costs	3,742
Contributions made	<u>-</u>
Increase in net pension obligations	3,742
Net pension obligations, beginning of year	<u>(1,664,826)</u>
(Assets in excess of) net pension obligations, end of year	\$ <u>(1,661,084)</u>

**NOTE 9
RETIREE HEALTH INSURANCE
CREDIT FUND**

The Retiree Health Insurance Credit Fund, a cost-sharing multiple-employer plan, is administered by the System to provide members receiving retirement benefits from the PERS, the HPRS, the Retirement Plan for Employees of Job Service North Dakota, and judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Employee membership data is as follows:

	<u>2006</u>	<u>2005</u>
Retired Participants	3,838	3,682
Active Participants	<u>18,465</u>	<u>18,302</u>
	<u>22,303</u>	<u>21,984</u>

The Projected Unit Credit is the actuarial cost method used for the Retiree Health Insurance Credit Fund. Significant actuarial assumptions used are as follows:

Mortality Rates: 1983 Group Annuity Mortality Table for Healthy Lives and the Pension Benefit Guaranty Corporation Disabled Life Mortality Table for Participants Receiving Social Security Benefits.

Withdrawal Rates: Rates of withdrawal from active service before retirement for reasons other than death, rates of disability and expected retirement ages developed on the basis of an investigation of actual plan experience.

Investment Return: 8.00% per annum, net of investment expenses.

Inflation: 4.50% per annum.

Expenses: Administrative expenses of \$65,000 a year.

Actuarial Value of Assets:

Adjusted market value that immediately recognizes interest and dividends. The procedures recognize 20% of each year's total appreciation (depreciation) beginning with the year of occurrence.

The Retiree Health Insurance Credit Fund has 18,465 active participants at June 30, 2006. The employers' actuarially required contribution was \$5,396,153 and the actual employer contributions for the period ended June 30, 2006 were \$5,373,091. The amount of net assets held in trust for post employment healthcare benefits at June 30, 2006 is \$37,905,235. The actuarial accrued liability and actuarial unfunded accrued liability at June 30, 2006 is \$82,632,628 and \$48,612,215, respectively. The benefit security ratio for the last five years is 38.3% for 2002, 38.2% for 2003, 38.8% for 2004, 39.6% for 2005 and 41.2% for 2006. The progress of this ratio reveals overall improvement in the Plan's funded condition.

The following are the changes in actuarial assumptions, asset method and plan experience and the effect on the employer's contribution rates expressed as a percent of covered payroll, and the dollar effect on the actuarial accrued liability.

	<u>Percent</u>	<u>Dollar</u>
Net effect of change in actuarial assumption	0.02	113,600
Benefit improvement	-	-
Changes in plan experience during the year	<u>(0.02)</u>	<u>(113,600)</u>
	—	—

The employer contribution for the PERS and the HPRS and the Defined Contribution Plan is set by statute on an actuarially determined basis at 1 percent of covered compensation. The employer contribution for non-teaching employees of the Office of the Superintendent of Public Instructions is 3.1 percent of covered compensation beginning in the month following the transfer under Chapter 54-92-02.13 of the North Dakota Century Code and continuing thereafter for a period of eight years. Job Service North Dakota reimburses the Retiree Health Insurance Credit Fund monthly for credit received by members of the Retirement Plan for Employees of Job Service North Dakota. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1 percent of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit

amount applied each year is shown as "prefunded credit applied" on the Statement of Changes in Plan Net Assets for the pension trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Retirement Plan for Employees of Job Service North Dakota, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan. The benefits are equal to \$4.50 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

**NOTE 10
DEFERRED COMPENSATION PLAN
FOR PUBLIC EMPLOYEES**

The System was given the authority by Chapter 54-52.2 to administer an employee deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan allows employees of the State of North Dakota or any of its political subdivisions, institutions, departments, or agencies to participate, providing that the employee has signed a participant agreement which permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive use of the employee or their beneficiary.

The related assets are reported at market value as investments as follows:

	<u>2006</u>	
Plan Participation By:		
State of North Dakota	\$ 16,112,367	87%
Other Jurisdictions	<u>2,510,244</u>	<u>13%</u>
Total Value	<u>\$ 18,622,611</u>	<u>100%</u>



	<u>2005</u>	
Plan Participation By:		
State of		
North Dakota	\$ 13,533,062	89%
Other		
Jurisdictions	<u>1,673,898</u>	<u>11%</u>
Total Value	<u>\$ 15,206,960</u>	<u>100%</u>

NOTE 11**FEDERAL INCOME TAX STATUS**

The System is exempt from the payment of any federal income taxes by virtue of being an agency of the state of North Dakota.

NOTE 12**UNIFORM GROUP INSURANCE SURPLUS**

The Uniform Group Insurance Program, a proprietary fund, contracts with Blue Cross Blue Shield of North Dakota (BCBS) to provide health care insurance to the employees of the State of North Dakota, or any of its political subdivisions, institutions, departments or agencies. The contract provides for an accounting of premiums paid and claims incurred during the biennium. The System has entered into a similar contract with BCBS for the 2003-2005 biennium. In accordance with the contract, the System is to deposit a total of \$6 million with BCBS. These surplus funds are to be used to pay any claims in excess of the premiums collected. At the end of the contract period, the System receives the remaining surplus funds plus interest. This amount will be determined as of June 30, 2007. The accumulated surplus and other invested funds in the amount of \$7,021,155 are shown as cash on the System's balance sheet. These funds are being held by BCBS.

Similarly, the Uniform Group Insurance Program contracted with ING Employee Benefits to provide life insurance to the employees of the State of North Dakota or any of its political subdivisions, institutions, departments or agencies. This contract was terminated June 30, 2005 and provides for an accounting of premiums paid and claims incurred during the biennium, which resulted in an estimated surplus of \$1.7 million. The surplus is classified as accounts receivable on the System's balance sheet. The contract for life insurance for the 2005-2007 biennium is with Prudential and does not have a gain sharing arrangement.

NOTE 13 - RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the state for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees and the University System. All state agencies participate in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The System also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The agency pays an annual premium to the Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 120-month period. The State Bonding Fund currently provides the agency with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The System participates in the North Dakota Workforce Safety, an Enterprise Fund of the State of North Dakota. Workforce Safety is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 14 - RELATED PARTIES

As stated in Note 1 of these financial statements, the System is a state agency of the state of North Dakota, as such, the other state agencies of the state and political subdivisions are related parties.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

**Required Supplementary Information
Schedule of Funding Progress
For the six years ended June 30, 2006**

Public Employees Retirement System (Expressed in Millions)

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Entry Age	Actuarial Value of Assets	Unfunded AAL (UAAL) (Funded Excess)	Ratio of Assets to AAL	Covered Payroll	UAAL (Funded Excess) as a Percentage of Covered Payroll
2001	1,008.7	\$ 1,115.3	\$ (106.6)	110.6%	\$ 433.3	(24.6)%
2002	1,103.5	1,150.0	(46.5)	104.2	461.3	(10.1)
2003	1,188.8	1,166.5	22.3	98.1	479.5	4.7
2004	1,272.9	1,196.5	76.4	94.0	501.0	15.3
2005	1,361.2	1,236.1	125.1	90.8	521.1	24.0
2006	1,480.5	1,314.5	166.0	88.8	547.0	30.3

Highway Patrolmen's Retirement System (Expressed in Millions)

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Entry Age	Actuarial Value of Assets	Unfunded AAL (UAAL) (Funded Excess)	Ratio of Assets to AAL	Covered Payroll	UAAL (Funded Excess) as a Percentage of Covered Payroll
2001	38.1	\$ 38.8	\$ (0.7)	101.8%	\$ 4.9	(14.3)%
2002	40.5	39.5	1.0	97.4	5.1	19.6
2003	42.4	39.6	2.8	93.4	5.4	51.9
2004	44.5	40.0	4.5	89.9	5.4	83.3
2005	46.3	40.7	5.6	87.9	5.3	105.7
2006	49.1	42.8	6.3	87.0	5.7	110.5

Retirement Plan for Employees of Job Service North Dakota (Expressed in Millions)

Actuarial Valuation Date July 1	Actuarial Accrued Liabilities (AAL) FIL Method*	Actuarial Value of Assets	Unfunded AAL (UAAL) (FIL Method)	Funded Ratio	Covered Payroll	UAAL (Funded Excess) as a Percentage of Covered Payroll
2001	N/A	\$ 70.8	-	N/A	\$ 3.5	0.0%
2002	N/A	67.6	-	N/A	3.2	0.0
2003	N/A	66.0	-	N/A	2.9	0.0
2004	N/A	67.5	-	N/A	2.5	0.0
2005	N/A	69.3	-	N/A	2.2	0.0
2006	N/A	70.6	-	N/A	1.9	0.0

* The Frozen Initial Liability (FIL) method does not directly identify an Actuarial Accrued Liability (AAL).



**Required Supplementary Information
Schedule of Employer Contributions
For the six years ended June 30, 2006**

Public Employees Retirement System

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2001	\$ 9,642,770	100%
2002	16,811,296	100
2003	20,644,235	93
2004	26,704,376	74
2005	31,844,577	65
2006	31,906,102	69

Highway Patrolmen's Retirement System

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Net Pension Obligation
2001	\$ 420,601	187%	\$ (577,953)
2002	591,235	138	(806,653)
2003	748,658	111	(899,304)
2004	940,629	90	(812,097)
2005	1,046,646	83	(641,545)
2006	933,347	99	(674,484)

**NOTES TO
REQUIRED
SUPPLEMENTARY
SCHEDULES**

June 30, 2006

**NOTE 1
DESCRIPTION OF SCHEDULE OF
FUNDING PROGRESS**

Each time a new benefit is added which applies to service already rendered, an "unfunded accrued liability" is created. Laws governing PERS require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded accrued liabilities.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded accrued liabilities increasing in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Unfunded accrued liabilities divided by active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to covered payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

**NOTE 2
ACTUARIAL ASSUMPTIONS AND METHODS**

Funding Method
PERS and HPRS

An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. Unfunded actuarial accrued liabilities for pension benefits are amortized over an open period of 20 years for the Public Employees Retirement System, the Supreme and District Court Judges, and the Highway Patrolmen's Retirement System which was adopted for the July 1, 1996 valuation. For the July 1, 1998 valuation the National Guard Security Officers and Firefighters changed the amortization period for the unfunded actuarial accrued liabilities for pension benefits from a closed period to an open period of 20 years. For both plans, this will produce payments which are level percents of payroll contributions based on an open amortization period.

**Retirement Plan for Employees
of Job Service North Dakota**

A frozen initial liability actuarial cost method of valuation is used in determining benefit liabilities and normal cost. The normal contribution under

this method is the normal cost plus the payment required to amortize the unfunded actuarial liability over a selected period of years. The normal cost is determined by calculating the total value of all future benefits, subtracting the unfunded actuarial liability, and dividing that amount into payments that are a level percent of pay over the future working lifetime of all participants.

To calculate pension plan contribution requirements, assumptions are made about all of the future events that could affect the amount and timing of benefits to be paid and assets to be accumulated. Under the Frozen Initial Liability Actuarial Cost method used, the normal cost will remain level as a percentage of covered payroll if the assumptions closely approximate experience. Each year actual experience is measured against the assumptions, and to the extent that there were differences in that year, the contribution requirement is adjusted. If the assumptions are changed, contribution requirements are adjusted to take into account a change in experience in all future years.

Under the Frozen Initial Liability Actuarial Cost Method, the net gain or loss is translated into a decrease or increase in the normal cost percentage, since the unfunded actuarial accrued liability has been frozen. The unfunded employer frozen initial liability was frozen at October 1, 1983. Effective July 1, 1999, the “scheduled contribution” will be zero as long as the plan’s actuarial value of assets exceeds the actuarial present value of projected benefits.

Asset Valuation Method

PERS and HPRS

For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized over a five-year period.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2006, the date of the latest actuarial study include:

- **Investment Return** – A rate of return on the investment of present and future assets of 8 percent, net of investment expenses.
- **Inflation** – The assumed inflation rate is 3.50% per annum.
- **Salary Scale** – Projected salary increases based upon inflation of 4.5 percent together with wage increases attributable to seniority, merit and “standard of living” increases.
- **Mortality Rates** – Pre- and post- mortality life expectancies of participants based upon 1983 Group Annuity Mortality Tables and the Pension Benefit Guaranty Corporation’s Disabled Life

Mortality Tables, with a one year set back for the mortality assumption for males.

- **Withdrawal** – Rates of withdrawal from active service before retirement for reasons other than death, rates of disability and expected retirement ages developed on the basis of an investigation of actual plan experience.
- **Expenses** – Administrative expense of \$720,000 a year for the Public Employees Retirement System and \$16,000 a year for Highway Patrolmen’s Retirement System.
- **Post Retirement Benefit Increase** – There are no post retirement benefit increase assumptions.

Retirement Plan for Employees of Job Service North Dakota

To determine what portion of the cost of future benefits has already been funded, a value has to be placed on current assets. The asset valuation method might be considered the funding method used for benefits already paid for. For the actuarial valuation, assets are determined using a 20% write-up method. Effective July 1, 2001, the actuarial value of assets was reinitialized to the market value of assets.

Significant actuarial assumptions employed by the actuary for funding purposes as of July 1, 2006, the date of the latest actuarial study:

Mortality Tables:

Healthy:
1994 Group Annuity Mortality Table

Disabled:
1983 Railroad Retirement Board Disabled Life Mortality Table

Disability Incidence:

Sample rates shown below

	WITHDRAWAL RATES			
	Mortality		Disability	Withdrawal
	Male	Female	Incidence	
20	0.05	0.03	0.06	5.44
25	0.07	0.03	0.09	5.29
30	0.08	0.04	0.11	5.07
35	0.09	0.05	0.15	4.70
40	0.11	0.07	0.22	4.19
45	0.16	0.10	0.36	3.54
50	0.26	0.14	0.61	2.48
55	0.44	0.23	1.01	0.94
60	0.80	0.44	1.63	0.09



**SUPPLEMENTARY
INFORMATION****Retirement age:**

75% of active participants are assumed to retire when eligible for optional retirement, and the remaining participants retire at normal retirement.

100% of inactive vested participants are assumed to retire at optional retirement age

Salary scale:

5% per year

Post-retirement Cost of Living Adjustment (COLA): 5% per year**Percent married:**

85% of all active and inactive vested participants

Age of spouse: Females are assumed to be four years younger than males

Rate of return:

8.0% per year compounded annually, net of investment fees and administrative expenses

Future benefit accruals:

One year of credited service per year per active employee included in the valuation

Actuarial value of Assets:

Assets are valued as the sum of the actuarial value of assets at the beginning of the year plus net new money (the sum of contributions, dividends and interest, less the sum of administrative expenses, investment fees and benefit payments), plus 20% of the difference between the market value and that sum. The actuarial value of assets will not be less than 80% or more than 120% of market value. Effective July 1, 2001, the actuarial value of assets was reinitialized to the market value of assets.

Actuarial cost method:

Frozen Initial Liability Actuarial Cost Method, with entry age defined as employee's age at hire.

**Statement of Appropriations
For the Year Ended June 30, 2006**

	Approved 2005-2007 Appropriation	2005-2007 Appropriation Adjustments	Adjusted 2005-2007 Appropriation	Expenditures 2006	Expenditures 2007	Unexpended Appropriation
All Fund Types:						
Salaries and wages	\$ 2,885,526	\$ -	\$ 2,885,526	\$ 1,363,884	\$ -	\$ 1,521,642
Operating Expenses	1,564,711	-	1,564,711	572,045	-	992,666
Contingency	250,000	-	250,000	-	-	250,000
OASIS Insurance Benefits	19,000	-	19,000	-	-	19,000
	<u>\$ 4,719,237</u>	<u>\$ -</u>	<u>\$ 4,719,237</u>	<u>\$ 1,935,929</u>	<u>\$ -</u>	<u>\$ 2,783,308</u>

Reconciliation of Administrative Expenses to Appropriated Expenditures

Administrative expenses as reflected in the financial statements	<u>2006</u>	<u>2005</u>
Pension Trust Funds	\$ 1,581,296	\$ 1,558,217
Enterprise Funds	<u>768,037</u>	<u>838,735</u>
Total Administrative Expenses	2,349,333	2,396,952
Less:		
Professional Fees	(362,881)	(376,560)
Depreciation Expense	(10,877)	(10,877)
Allocated Depreciation Charged as Equipment Rent to Other Programs	(6,526)	(6,090)
Expenditures Appropriated Through Job Service	(1,223)	(1,358)
Changes in Annual Leave	(25,070)	4,682
Flex Comp FICA Payments	(26)	(162)
Debits to BND Accounts for Supplies	(52)	(161)
Mailing Expense Charged to BCBS Account	(6,328)	-
Contribution/Premium Over and Short	<u>(421)</u>	<u>783</u>
Total Appropriated Expenditures	<u>\$ 1,935,929</u>	<u>\$ 2,013,961</u>

SCHEDULE OF ADMINISTRATIVE EXPENSES
Fiduciary Funds
For the Fiscal Year Ended June 30, 2006

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan	Oasis Program
Personnel Services:								
Salaries	401,085	3,239	38,521	2,900	90,542	126,987	2,796	0
Social security	30,493	257	2,927	220	6,886	9,685	212	0
Retirement	35,888	290	3,391	255	7,473	9,902	246	0
Insurance	77,853	618	6,829	514	15,999	18,476	496	0
Total Personnel Services	545,319	4,404	51,668	3,889	120,900	165,050	3,750	0
Professional Services:								
Actuarial	82,453	9,850	9,000	0	0	0	16,170	0
Audit	11,031	89	981	74	2,275	2,022	71	0
Data processing	146,874	1,186	7,386	1,953	2,428	6,811	536	0
Consulting	62,992	505	4,490	338	13,323	15,151	6,047	0
Legal counsel	7,430	60	731	169	1,041	1,799	54	0
Misc outside services	13,815	112	1,262	95	2,742	4,152	1,760	0
Total Professional Services	324,595	11,802	23,850	2,629	21,809	29,935	24,638	0
Communication:								
Postage & mailing svc	27,072	219	2,421	182	7,874	1,690	176	0
Printing	24,901	201	1,491	112	1,837	3,179	108	0
Telephone	8,163	66	761	58	1,229	2,097	55	0
Total Communication	60,136	486	4,673	352	10,940	6,966	339	0
Rentals:								
Equipment rent	11,923	96	1,326	100	3,611	5,050	96	0
Office rent	34,987	282	3,182	239	7,461	8,512	231	0
Total Rentals	46,910	378	4,508	339	11,072	13,562	327	0
Miscellaneous:								
Depreciation	10,877	0	0	0	0	0	0	0
Dues and prof development	12,091	98	748	332	942	2,021	54	0
Insurance	911	7	81	6	188	167	6	0
Miscellaneous	5,917	46	566	43	1,858	1,129	41	1,223
Repairs and maintenance	904	7	81	6	189	181	6	0
Supplies	14,447	117	1,395	105	3,606	3,903	101	0
Travel	15,428	125	999	272	24	4,749	73	0
Total Miscellaneous	60,575	400	3,870	764	6,807	12,150	281	1,223
Total								
Administrative Expenses	\$1,037,535	\$17,470	\$88,569	\$7,973	\$171,528	\$227,663	\$29,335	\$1,223

SCHEDULE OF ADMINISTRATIVE EXPENSES
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan	Oasis Program
Personnel Services:								
Salaries	384,801	3,040	35,786	2,819	70,240	92,647	2,626	0
Social security	29,298	232	2,723	215	5,344	7,065	200	0
Retirement	35,066	277	3,226	254	6,171	8,178	237	0
Insurance	71,892	568	6,202	489	12,467	15,370	455	0
Total Personnel Services	521,057	4,117	47,937	3,777	94,222	123,260	3,518	0
Professional Services:								
Actuarial	185,034	9,050	9,000	0	0	0	15,000	0
Audit	14,718	116	1,296	102	3,034	2,697	95	0
Data processing	117,628	929	8,374	2,552	2,235	25,670	614	0
Consulting	5,186	39	0	5,116	11,000	8,905	0	0
Legal counsel	7,757	61	728	104	762	1,716	53	0
Misc outside services	3,223	25	196	15	72	121	3,438	0
Total Professional Services	333,546	10,220	19,594	7,889	17,103	39,109	19,200	0
Communication:								
Postage & mailing svc	68,281	540	5,543	437	9,923	5,994	407	0
Printing	16,448	130	1,085	85	1,936	1,837	80	0
Telephone	7,051	55	642	51	926	1,767	47	0
Total Communication	91,780	725	7,270	573	12,785	9,598	534	0
Rentals:								
Equipment rent	11,624	178	1,695	134	3,253	2,892	124	0
Office rent	34,089	269	3,037	239	7,028	6,310	223	0
Total Rentals	45,713	447	4,732	373	10,281	9,202	347	0
Miscellaneous:								
Depreciation	10,877	0	0	0	0	0	0	0
Dues and prof development	13,410	106	904	384	968	3,918	66	0
Insurance	1,422	11	125	10	293	261	9	0
Miscellaneous	10,958	88	937	74	2,741	2,606	69	1,360
Repairs and maintenance	763	6	76	6	149	416	6	0
Supplies	29,468	233	2,734	215	6,987	5,971	200	0
Travel	13,283	105	953	434	321	5,315	70	0
Total Miscellaneous	80,181	549	5,729	1,123	11,459	18,487	420	1,360
Total								
Administrative Expenses	\$1,072,277	\$16,058	\$85,262	\$13,735	\$145,850	\$199,656	\$24,019	\$1,360

SCHEDULE OF INVESTMENT EXPENSES
Fiduciary Funds
For the Fiscal Year Ended June 30, 2006

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan	Oasis Program
Payments to State Investment Board:								
Investment Fees	\$12,271,909	\$402,715	\$69,457	\$0	\$0	\$0	\$1,073,229	\$0
Administrative Expenses	139,065	4,571	0	0	0	0	0	0
	12,410,974	407,286	69,457	0	0	0	1,073,229	0
Securities Lending Fees	4,938,531	162,158	0	0	0	0	424,954	0
Payments to Providers:								
Investment Fees	0	0	0	10,792	0	45,570	0	0
Total Investment Expenses	\$17,349,505	\$569,444	\$69,457	\$10,792	\$0	\$45,570	\$1,498,183	\$0

SCHEDULE OF INVESTMENT EXPENSES
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan	Oasis Program
Payments to State Investment Board:								
Investment Fees	\$5,017,234	\$167,468	\$62,164	\$0	\$0	\$0	\$268,358	\$0
Administrative Expenses	127,238	4,248	0	0	0	0	0	0
	5,144,472	171,716	62,164	0	0	0	268,358	0
Securities Lending Fees	1,951,521	64,883	0	0	0	0	187,850	0
Payments to Providers:								
Investment Fees	0	0	0	9,474	0	78,254	0	0
Total Investment Expenses	\$7,095,993	\$236,599	\$62,164	\$9,474	\$0	\$78,254	\$456,208	\$0

SCHEDULE OF CONSULTANT EXPENSES
Fiduciary Funds
For the Fiscal Year Ended June 30, 2006

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan	OASIS Program
Actuary Fees:								
Gabriel, Roeder & Smith	\$ 1,130	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$0
The Segal Company	81,323	9,850	9,000	0	0	0	16,170	0
Audit Fees:								
Brady, Martz & Assoc.	0	0	0	0	0	0	0	0
Eide Bailly LLP	11,031	89	981	74	2,275	2,022	71	0
Disability Consulting Fees:								
Mid Dakota Clinic	7,554	0	0	0	0	0	0	0
Miscellaneous Consulting Fees:								
The Segal Company	0	58	0	0	11,000	2,860	721	0
Calhoun Associates, Inc.	0	0	0	0	0	0	5,000	0
LR Wechsler	48,805	447	4,490	338	966	11,085	326	0
Nexus Innovations	6,633	0	0	0	1,357	1,206	0	0
Legal Fees:								
ND Attorney General	7,430	60	731	169	1,041	1,799	54	0
Totals	\$163,906	\$10,504	\$15,202	\$581	\$16,639	\$18,972	\$22,342	\$0

SCHEDULE OF CONSULTANT EXPENSES
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan	OASIS Program
Actuary Fees:								
Gabriel, Roeder & Smith	60,736	0	0	0	0	0	0	0
The Segal Company	124,298	9,050	9,000	0	0	0	15,000	0
Audit/Accounting Fees:								
Brady, Martz & Associates	1,367	0	0	0	280	249	0	0
Eide Bailly LLP	13,351	116	1,296	102	2,754	2,448	95	0
Disability Consulting Fees:								
Mid Dakota Clinic	4,836	39	0	0	0	0	0	0
Miscellaneous Consulting Fees:								
Calhoun Law Group	350	0	0	0	0	0	0	0
The Segal Company	0	0	0	5,116	11,000	8,905	0	0
Legal Fees:								
ND Attorney General	7,757	61	728	104	762	1,716	53	0
Totals	\$212,695	\$9,266	\$11,024	\$5,322	\$14,796	\$13,318	\$15,148	\$0

Vertical line



INVESTMENT SECTION

**INVESTMENT
REPORT
FROM THE
NORTH DAKOTA
RETIREMENT
AND
INVESTMENT
OFFICE**



North Dakota Retirement and Investment Office

*Teachers' Fund for Retirement
State Investment Board*

Steve Cochrane, CFA
Executive Director

Fay Kopp
Deputy Executive Director

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November 13, 2006

Board of Trustees
Members of the System

It is a pleasure to provide the following summary of the North Dakota Public Employees Retirement System investment portfolio and market environment for the fiscal year ended June 30, 2006.

Introduction

For the fiscal year ended June 30, 2006, the North Dakota Public Employees Retirement System (PERS) investment portfolio experienced a net total return of 12.00%. The Job Service Pension Plan experienced a net total return of 7.09% for the same time period. The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon market values and are subject to independent audit.

Economic Overview

The Federal funds target rate rose consistently over the last fiscal year topping out at 5.25% on June 30, 2006. Gross Domestic Product ("GDP") fluctuated throughout this period reaching a high of 5.6% in the first calendar quarter of 2006 and a low of 1.1% in the fourth quarter of calendar year 2005. The CPI index rose significantly in September, 2005 to 1.2%. This marked the largest monthly gain in 25 years. The fluctuation in GDP and high inflation rate was largely due to rising oil prices and the economic impact of Hurricanes Katrina and Rita. Fortunately, the US economy remained strong. High corporate profits and increases in workers' wages helped offset the difficulties of high oil prices, increased interest rates, and natural disasters. At the end of the fiscal year, GDP growth eased to 2.5%. This decrease was associated with declining consumer confidence, as well as a cooling housing market, rising interest rates, and a weak June employment report. Overall, the U.S. dollar weakened against other major currencies during the fiscal year.

Domestic Equity Overview

The last fiscal year showed mixed results in the broad equity market. The S&P 1500 Index, a broad market indicator, finished the fiscal year with a return of 9.22% up from 7.23% the year before. The first calendar quarter of 2006 showed positive signs when the S&P 1500 grew 4.85%, which was the highest quarterly gain since 2004. However, the following quarter witnessed a significant drop in equity prices; the S&P 1500 Index fell -1.72%. For the fiscal year ending June 30, 2006, small cap stocks outpaced large cap stocks. Value investors tended to outperform their growth counterparts in all capitalization ranges except in the third calendar quarter of 2005 when growth stocks edged out value.

International Equity Overview

International equity, as represented by the MSCI EAFE Index, produced strong results in fiscal year 2006. The index gained 26.56%, which was superior to the 23.66% local return for EAFE. Japan and the Pacific Basin posted particularly strong returns for the fiscal year. Japan and the Pacific Basin's MSCI Indexes gained 35.85% and 30.93%, respectively, a vast improvement over fiscal year 2005. Europe's MSCI Index rose 24.75% for the fiscal year despite rate hikes by the European Central Bank of 25 bps in each of the last two quarters. The Emerging Markets Free Index had an outstanding fiscal year as it gained 35.91%, outperforming the EAFE.



Domestic Fixed-Income Overview

The bond market, as measured by the Lehman Aggregate Bond Index, had a -0.32% return for the fiscal year ending June 30, 2006. The 10-year Treasury ended the fiscal year with a yield of 5.14%, an increase from the prior year's 3.92% yield at June 30. Longer-term bond investors were hurt by the rise in interest rates as shown by the -6.47% loss of the Lehman Government/Credit Long Index over the fiscal year ended June 30, 2006. Corporate bond investors were also down as the Lehman Credit Index fell -2.06% over the same time period.

High yield investors showed positive returns despite a slow equity market and a fluctuating economy. In this past fiscal year the Lehman High Yield Index gained 4.80%, which is less than the 10.86% return achieved in the prior year, but is still additive in relation to the investment grade bond market's return in fiscal 2006.

International Fixed-Income Overview

The international bond market showed a small negative return in fiscal year 2006 as the Citi Non-US World Government Bond Index fell -0.01%. Non-US dollar bonds benefited from the US dollar's decline during the period. The U.S. dollar weakened against most major currencies during fiscal year 2006, which enhanced foreign markets' returns to dollar-based investors. The JP Morgan EMBI (emerging market bond index), however, ended the fiscal year with a gain of 5.24%.

Real Estate Overview

The real estate markets saw capital inflows during the 2006 fiscal year despite the instability of the broader capital market. Fundamentals such as increased occupancy rates and supply constraints yielded a positive outcome for the year. The real estate market's main index, the NCREIF Total Index, was up 18.67% for the year ended June 30, 2006. Real estate produced consistent returns every quarter over the fiscal year ended June 30, 2006.

Private Equity Overview

Private equity had its second best year in calendar-year 2005. This upward momentum continued into the first two quarters of calendar-year 2006 with funds flowing into new private equity partnerships. Buyouts had been the big news on all three fronts: fundraising, investing, and distributions. Due to the nature of private equity performance measurement, relative comparisons of fund performance with benchmarks are inherently ambiguous. Instead of recognizing any particular index as representative of the opportunity for the fiscal year ended June 30, 2006, it is worth noting that the PERS Fund's private equity allocation of Total Fund assets was only 4.1%. The market value of the private equity allocation, including investment returns and net new investment, gained 11.08% over the prior fiscal year.

Summary

Fiscal year 2006 continued the trend from 2005 in providing the funds with good performance on both an absolute and relative basis sensitive to their investment parameters and constraints. The SIB continues its effort to further diversify the funds for risk control purposes and to create additional investment exposures for the purpose of enhancing returns.

Sincerely,



STEVE COCHRANE, CFA
Executive Director/CIO

INVESTMENT POLICIES

By state law, PERS and HPRS assets are invested by the North Dakota State Investment Board (SIB). This change became effective July 1, 1989, with the primary purpose being to achieve cost savings through pooling of assets for investment. The assets of the Job Service Retirement Plan are also invested by the SIB since July 1, 1994.

State law requires that the SIB apply the prudent investor rule when investing funds under its supervision. The "prudent investor rule" means fund fiduciaries shall exercise the judgment and care, similar to that of an institutional investor who exercises ordinary prudence, discretion, and intelligence when managing the assets of large investments entrusted to it. The retirement funds belonging to the System must be invested exclusively for the benefit of the members and the beneficiaries in accordance with the System's investment goals and objectives.

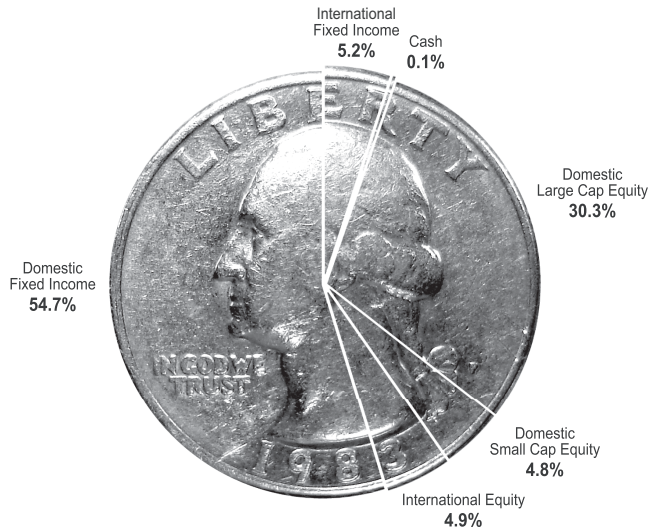
The Retirement Board is responsible for establishing policies on investment goals and objectives and asset allocation, which are to be viewed over the long term. The investment goals for PERS and HPRS are: to accumulate sufficient wealth through a diversified portfolio of investments which will enable the State of North Dakota to pay all current and future retirement benefits and expense obligations of the Fund and, to obtain investment returns in excess of that needed to allow for increases in a retiree's annuity to maintain the purchasing power of their retirement benefit. The investment performance

objectives are: to produce a rate of return, over any given time period that matches, or exceeds, that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB and reflected in the monthly investment performance reports; the annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio; over 10-year and longer periods the fund should match or exceed the expected 9.3% rate of return projected in the asset/liability study without exceeding the expected risk for the period. Expected risk for the period, measured by standard deviation is 10.5%.

The investment goals for the Job Service Retirement Plan are: to maintain a level of surplus sufficient to eliminate the need for future contributions; to achieve a rate of return which exceeds the rate of inflation, as measured by the Consumer Price Index, by 3.0 percent per year (based on current actuarial assumptions of 7.5 percent return and 5 percent inflation), over a complete market cycle; and as a secondary objective, to maximize the Plan's surplus.

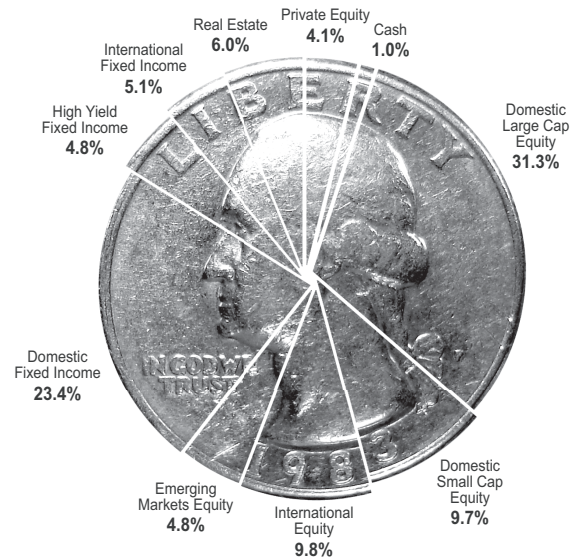
The SIB is responsible for carrying out the Retirement Board's investment goals, objectives and policies; implementing the asset allocation plan submitted by the System, maintaining a separate accounting and preparing periodic investment performance reports for the System funds under their authority. The System's assets may be pooled with other funds, at the discretion of the SIB.

Job Service Retirement Plan Asset Allocation – June 30, 2006



<u>Asset Class</u>	<u>Market Value</u>	<u>Actual %</u>	<u>Policy %</u>
Domestic Large Cap Equity	\$ 25,514,069	30.3%	31.0%
Domestic Small Cap Equity	4,069,646	4.8%	5.0%
International Equity	4,113,357	4.9%	5.0%
Domestic Fixed Income	46,004,885	54.7%	54.0%
International Fixed Income	4,343,337	5.2%	5.0%
Cash & Equivalents	100,613	0.1%	0.0%
Total	\$ 84,145,907	100.0%	100.0%

Public Employees and Highway Patrolmen's Retirement Systems Asset Allocation – June 30, 2006



<u>Asset Class</u>	<u>Market Value</u>	<u>Actual %</u>	<u>Policy %</u>
Domestic Large Cap Equity	\$ 510,208,545	31.3%	30.0%
Domestic Small Cap Equity	157,602,815	9.7%	10.0%
International Equity	159,786,329	9.8%	10.0%
Emerging Markets Equity	77,592,121	4.8%	5.0%
Domestic Fixed Income	381,956,044	23.4%	24.0%
High Yield Fixed Income	79,149,433	4.8%	5.0%
International Fixed Income	82,755,374	5.1%	5.0%
Real Estate	98,291,291	6.0%	5.0%
Private Equity	67,743,197	4.1%	5.0%
Cash & Equivalents	17,116,918	1.0%	1.0%
Total	\$1,632,202,067	100.0%	100.0%

Retiree Health Insurance Credit Program Asset Allocation – June 30, 2006



<u>Asset Class</u>	<u>Market Value</u>	<u>Actual %</u>	<u>Policy %</u>
Domestic Large Cap Equity	\$ 13,166,766	35.3%	35.0%
Domestic Small Cap Equity	5,731,323	15.4%	15.0%
International Equity	5,756,082	15.5%	15.0%
Domestic Fixed Income	12,588,394	33.8%	35.0%
Total	\$ 37,242,565	100.0%	100.0%

**Public Employees and Highway Patrolmen's Retirement Systems (PERS) and Job Service Retirement Plan
Schedule of Investment Results⁽¹⁾
For the Five Years Ended June 30, 2006**

	2002	2003	2004	2005	2006	Annualized	
						3 Year	5 Year
Total Fund (PERS)	-6.83%	5.46%	16.66%	14.07%	12.00	14.23%	7.93%
Total Fund (Job Service)	-7.00%	5.70%	12.57%	14.72%	7.09	11.41%	6.33%
CPI	0.74%	2.10%	3.17%	3.17%	4.47	3.41%	2.61%
Large Cap Domestic Equities	-16.92%	0.74%	20.66%	8.91%	11.16	13.47%	4.10%
S&P 500	-17.99%	0.25%	19.11%	6.32%	8.63	11.22%	2.49%
Small Cap Domestic Equities	-11.03%	1.50%	34.11%	10.20%	14.24	19.08%	8.80%
Russell 2000	-8.60%	-1.64%	33.37%	9.45%	14.58	18.70%	8.50%
International Equities	-10.03%	-7.71%	29.70%	13.70%	27.23	23.34%	9.27%
MSCI 50% Hedged EAFE	-14.62%	-11.24%	25.74%	17.60%	26.72	23.29%	7.27%
Emerging Markets Equities	-5.05%	7.82%	28.63%	35.07%	35.30	32.96%	19.20%
MSCI Emerging Markets Free	1.31%	6.96%	33.51%	34.89%	35.91	34.77%	21.54%
Domestic Fixed Income	2.81%	11.92%	5.45%	19.64%	3.41	9.27%	8.47%
Lehmann Brothers Aggregate	8.63%	10.40%	0.32%	6.80%	-0.81	2.05%	4.97%
High Yield Bonds	-5.84%	20.28%	7.94%	13.32%	5.25	8.78%	7.83%
Lehmann Brothers High Yield Bonds	-3.60%	22.76%	10.32%	10.86%	4.37	8.41%	8.79%
International Fixed Income	17.27%	18.27%	9.22%	10.30%	2.38	7.24%	11.34%
%Citi World Government Non-US	15.73%	17.90%	7.60%	7.75%	-0.01	5.05%	9.61%
Real Estate	3.33%	7.97%	8.86%	20.78%	22.09	17.09%	12.36%
NCREIF Index	5.52%	7.64%	10.82%	18.02%	18.67	15.79%	12.00%
Private Equity ⁽²⁾	-29.02%	-9.65%	3.23%	17.24%	11.08	10.37%	-2.92%
Cash	2.50%	1.99%	1.49%	2.19%	4.43	2.70%	2.52%
90 Day T-bills	2.63%	1.53%	0.98%	2.15%	3.98	2.37%	2.25%

CPI = Consumer Price Index
S&P 500 = Standard & Poor's Domestic Equity Stock Index
Russell 2000 = Frank Russell Company 2000 Index
EAFE = Europe, Australia and Far East Stock Index
NCREIF = National Council of Real Estate
Investment Fiduciaries Index

⁽¹⁾ Calculations were prepared using a monthly time-weighted rate of return based on the market rate of return in accordance with AIMR's Performance Presentation Standards. Total Fund returns are net of investment management fees, all other returns are before fees.

⁽²⁾ It has been determined that there is no benchmark that is an accurate reflection of the System's investments in this asset class.

**LARGEST
HOLDINGS
JUNE 30, 2006**

Largest Holdings By Market Value at June 30, 2006

Stocks

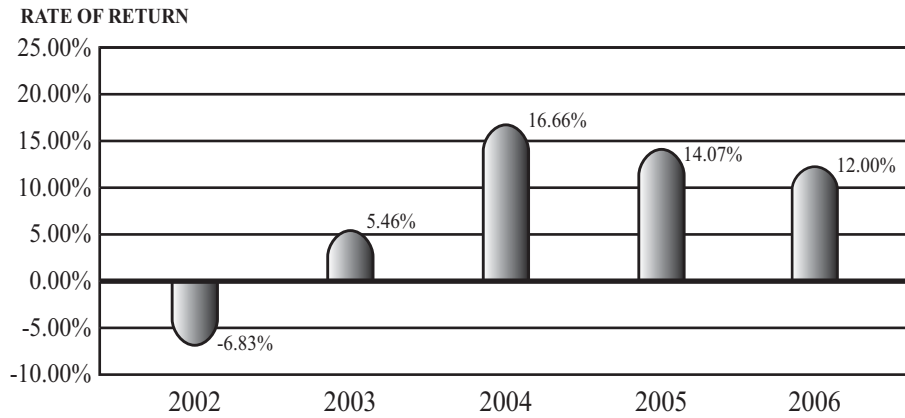
Exxon Mobile Corporation
Microsoft Corporation
Pfizer Incorporated
Bank of America Corporation
Cisco Systems Incorporated
Citigroup Incorporated
General Electric Company
Chevron Corporation
Intel Corporation
JP Morgan Chase & Company

Bonds

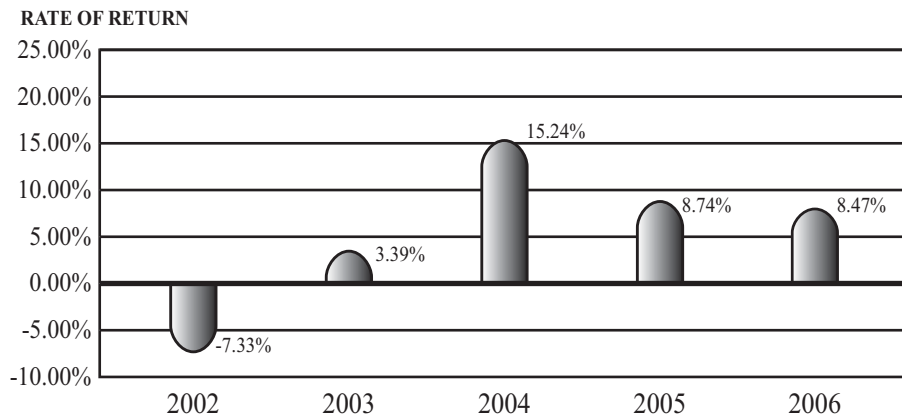
US Treasury Bonds Dated 11-15-1997 6.125% Due 11-15-2027
FNMA Single Family Mortgage 5.00% 30 years
US Treasury Notes 4.125% Due 08-15-2010
US Treasury Notes 3.5% Due 11-15-2009
US Treasury Notes Dated 02-15-1998 5.5% Due 02-15-2008
Poland (Rep. of) 5.75% Bonds Due 06-24-2008
US Treasury Notes Dated 02-15-2000 6.5% Due 02-15-2010
US Treasury Notes 6.5% Due 11-15-2026
US Treasury Bond 5.25% Due 02-15-2029
Germany (Fed. Rep.) 5.25% Bonds Due 04-07-2010

A complete list of all holdings is available upon request.

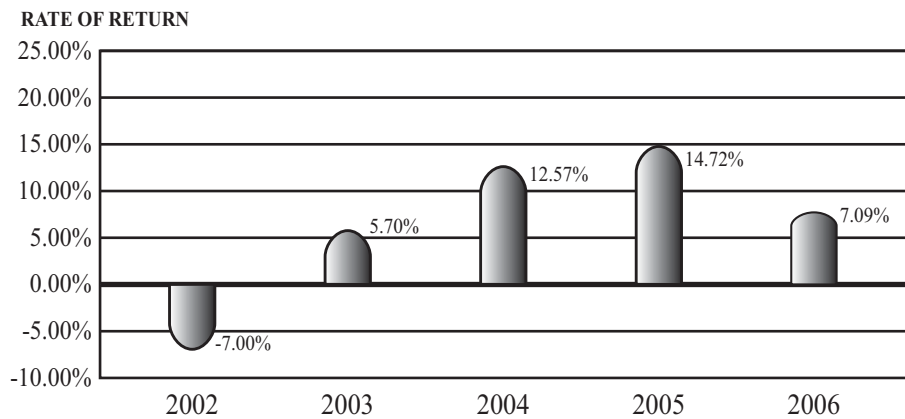
Public Employees and Highway Patrolmen's Retirement Systems Investment Results



Retiree Health Insurance Credit Program Investment Results



Job Service Retirement Plan Investment Results



**INVESTMENT
FEES**
**Public Employees and Highway Patrolmen's Retirement System
Schedule of Investment Fees**
For the Fiscal Year Ended June 30, 2006

	<u>Assets Under Management</u>	<u>Fees</u>
Investment Managers' Fees:		
Large Cap Domestic Equities	\$510 Million	\$ 1,025,047
Small Cap Domestic Equities	\$158 Million	1,292,492
International Equities	\$160 Million	963,438
Emerging Markets Equities	\$ 78 Million	609,757
Domestic Fixed Income	\$382 Million	7,789,463
High Yield Fixed Income	\$ 79 Million	391,084
International Fixed Income	\$ 83 Million	289,265
Real Estate	\$ 98 Million	765,450
Private Equity	\$ 68 Million	4,466,608
Cash	\$ 17 Million	<u>62,612</u>
Total Investment Managers' Fees ⁽¹⁾		<u>\$ 17,655,216</u>
Other Investment Service Fees:		
Custodian Fees	\$ 2 Billion	\$ 261,192
Investment Consultant Fees	\$ 2 Billion	85,339
SIB Administrative Fees	\$ 2 Billion	<u>143,636</u>
Total Investment Service Fees		<u>\$ 490,167</u>
Securities Lending Fees	\$ 2 Billion	<u>\$ 5,100,689</u>

⁽¹⁾Includes fees of \$5,327,123 which were netted against investment income.

**Job Service Retirement Plan
Schedule of Investment Fees**
For the Fiscal Year Ended June 30, 2006

	<u>Assets Under Management</u>	<u>Fees</u>
Investment Managers' Fees:		
Large Cap Domestic Equities	\$26 Millions	\$ 53,057
Small Cap Domestic Equities	\$4 Millions	34,025
International Equities	\$4 Millions	25,132
Domestic Fixed Income	\$46 Millions	945,281
International Fixed Income	\$4 Millions	15,101
Cash	\$.1 Millions	<u>1,979</u>
Total Investment Managers' Fees ⁽¹⁾		<u>\$1,074,575</u>
Other Investment Service Fees:		
Custodian Fees	\$84 Million	\$ 11,836
Investment Consultant Fees	\$84 Million	4,484
SIB Administrative Fees	\$84 Million	<u>6,913</u>
Total Investment Service Fees		<u>\$ 23,233</u>
Securities Lending Fees	\$84 Million	<u>\$ 424,954</u>

⁽¹⁾Includes fees of \$24,579 which were netted against investment income.



Defined Contribution Investments

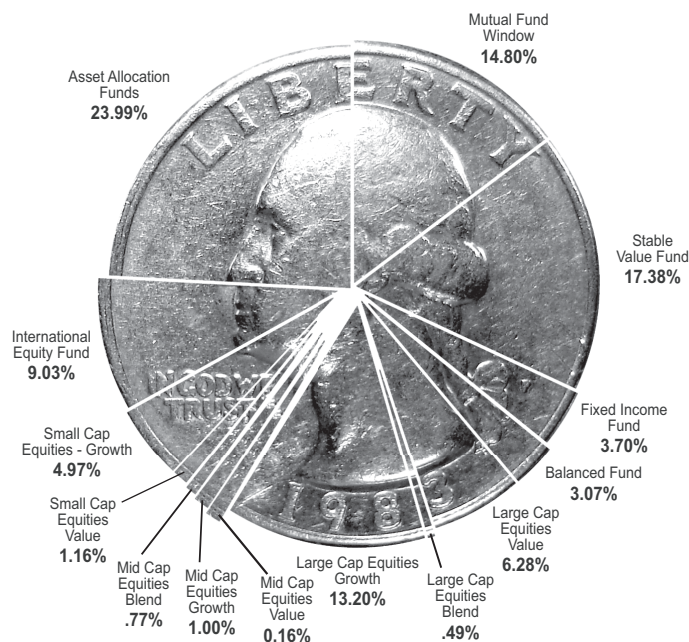
The Defined Contribution Retirement Plan (Plan) is a long-term retirement savings vehicle and is intended as a source of retirement income for eligible participants. Each participating member shall direct the investment of the individual's accumulated employer and employee contributions and earnings to one or more investment choices within available categories of investment provided by the Board. The available investment options cover a broad range of investment risk and rewards appropriate for this kind of retirement savings program. Participants bear the risk and reap the rewards of investment returns that result from the investment options that they select. Fidelity Investments was selected as the recordkeeper for the Plan.

The Board has adopted an investment policy that serves the following purposes:

- Establishes an investment program that will allow plan participants the opportunity to structure an investment strategy that meets their individual return objectives and risk tolerances
- Defines the investment categories offered by the Plan
- Establishes benchmarks and performance standards for each investment category to evaluate each fund's performance
- Establishes a procedure for reporting and monitoring the various funds and a methodology for monitoring their performance
- Defines the procedures for investment fund evaluation and formal fund review.

DEFINED CONTRIBUTION INVESTMENTS

Defined Contribution Retirement Plan Investment Options – June 30, 2006



<u>Investment Options</u>	<u>Market Value</u>	<u>Percent</u>
Stable Value Fund	\$ 2,541,004	17.38%
Fixed Income Fund	540,314	3.70%
Balanced Fund	448,666	3.07%
Large Cap Equities - Value	917,536	6.28%
Large Cap Equities - Blend	71,629	0.49%
Large Cap Equities - Growth	1,929,651	13.20%
Mid Cap Equities - Value	22,950	0.16%
Mid Cap Equities - Blend	112,517	0.77%
Mid Cap Equities - Growth	145,868	1.00%
Small Cap Equities - Value	170,111	1.16%
Small Cap Equities - Growth	727,181	4.97%
International Equity Fund	1,320,998	9.03%
Asset Allocation Funds	3,507,817	23.99%
Mutual Fund Window	<u>2,164,656</u>	<u>14.80%</u>
Total	<u>\$ 14,620,898</u>	<u>100.0%</u>

Defined Contribution Retirement Plan – Schedule of Investment Results
For the Five Years Ended June 30, 2006

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>3-year annualized</u>	<u>5-year annualized</u>
Stable Value Fund:							
Fidelity Managed Income Portfolio	5.44%	4.85%	4.19%	3.91%	3.84%	3.98%	4.44%
GIC 5 Year Index	3.56%	1.09%	3.15%	3.97%	2.79%	5.58%	5.72%
Fixed Income Fund:							
PIMCO Total Return Bond Fund	10.73%	10.93%	0.78%	7.44%	-1.07%	2.32%	5.64%
Lehman Aggregate Bond Index	8.11%	10.40%	0.32%	6.80%	-0.81%	2.05%	4.97%
Balanced Fund							
Fidelity Puritan	-4.71%	3.79%	15.15%	6.46%	8.24%	9.89%	5.59%
60% Russell 3000 Index, 40% Lehman Aggregate Bond Index	-1.20%	3.42%	13.41%	11.17%	7.07%	10.49%	6.40%
Large Cap Equities – Value:							
Fidelity Equity-Income	-10.18%	-2.19%	21.64%	6.18%	12.59%	13.29%	5.02%
Russell 1000 Value Index	-8.95%	-1.02%	21.13%	14.06%	12.10%	15.70%	6.90%
Large Cap Equities – Blend:							
Fidelity Spartan US Equity Index	-18.34%	0.19%	18.91%	6.25%	8.59%	11.11%	2.33%
Fidelity Dividend Growth ⁽²⁾	-16.96%	4.33%	12.62%	1.56%	7.01%	6.97%	1.18%
S&P 500 Index	-18.15%	0.25%	19.09%	6.32%	8.63%	11.22%	2.49%
Large Cap Equities – Growth:							
Fidelity Growth Company	-32.04%	5.67%	25.37%	5.87%	14.76%	15.06%	1.81%
Russell 3000 Growth Index	-26.39%	2.79%	18.82%	1.90%	6.84%	8.96%	-0.43%
Fidelity Blue Chip Growth ⁽²⁾	-23.01%	-0.30%	15.37%	1.26%	3.27%	6.45%	-1.53%
Russell 1000 Growth Index	-26.49%	2.94%	17.88%	1.68%	6.12%	8.35%	-0.56%
Mid Cap Equities – Value:							
Franklin Mutual Shares A ⁽²⁾	-8.67%	1.68%	18.15%	12.60%	13.05%	14.57%	6.91%
Russell Mid Cap Value	1.92%	-0.64%	30.81%	21.80%	14.25%	22.10%	13.01%
Mid Cap Equities – Blend:							
Dreyfus Mid Cap Index ⁽³⁾	N/A	N/A	N/A	13.49%	12.57%	17.61%	8.78%
S&P Mid Cap 400	N/A	N/A	N/A	14.03%	12.98%	18.14%	9.30%
Fidelity Spartan Extended Market Index ⁽³⁾	N/A	N/A	N/A	13.47%	14.12%	18.74%	8.88%
Wilshire 4500 Index	N/A	N/A	N/A	13.49%	14.03%	18.84%	8.90%
Mid Cap Equities – Growth:							
Fidelity Mid Cap Stock ⁽³⁾	N/A	N/A	N/A	8.15%	25.20%	17.83%	4.14%
Russell Mid Cap Growth	N/A	N/A	N/A	10.86%	13.04%	16.86%	4.76%
Small Cap Equities – Value:							
Allnz NFJ Small Cap Value ⁽³⁾	N/A	N/A	N/A	18.74%	14.65%	20.35%	15.13%
Russell 2000 Value Index	N/A	N/A	N/A	14.39%	14.61%	21.01%	13.09%
Small Cap Equities – Growth:							
MSI Small Co Growth B ⁽²⁾	-16.34%	2.52%	32.05%	15.52%	10.77%	19.10%	7.70%
Russell 2000 Growth Index	-25.00%	0.69%	31.55%	4.29%	14.58%	16.27%	3.49%
International Equity Funds:							
Fidelity Diversified International	-0.80%	-0.87%	32.22%	14.85%	26.21%	24.21%	13.51%
MSCI EAFE	-9.31%	-6.46%	32.54%	14.13%	28.08%	25.46%	11.64%
Asset Allocation Funds:							
Fidelity Freedom Income	0.17%	4.87%	4.02%	4.38%	3.66%	4.02%	3.41%
Income Benchmark ⁽¹⁾	0.90%	4.98%	5.15%	5.30%	3.52%	4.66%	3.82%
Fidelity Freedom 2000	-1.76%	5.11%	5.16%	4.84%	3.79%	4.60%	3.39%
2000 Benchmark ⁽¹⁾	-0.63%	5.33%	6.16%	5.74%	3.99%	5.24%	3.85%
Fidelity Freedom 2005 ⁽³⁾	N/A	N/A	N/A	6.39%	6.36%	N/A	N/A
2005 Benchmark	N/A	N/A	N/A	7.45%	6.64%	8.65%	4.95%
Fidelity Freedom 2010	-6.47%	6.15%	9.94%	6.50%	6.65%	7.68%	4.39%
2010 Benchmark ⁽¹⁾	-4.35%	5.36%	11.56%	7.59%	6.71%	8.86%	5.02%
Fidelity Freedom 2015 ⁽³⁾	N/A	N/A	N/A	7.06%	8.39%	N/A	N/A
2015 Benchmark	N/A	N/A	N/A	8.23%	7.91%	10.21%	5.29%
Fidelity Freedom 2020	-12.17%	4.54%	15.27%	7.39%	9.82%	10.78%	4.53%
2020 Benchmark ⁽¹⁾	-9.24%	4.13%	17.16%	8.76%	9.27%	11.65%	5.45%
Fidelity Freedom 2025 ⁽³⁾	N/A	N/A	N/A	7.44%	10.42%	N/A	N/A
2025 Benchmark ⁽¹⁾	N/A	N/A	N/A	8.88%	9.82%	12.16%	5.54%
Fidelity Freedom 2030	-15.02%	2.90%	17.94%	7.67%	11.52%	12.30%	4.37%
2030 Benchmark ⁽¹⁾	-11.99%	2.81%	19.89%	9.05%	11.21%	13.44%	5.56%
Fidelity Freedom 2035 ⁽³⁾	N/A	N/A	N/A	7.95%	11.91%	N/A	N/A
2035 Benchmark ⁽¹⁾	N/A	N/A	N/A	9.33%	11.26%	13.51%	5.59%
Fidelity Freedom 2040 ⁽²⁾	-17.17%	2.13%	20.01%	7.95%	12.25%	13.29%	4.23%
2040 Benchmark ⁽¹⁾	-13.70%	2.26%	21.89%	9.40%	11.77%	13.98%	5.72%

All fund returns are reported net of fees.

⁽¹⁾ Benchmarks for the asset allocation funds are customized based on target weightings and market indices for each asset class.

⁽²⁾ 2002 is the first fiscal year fund was an investment option.

⁽³⁾ 2005 is the first fiscal year fund was an investment option.



ACTUARIAL SECTION

**COMMENTS
FROM THE
SEGAL
COMPANY**

**PUBLIC
EMPLOYEES
RETIREMENT
SYSTEM**



THE SEGAL COMPANY

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November 15, 2006

State Retirement Board
North Dakota Public Employees Retirement System
400 East Broadway, Suite 505
Bismarck, ND 58502

Re: Introductory Letter for Actuarial Section for North Dakota
Public Employees Retirement System
Financial Report for Fiscal Year Ended June 30, 2006

Dear Members of the Board:

The North Dakota Public Employees Retirement System is a funded retirement plan. The Retirement System's basic financial objective is to establish and receive contributions that remain relatively level as a percentage of active member payroll over a long period of years.

Actuarial valuations are prepared annually by the independent actuary for the North Dakota Public Retirement Employees Retirement System. The basic purpose of annual actuarial valuations is to determine the Retirement System's actuarial liabilities and the level percentage-of-payroll contribution rates required to fund the System on an actuarial reserve basis.

Basic Elements

The most recent actuarial valuation prepared as of July 1, 2006 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2006 (obtained from data provided by the Retirement System).
- Assets as of June 30, 2006 (obtained from the Retirement System's financial statements).
- Actuarial assumptions and methods adopted by the Public Employees Retirement Board.

Each annual actuarial valuation involves a projection of the benefits expected to be paid in the future to all members of the Retirement System. The projection of expected future benefit payments is based on the benefit provisions in effect on the actuarial valuation date.

Actuarial Assumptions

In addition to utilizing current membership and financial data, an actuarial valuation requires the use of a series of assumptions regarding uncertain future events. Assumptions must be made to project the number of active members who will become eligible for benefits, the amount of those benefits, and the number of years benefits will be payable to current and future benefit recipients.

If the actuarial assumptions prove to be a good indicator of actual emerging experience, the actuarially-determined contribution rates for the existing schedule of benefits will remain relatively level as a percentage of salary. Contribution rates are redetermined in connection with each annual actuarial valuation to reflect actual experience and any benefit changes enacted since the last valuation.

The actuarial assumptions and methods used for funding the Retirement System meet the parameters set for disclosure by the Government Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

The actuarial assumptions used in the July 1, 2006 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement.



Actuarial Funding Method

An actuarial valuation is based on a particular actuarial cost or funding method, which allocates the present value of expected future benefit payments to various time periods. The funding method used in annual actuarial valuations of the North Dakota Public Employees Retirement System is the entry age normal cost method. This method is intended to meet the basic level percent of payroll funding objective.

Under the entry age normal cost funding method, the total actuarially-determined employer contribution rates consist of the normal cost plus the payment required to amortize the unfunded accrued actuarial liability over the established amortization period. Actuarial gains and losses resulting from differences between actual and assumed experience become part of the System's actuarial accrued liabilities.

The North Dakota Public Employees Retirement System had an unfunded accrued actuarial liability of about \$165.9 million as of July 1, 2006.

Calculated and Statutory Contribution Rates

The July 1, 2005 actuarial valuation of the North Dakota Public Employees Retirement System indicates the following contribution requirements:

<u>PERS Plan</u>	<u>Actuarial Required Contribution Rate*</u>	<u>Statutory Employer Contribution Rate</u>	<u>Member Contribution Rate</u>
Main System	6.90%	4.12%	4.00%
Judges	12.36%	14.52%	5.00%
National Guard	4.02%	8.33%	4.00%
Law Enforcement			
with prior Main service	12.07%	8.31%	4.00%
Law Enforcement			
without prior Main service	7.43%	6.43%	4.00%

* Expressed as a percentage of covered payroll.

Exhibits

The enclosed supporting exhibits, prepared by Segal, provide further related information regarding the 2006 valuation. Specifically these exhibits are:

- Actuarial Valuation Certificate
- Actuarial Assumptions and Cost Method
- Changes in Actuarial Assumptions or Cost Method
- Summary of Plan Provisions
- Changes in Plan Provisions
- Active Member Valuation Data
- Retirees and Beneficiaries Added to and Removed from the Rolls
- Solvency Test
- Analysis of Financial Experience
- Schedule of Retired Members by Type of Benefit
- Schedule of Average Monthly Benefit Payments

Segal did not prepare the Schedule of Employer Contributions and the Schedule of Funding Progress for the financial section of the CAFR.

Sincerely,



Michael Moehle, FSA, MAAA, EA
Vice President and Actuary



Brad Ramirez, FSA, MAAA, EA
Consulting Actuary

**ACTUARIAL
VALUATION
CERTIFICATE**

**NORTH DAKOTA
PUBLIC EMPLOYEES RETIREMENT SYSTEM**

NOVEMBER 15, 2006

Actuarial Valuation Certificate

This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2006 in accordance with generally accepted actuarial principles and practices.

The valuation was based on the assumption that the plan is qualified and on information supplied by the Retirement Office with respect to participants and for financial data. We have not verified, and customarily would not verify, such information but we have had no reason to doubt its substantial accuracy.

In our opinion, the assumptions used in the aggregate are reasonably related to the experience of the System and to reasonable expectations.

Mike Moehle

Michael Moehle, FSA, MAAA, EA
Vice President and Actuary

Brad Ramirez

Brad Ramirez, FSA, MAAA, EA
Consulting Actuary



Actuarial Assumptions and Cost Method – Public Employees Retirement System
(Adopted July 1, 2005)

Mortality Tables

Healthy: 1983 Group Annuity Mortality Table, set back one year for males (not set back for females).

Disabled: The Pension Benefit Guaranty Corporation Disabled Life Mortality Table for individuals receiving Social Security disability benefits.

Disability Incidence Rates

Before Age 65:

Males: 42% of OASDI disability incidence rates.

Females: 30% of OASDI disability incidence rates.

Age 65 and Later: Males .25% per year

Females .35% per year

Sample rates are as follows:

<u>Age</u>	<u>Male</u>	<u>Female</u>
20	0.03%	0.02%
30	0.05	0.03
40	0.09	0.07
50	0.25	0.18
60	0.68	0.49

Annual Withdrawal Rates

Main System, first five years of service:

<u>Age</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
29 & under	18%	15%	12%	10%	15%
30-39	12	12	11	10	11
40 & Over	10	10	8	7	6

Ultimate rates after five years of service:

<u>Age</u>	<u>Male</u>	<u>Female</u>
20 - 24	12%	12%
25 - 29	8	10
30 - 34	5	8
35 - 39	3.5	5
40 - 44	3	4
45 - 49	2.5	3.5
50 & Over	2	3

National Guard and Law Enforcement:

First five years of service:

<u>Age</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
29 & under	23%	20%	17%	16%	15%
30-39	17	15	13	12	11
40 & Over	15	12	10	8	6

Ultimate rates after five years of service:

<u>Age</u>	<u>Male</u>	<u>Female</u>
20 - 24	12%	12%
25 - 29	8	10
30 - 34	5	8
35 - 39	4	6
40 - 44	3	5
45 - 49	3	4
50 & Over	2	3

Judges:

One half of the National Guard and Law Enforcement ultimate rates.

Withdrawal rates end upon eligibility for early retirement. Early retirement eligibility is as follows:

Main System:

Earlier of (i) age 55 and three years of service, and (ii) eligibility for Rule of 85.

Judges:

Earlier of (i) age 55 and five years of service, and (ii) eligibility for Rule of 85.

National Guard and Law Enforcement:

Age 50 and three years of service.

Retirement Rates for Active Members

Main System:

<u>Age</u>	<u>Rule of 85/Eligible Rate</u>	<u>All Other Retirements</u>
55	4%	4%
56	6	4
57	6	4
58	6	4
59	6	4
60	8	6
61	15	12
62	35	25
63	25	20
64	25	20
65	40	30
66	20	20
67	20	20
68	20	20
69	20	20
70	100	100

Judges:

Ages 62 to 64: 35% per year

Age 65 to 69: 50% per year

Age 70: 100%

National Guard and Law Enforcement:

Age 60: 100%

Retirement Age for Inactive Vested Members

Main System and Judges: The earlier of age 65 or the unreduced retirement date for each individual.

National Guard: Age 55

Law Enforcement: The earlier of age 55 or the unreduced retirement date for each individual.

Interest Rate

8.00% per annum, net of investment expenses.

Administrative Expenses

Main System: \$710,000 per year

Judges: \$5,000 per year

National Guard and Law Enforcement combined: \$5,000 per year

Salary Scale

Main System, National Guard and Law Enforcement:
 Less than five years of service: 7.00% per annum
 Five or more years of service:

Percentage		Percentage	
Age	Increase	Age	Increase
25	5.90%	45	4.90%
30	5.60	50	4.80
35	5.30	55	4.70
40	5.10	60	4.70

Judges: 5.50% per annum for all years of service.

Payroll Growth

Main System, National Guard and Law Enforcement:
 4.50% per annum
 Judges: 4.00% per annum

Marital Status

At death, 75% of active male members and 60% of active female members are assumed to have spouses. For the Main System, males are assumed to be four years older than their female spouses. For all other systems, males are assumed to be five years older than their female spouses.

Part-time Employees

One full year of service is credited for each future year of service.

Split Service

Liabilities are held in both plans based on service in each plan and are based on the actuarial assumptions of the plan in which they are currently active.

Actuarial Cost Method

Entry Age Normal Actuarial Cost Method. The unfunded actuarial accrued liability is amortized in installments increasing by the payroll growth assumption each year over an open 20 year period.

Actuarial Value of Assets

Adjusted market value that immediately recognizes interest and dividends. The procedure recognizes 20% of each year's total appreciation (depreciation) beginning with the year of occurrence. After five years, the appreciation (depreciation) is fully recognized.

Social Security Disability (for Judges' disability benefit offset):

Eligibility: 50% of disabled Judges
 Consumer Price Index Increases: 3.5% per annum
 Wage Base Increases: 5.0% per annum

Workers' Compensation (for Judges' disability benefit offset): None assumed.

Account Balance Due to

Vested Employer Contribution (PEP):

Participation Under Chapter 54-52.2: if not elected, 50% of active members of the Main System, National Guard and Law Enforcement. If elected, 100% of active members of the Main System, National Guard and Law Enforcement.

Contribution: Maximum allowed based on service at the beginning of the Plan year.

Changes in Actuarial

Assumptions or Cost Method – Public Employees Retirement System

The following actuarial assumptions were changed since the preceding valuation as a result of the actuarial experience study conducted in 2005:

The inflation assumption was changed from 4.5% to 3.5%.

The mortality assumptions for males was changed from 1983 GAM to 1983 GAM with a one year set back.

The withdrawal assumptions for the Main System were lowered during the five-year select period and the ultimate period for males and females at most ages.

The retirement rates for the Main System were split by eligibility for Rule 85 and other retirements.

The assumption for spouse ages for the Main System was changed from males being five years older than females to males being four years older than females.

Summary of Plan Provisions – Public Employees Retirement System

This section summarizes the major benefit provisions of the North Dakota Public Employees Retirement System as included in the valuation. It is not intended to be, nor should it be, interpreted as a complete statement of all plan provisions. Benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases.

1. Normal Service Retirement:

Eligibility:

Main System and Judges: Attainment of age 65 or age plus service equal to at least 85 (Rule of 85).

National Guard: Attainment of age 55 and 3 consecutive years of service.

Law Enforcement: Attainment of age 55 and 3 consecutive years of service, or age plus service equal to at least 85 (Rule of 85).



Benefit:

Main System, National Guard and Law

Enforcement: 2.00% of final average salary multiplied by service.

Judges:

3.50% of final average salary for the first 10 years of service, 2.80% for the next 10 years of service, and 1.25% for service in excess of 20 years.

2. Early Service Retirement:

Eligibility:

Main System:

Attainment of age 55 with 3 years of service.

Judges:

Attainment of age 55 with 5 years of service.

National Guard and Law Enforcement:

Attainment of age 50 with 3 years of service.

Benefit:

Main System:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 65 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before the earlier of age 65 or the age at which the Rule of 85 is met.

Judges:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 65 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before age 65.

National Guard:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 55 is reduced by one-half of one percent for each month before age 55.

Law Enforcement: The Normal Service Retirement Benefit as determined above. A benefit that begins before age 55 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before age 55.

3. Disability Benefit:

Eligibility:

Six months of service and inability to engage in any substantial gainful activity.

Benefit:

Main System, National Guard and Law

Enforcement:

25% of the member's final average salary at disability, with a minimum of \$100 per month.

Judges:

70% of the member's final average salary at disability, minus social security and worker's compensation benefits paid.

4. Deferred Vested Retirement:

Eligibility:

Main System, National Guard and Law

Enforcement: Three years of service.

Judges: Five years of service.

Benefit:

Main System and Judges:

The Normal Service Retirement Benefit payable at age 65 or the Rule of 85, if earlier. Reduced early retirement benefits can be elected upon attainment of age 55.

National Guard:

The Normal Service Retirement Benefit payable at age 55. Reduced early retirement benefits can be selected upon attainment of age 50.

Law Enforcement:

The Normal Service Retirement Benefit payable at age 55 or Rule of 85, if earlier. Reduced early retirement benefits can be selected upon attainment of age 50.

5. Pre-retirement Death Benefits:

Eligibility:

Main System, National Guard and Law

Enforcement: Three years of service.

Judges: Five years of service.

Benefit:

Main System, National Guard and Law Enforcement:

One of the following options:

- Lump sum payment of member's accumulated contributions with interest.
- The member's accrued benefit payable for 60 months to the surviving spouse.
- 50% of the member's accrued benefit (not reduced on account of age) payable for the surviving spouse's lifetime.
- Continuation portion of 100% Joint and Survivor Annuity (only if participant was eligible for normal retirement).
- A partial lump sum payment in addition to one of the annuity options above.

Judges:

One of the following options:

- Lump sum payment of member's accumulated contributions with interest.
- 100% of the member's accrued benefit (not reduced on account of age) payable for the surviving spouse's lifetime.

Other death benefits:

Main System, National Guard, Judges and Law Enforcement:

Eligibility: Not vested nor a surviving spouse.

Benefit: Lump sum payment of member's accumulated contributions with interest.

6. Refund of Member Contributions:

Paid to terminated non-vested members and terminated vested members who chose refund in lieu of a monthly retirement benefit.

7. Accumulated Member Contributions:

Member contributions accumulate with interest at the following rates:

<u>Time Period</u>	<u>Interest Rate</u>
Through 6/30/81	5.0%
7/1/81 to 6/30/86	6.0%
After 6/30/86	0.5% less than the actuarial interest rate assumption.

8. Standard and Optional Forms of Payment:

Standard Form of Payment

Main System, National Guard and Law Enforcement:

Monthly benefit for life with a refund to the beneficiary at death of the remaining balance (if any) of accumulated member contributions.

Judges:

Monthly benefit for life, with 50% payable to an eligible survivor.

Schedule of Active Member Valuation Data – PERS – 2001-2006

<u>July 1</u>	Main System			
	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
2001	16,694	\$429.0	\$25,696	3.6%
2002	17,039	457.0	26,824	4.4
2003	17,101	474.6	27,751	3.5
2004	17,522	494.5	28,223	1.7
2005	17,745	511.9	28,850	2.2
2006	17,887	536.6	29,998	4.0

<u>July 1</u>	Judges			
	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
2001	47	\$3.9	\$83,282	0.5%
2002	47	4.2	89,649	7.6
2003	47	4.5	95,993	7.1
2004	46	4.4	95,998	0.0
2005	46	4.4	95,579	(0.4)
2006	47	4.7	99,500	4.1

<u>July 1</u>	National Guard			
	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
2001	15	\$0.5	\$32,508	2.0%
2002	3	0.1	34,747	6.9
2003	12	0.4	35,395	1.9
2004	17	0.6	33,519	(5.3)
2005	14	0.5	38,857	15.9
2006	41	1.4	33,451	(13.9)

<u>July 1</u>	Law Enforcement with prior Main service*			
	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
2004	39	\$1.2	\$29,881	N/A
2005	113	3.9	34,190	14.4%
2006	113	4.0	35,168	2.9

<u>July 1</u>	Law Enforcement without prior Main service*			
	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
2004	12	\$0.3	\$27,606	N/A
2005	13	0.4	29,722	7.7%
2006	14	0.4	29,264	(1.5)

*2004 is the first fiscal year the plans were established.



Optional forms of payment:

Life annuity (for Judges), 50% joint and survivor annuity (for Main System, National Guard and Law Enforcement), 100% joint and survivor annuity (with pop-up feature), five-year certain and life annuity, ten-year certain and life annuity, twenty-year certain and life annuity, or a level Social Security income annuity.

9. Final Average Salary:

Average of the highest salary received by the member for any 36 consecutive months employed during the last 120 months of employment.

10. Contributions:

Except for the employer contribution rate for the National Guard and Law Enforcement, the contribution rates are specified in the Century Code and differ between permanent full-time employees and part-time temporary employees. These rates are as follows:

	<u>Full-time Employees</u>	<u>Employer</u>
Main System	4.00%	4.12%
Judges	5.00%	14.52%
National Guard	4.00%	8.33%
Law Enforcement		
with prior Main service	4.00%	8.31%
Law Enforcement		
w/out prior Main service	4.00%	6.43%
Part-time employees in the Main System contribute 8.12%, with no employer contributions.		

Effective January 1, 2000:

A member's account balance includes vested employer contributions equal to the member's contributions to the deferred compensation plan under chapter 54-52.2. The vested employer contribution may not exceed:

1. For months 1-12 of service credit, \$25 or 1% of the member's monthly salary, whichever is greater.
2. For months 13-24 of service credit, \$25 or 2% of the member's monthly salary, whichever is greater.
3. For months 25-36 of service credit, \$25 or 3% of the member's monthly salary, whichever is greater.
4. For service exceeding 36 months, \$25 or 4% of the member's monthly salary, whichever is greater.
5. The vested employer contribution may not exceed 4% of the member's monthly salary. Vested employer contributions are credited monthly to the member's account balance.

11. Rollovers:

The fund may accept rollovers from other qualified plans under rules adopted by the Board for the purchase of additional service credit.

12. Other Ancillary Benefits:

The North Dakota Public Employees Retirement System does not have any other ancillary benefits that would affect the current contribution rate.

Changes in Plan Provisions:

There were no changes in the plan provisions since the preceding valuation.

**Solvency Test — PERS
2001-2006**

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) active member contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active members. In a system that has been following level percent of payroll financing, the liabilities for service already rendered by active members (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing the funded portion of liability 3 will increase over time.

(Amounts in Millions)

July 1	<u>Aggregate Actuarial Accrued Liabilities</u>			Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Assets		
	Member Contributions (1)	Retirees and Beneficiaries, Inactive and Pay-Status Members (2)	Active Member Employer Financed Portion (3)		(1)	(2)	(3)
2001	\$258.9	\$368.4	\$381.4	\$1,115.3	100%	100%	100%
2002	285.7	389.7	428.1	1,150.0	100	100	100
2003	309.4	427.1	452.3	1,166.5	100	100	95
2004	341.2	458.3	473.4	1,196.5	100	100	84
2005	373.1	495.6	492.4	1,236.1	100	100	75
2006	402.6	545.7	532.2	1,314.5	100	100	69

Retirees and Beneficiaries Added to and Removed from the Rolls – PERS – 2001-2006

Main System

Plan Year	Additions		(Removals)		Annual Pension Benefits*	Ending Number	Average Annual Benefits	Annual Pension Benefits ⁽¹⁾	% Increase In Annual Benefits
	Beginning Number	Counts	Counts	Counts					
2001	4,862	365		(171)	\$3.4	5,056	\$7,836	\$39.6	13.1%
2002	5,056	341		(165)	3.1	5,232	8,016	41.9	5.8
2003	5,232	416		(162)	4.7	5,486	8,319	45.6	8.8
2004	5,486	359		(160)	4.0	5,685	8,550	48.6	6.6
2005	5,685	398		(162)	4.5	5,921	8,815	52.2	7.4
2006	5,921	440		(163)	4.6	6,198	9,156	56.7	8.6

*In millions.

Judges

Plan Year	Additions		(Removals)		Annual Pension Benefits	Ending Number	Average Annual Benefits	Annual Pension Benefits	% Increase In Annual Benefits
	Beginning Number	Counts	Counts	Counts					
2001	15	2		(1)	\$ 80,114	16	\$26,664	\$426,631	20.0%
2002	16	1		0	18,760	17	26,903	457,359	7.2
2003	17	1		0	56,137	18	29,036	522,643	14.3
2004	18	2		0	126,114	20	32,438	648,758	24.1
2005	20	5		0	259,057	25	36,313	907,815	39.9
2006	25	2		0	63,865	27	36,191	977,162	7.6

National Guard

Plan Year	Additions		(Removals)		Annual Pension Benefits	Ending Number	Average Annual Benefits	Annual Pension Benefits	% Increase In Annual Benefits
	Beginning Number	Counts	Counts	Counts					
2001	2	1		0	\$6,446	3	\$11,972	\$35,916	29.2%
2002	3	0		0	0	3	11,972	35,916	0.0
2003	3	0		0	0	3	11,972	35,916	0.0
2004	3	0		0	0	3	11,972	35,916	0.0
2005	3	1		0	32,265	4	14,675	58,702	63.4
2006	4	1		0	11,209	5	13,982	69,911	19.1

Law Enforcement with prior Main service⁽¹⁾

Plan Year	Additions		(Removals)		Annual Pension Benefits	Ending Number	Average Annual Benefits	Annual Pension Benefits	% Increase In Annual Benefits
	Beginning Number	Counts	Counts	Counts					
2004	0	0		0	0	0	\$ 0	\$ 0	N/A
2005	0	0		0	0	0	0	0	0.00%
2006	0	5		0	68,884	5	13,737	68,684	N/A

Law Enforcement without prior Main service⁽¹⁾

Plan Year	Additions		(Removals)		Annual Pension Benefits	Ending Number	Average Annual Benefits	Annual Pension Benefits	% Increase In Annual Benefits
	Beginning Number	Counts	Counts	Counts					
2004	0	0		0	0	0	\$ 0	\$ 0	N/A
2005	0	0		0	0	0	0	0	0.00%
2006	0	0		0	0	0	0	0	0.00

⁽¹⁾2004 is the first fiscal year the plans were established.

Analysis of Financial Experience — PERS

Changes in the Contribution Rate During Years Ended June 30
Resulting from Differences Between Assumed Experience & Actual Experience

Plan Year Ended	Main System			
	June 30, 2003	June 30, 2004	June 30, 2005	June 30, 2006
Employer Cost Rate at Beginning of Year	4.42%	5.51%	6.30%	6.03%
Death after Retirement	0.00	0.01	0.11	0.11
Death-in-Service	0.03	0.03	0.02	0.02
Disability Retirements	0.00	0.00	0.00	0.01
Withdrawal From Employment	0.05	0.03	0.07	0.06
Age and Service Retirements	0.10	0.10	-0.17	-0.29
Financial Experience-Investments	0.94	0.78	0.54	0.04
Pay Increases	-0.08	-0.23	-0.19	0.04
Contribution Income	0.02	0.12	0.17	0.09
Administrative Expenses	0.01	0.00	0.01	0.00
New and Reinstated Members	0.04	0.12	0.09	0.06
Part-time Experience	0.00	-0.14	-0.13	-0.10
Demographic Changes	-0.03	0.01	0.16	0.31
Assumption Changes	0.00	0.00	0.00	0.59
Change in Normal Cost Methodology	0.00	0.00	-0.88	0.00
Miscellaneous	-0.02	-0.04	-0.07	-0.07
Impact of Enhanced Benefits due to Portability Enhancement Provision (PEP)	0.03	0.00	0.00	0.00
Employer Cost Rate at End of Year	5.51%	6.30%	6.03%	6.90%

Plan Year Ended	Judges			
	June 30, 2003	June 30, 2004	June 30, 2005	June 30, 2006
Employer Cost Rate at Beginning of Year	10.29%	12.10%	12.44%	11.62%
Plan Experience	1.67	0.20	1.12	0.16
Change in Normal Cost Methodology	0.00	0.00	-2.05	0.00
Assumption Changes	0.00	0.00	0.00	0.48
Miscellaneous	0.14	0.14	0.11	0.10
Employer Cost Rate at End of Year	12.10%	12.44%	11.62%	12.36%

Plan Year Ended	National Guard			
	June 30, 2003	June 30, 2004	June 30, 2005	June 30, 2006
Employer Cost Rate at Beginning of Year	0.00%	2.76%	3.25%	1.58%
Plan Experience	2.60	0.38	1.29	2.17
Change in Normal Cost Methodology	0.00	0.00	-3.01	0.00
Assumption Changes	0.00	0.00	0.00	0.26
Miscellaneous	0.16	0.11	0.05	0.01
Employer Cost Rate at End of Year	2.76%	3.25%	1.58%	4.02%

Law Enforcement With Prior Main Service*

Plan Year Ended	June 30, 2005	June 30, 2006
Employer Cost Rate at Beginning of Year	7.88%	12.03%
Plan Experience	5.06	-0.01
Change in Normal Cost Methodology	-1.17	0.00
Assumption Changes	0.00	0.30
Miscellaneous	0.26	-0.25
Employer Cost Rate at End of Year	12.03%	12.07%

Law Enforcement Without Prior Main Service*

Plan Year Ended	June 30, 2005	June 30, 2006
Employer Cost Rate at Beginning of Year	8.35%	7.61%
Plan Experience	0.90	-0.27
Change in Normal Cost Methodology	-1.67	0.00
Assumption Changes	0.00	0.13
Miscellaneous	0.03	-0.04
Employer Cost Rate at End of Year	7.61%	7.43%

Since the Law Enforcement with prior Main service and Law Enforcement without prior Main service are new groups for the year ending June 30, 2004, only reconciliations of the changes since the previous valuation are shown.

**COMMENTS
FROM
THE SEGAL
COMPANY**

**HIGHWAY
PATROLMEN'S
RETIREMENT
SYSTEM**



THE SEGAL COMPANY

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November 15, 2006

State Retirement Board
North Dakota Public Employees Retirement System
400 East Broadway, Suite 505
Bismarck, ND 58502

Re: Introductory Letter for Actuarial Section for North Dakota
Highway Patrolmen's Retirement System
Financial Report for Fiscal Year Ended June 30, 2006

Dear Members of the Board:

The North Dakota Highway Patrolmen's Retirement System is a funded retirement plan. The Retirement System's basic financial objective is to establish and receive contributions that remain relatively level as a percentage of active member payroll over a long period of years.

Actuarial valuations are prepared annually by the independent actuary for the North Dakota Highway Patrolmen's Retirement System. The basic purpose of annual actuarial valuations is to determine the Retirement System's actuarial liabilities and the level percentage-of-payroll contribution rates required to fund the System on an actuarial reserve basis.

Basic Elements

The most recent actuarial valuation prepared as of July 1, 2006 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2006 (obtained from data provided by the Retirement System).
- Assets as of June 30, 2006 (obtained from the Retirement System's financial statements).
- Actuarial assumptions and methods adopted by the Public Employees Retirement Board.

Each annual actuarial valuation involves a projection of the benefits expected to be paid in the future to all members of the Retirement System. The projection of expected future benefit payments is based on the benefit provisions in effect on the actuarial valuation date.

Actuarial Assumptions

In addition to utilizing current membership and financial data, an actuarial valuation requires the use of a series of assumptions regarding uncertain future events. Assumptions must be made to project the number of active members who will become eligible for benefits, the amount of those benefits, and the number of years benefits will be payable to current and future benefit recipients.

If the actuarial assumptions prove to be a good indicator of actual emerging experience, the actuarially-determined contribution rates for the existing schedule of benefits will remain relatively level as a percentage of salary. Contribution rates are redetermined in connection with each annual actuarial valuation to reflect actual experience and any benefit changes enacted since the last valuation.

The actuarial assumptions and methods used for funding the Retirement System meet the parameters set for disclosure by the Governmental Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

The actuarial assumptions used in the July 1, 2006 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement.



Actuarial Funding Method

An actuarial valuation is based on a particular actuarial cost or funding method, which allocates the present value of expected future benefit payments to various time periods. The funding method used in annual actuarial valuations of the North Dakota Highway Patrolmen's Retirement System is the entry age normal cost method. This method is intended to meet the basic level percent of payroll funding objective.

Under the entry age normal cost funding method, the total actuarially-determined employer contribution rates consist of the normal cost plus the payment required to amortize the unfunded accrued actuarial liability over the established amortization period. Actuarial gains and losses resulting from differences between actual and assumed experience become part of the System's accrued actuarial liabilities.

The North Dakota Highway Patrolmen's Retirement Fund had an unfunded actuarial accrued liability of about \$6.4 million as of July 1, 2006.

Calculated and Statutory Contribution Rates

The July 1, 2006 actuarial valuation of the North Dakota Highway Patrolmen's Retirement Fund indicates the following contribution requirements, expressed as a percentage of covered payroll.

<u>Actuarial Required Employer Contribution Rate</u>	<u>Statutory Employer Contribution Rate</u>	<u>Member Contribution</u>
19.03%	16.70%	10.30%

Exhibits

The enclosed supporting exhibits, prepared by Segal, provide further related information regarding the 2006 valuation. Specifically, those exhibits are:

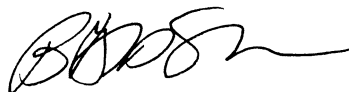
- Actuarial Valuation Certificate
- Actuarial Assumptions and Cost Method
- Changes in Actuarial Assumptions or Cost Method
- Summary of Plan Provisions
- Changes in Plan Provisions
- Active Member Valuation Data
- Retirees and Beneficiaries Added to and Removed from the Rolls
- Solvency Test
- Analysis of Financial Experience
- Schedule of Retired Members by Type of Benefit
- Schedule of Average Benefit Payments

Segal did not prepare the Schedule of Employer Contributions and the Schedule of Funding Progress for the financial section of the CAFR.

Sincerely,



Michael Moehle, FSA, MAAA, EA
Vice President and Actuary



Brad Ramirez, FSA, MAAA, EA
Consulting Actuary

**ACTUARIAL
VALUATION
CERTIFICATE**

**NORTH DAKOTA
HIGHWAY PATROLMEN'S RETIREMENT SYSTEM**

NOVEMBER 15, 2006

Actuarial Valuation Certificate

This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2006 in accordance with generally accepted actuarial principles and practices.

The valuation was based on the assumption that the plan is qualified and on information supplied by the Retirement Office with respect to participants and for financial data. We have not verified, and customarily would not verify, such information but we have had no reason to doubt its substantial accuracy.

In our opinion, the assumptions used in the aggregate are reasonably related to the experience of the System and to reasonable expectations.

Mike Moehle

Michael Moehle, FSA, MAAA, EA
Vice President and Actuary

BR Ramirez

Brad Ramirez, FSA, MAAA, EA
Consulting Actuary



Actuarial Assumptions and Cost Method – Highway Patrolmen’s Retirement System

(Adopted July 1, 2005)

Mortality Tables

Healthy: 1983 Group Annuity Mortality Table, set back one year for males (not set back for females).

Disabled: Pension Benefit Guaranty Corporation Disabled Life Mortality Table for Individuals Receiving Social Security Disability Benefits.

Annual Withdrawal Rates

First five years of service: 5%

After five years of service:

Under age 35: 2% at each age

Age 35 or older: 1% at each age

Withdrawal rates end upon eligibility for early retirement (age 50 and 5 years of service.)

Disability Incidence Rates

Age based rates. Sample rates:

<u>Age</u>	<u>Rate</u>
25	0.05%
30	0.12
35	0.20
40	0.30
45	0.37
50	0.38
55	0.55

Retirement Rates

The following annual rates apply for active members:

<u>Age</u>	<u>Eligible for Rule of 80</u>	<u>Not Eligible for Rule of 80</u>
50-54	100%	50%
55+	100%	100%

Inactive vested members eligible for deferred benefits are assumed to retire at age 55.

Interest Rate

8.00% per annum, net of investment expenses.

Administrative Expenses

\$16,000 per year.

Salary Scale

Less than five years of service: 7.00% per annum

Five or more years of service (for selected ages):

<u>Age</u>	<u>Annual Increase</u>
25	5.90%
30	5.60
35	5.30
40	5.10
45	4.90
50	4.80
55	4.70

Inflation

3.50% per annum.

Payroll Growth

4.50% per annum.

Marital Status

At death, 90% of all members are assumed to have spouses. Males are assumed to be three years older than their female spouses.

Workers’ Compensation

None assumed for disability benefit offset.

Indexing for Benefits of Inactive Vested Members

5% per annum.

Split Service

Liabilities are held in both plans based on service in each plan, and are based on the actuarial assumptions of the plan in which they are currently active.

Transfers to Main System

Annual withdrawal, disability incidence and retirement rate assumptions for members who have transferred to the Main System follow those specified in the Main System, and are applied to the benefits held in the HPRS.

Actuarial Cost Method

Entry Age Normal Actuarial Cost Method. The unfunded actuarial accrued liability is amortized in installments assuming 4.5% payroll growth assumption and an open 20-year period.

Actuarial Value of Assets

Adjusted market value that immediately recognizes interest and dividends. The procedure recognizes 20% of each Plan Year’s total appreciation (depreciation) beginning with the year of occurrence. After five years, the appreciation (depreciation) is fully recognized.

Changes in Actuarial Assumptions or Cost Methods – Highway Patrolmen’s Retirement System

The following actuarial assumptions were changed as a result of the actuarial experience study conducted in 2005:

The inflation assumption was changed from 4.50% to 3.50%.

The mortality assumption for males was changed from 1983 GAM to 1983 GAM with a one year set back.

Summary of Plan Provisions – Highway Patrolmen’s Retirement System

This section summarizes the major benefit provisions of the North Dakota Highway Patrolmen’s Retirement System as included in the valuation. It is not intended to be, nor should it be, interpreted as a complete statement of all plan provisions. Benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases.

1. Normal Service Retirement:

Eligibility:
Attainment of age 55 with at least 10 years of eligible employment or with age plus service equal to at least 80 (Rule of 80).

Benefit:
3.60% of final average salary for the first 25 years of service plus 1.75% of final average salary for service in excess of 25 years.

2. Early Service Retirement:

Eligibility:
Attainment of age 50 with 10 years of eligible employment.

Benefit:
The Normal Service Retirement Benefit as determined above. A benefit that begins before age 55 (or Rule of 80, if earlier) is reduced by one-half of one percent for each month before age 55.

3. Disability Benefit:

Eligibility:
Accumulation of six months of service and inability to engage in substantial gainful activity.

Benefit:
70% of the member's final average salary at disability minus workers' compensation, with a minimum of \$100 per month.

4. Deferred Retirement:

Eligibility: 10 years of eligible employment.

Benefit:
The Normal Service Retirement Benefit payable at age 55 or the Rule of 80, if earlier. Vested benefits are indexed at a rate set by the Retirement Board based on the increase in final average salary from date of termination to benefit commencement date, as follows:

Year	Average Monthly Increase	3-Year Average Increase Factor	Cumulative Salary Factor
<u>Beginning</u>	<u>Increase</u>	<u>Factor</u>	<u>Factor</u>
7/1/92	2.46%	-	-
7/1/93	3.57	-	1.0000
7/1/94	3.00	1.0301	1.0301
7/1/95	2.00	1.0286	1.0595
7/1/96	2.00	1.0233	1.0842
7/1/97	3.00	1.0233	1.1095
7/1/98	1.80	1.0227	1.1347
7/1/99	1.26	1.0202	1.1576
7/1/00	2.00	1.0169	1.1771
7/1/01	1.81	1.0169	1.1971
7/1/02	1.73	1.0185	1.2191
7/1/03	0.00	1.0118	1.2335
7/1/04	0.00	1.0058	1.2406
7/1/05	4.00	1.0133	1.2572
7/1/06	4.00	1.0267	1.2907

Reduced early retirement benefits can be elected upon attainment of age 50.

5. Pre-retirement Death Benefits:

Survivor annuity benefits (paid to surviving spouse):
Eligibility: Ten years of service.

Benefit:
One of the following options:

- Lump sum payment of member's accumulated contributions with interest.
- Monthly payment of the member's accrued benefit for 60 months.
- 50% of the member's accrued benefit (not reduced on account of age) for the surviving spouse's lifetime.

Other death benefits:
Eligibility: Less than 10 years of service nor a surviving spouse.

Benefit: Lump sum payment of member's accumulated contributions with interest.

6. Normal and Optional Forms of Payment:

Normal form of payment:
Monthly benefit for life with 50% of the benefit continuing for the life of the surviving spouse (if any).

Optional forms of payment:

- 100% joint and survivor annuity, ten-year certain and life annuity, and twenty-year certain and life annuity.
- A partial lump sum payment in addition to one of the annuity options above.

7. Final Average Salary:

Average of the highest salary received by the member for any 36 non-consecutive months employed during the last 120 months of employment.

8. Contributions:

Members: 10.30% of monthly salary.

State of North Dakota:
16.70% of the monthly salary for each participating member.

Member's contributions earn interest at an annual rate of 7.5% compounded monthly.

Plan Amendments – Highway Patrolmen's Retirement System

There were no changes to plan provisions since the preceding valuation.



**Schedule of Active Member Valuation Data – HPRS
2001-2006**

<u>July 1</u>	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>% Change in Average Salary</u>
2001	124	\$4.9	\$39,302	3.0%
2002	125	5.1	40,583	3.3
2003	131	5.4	40,928	0.9
2004	132	5.4	40,857	(0.2)
2005	125	5.3	42,393	3.8
2006	127	5.7	44,789	5.7

**North Dakota Highway Patrolmen's Retirement System
Retirees and Beneficiaries Added to and Removed from the Rolls, 2001-2006**

<u>Plan Year</u>	<u>Additions</u>		<u>(Removals)</u>		<u>Ending Number</u>	<u>Average Annual Benefits</u>	<u>Annual Pension Benefits</u>	<u>% Increase In Annual Benefits</u>
	<u>Beginning Number</u>	<u>Counts</u>	<u>Annual Pension Benefits</u>	<u>Counts</u>				
2001	80	2	\$ 75,771	(1)	81	\$22,574	\$ 1,828,468	10.5%
2002	81	5	218,675	0	86	23,802	2,046,933	11.9
2003	86	2	78,403	(3)	85	24,429	2,076,506	1.4
2004	85	6	255,113	(1)	90	25,872	2,328,444	12.1
2005	90	4	163,360	(2)	92	26,648	2,451,578	5.3
2006	92	9	380,570	(1)	100	27,996	2,799,646	14.2

Solvency Test — HPRS 2001-2006

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) active member contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active members.

In a system that has been following level percent of payroll financing, the liabilities for service already rendered by active members (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time.

(Amounts in Millions)

July 1	<u>Aggregate Actuarial Accrued Liabilities</u>				Portion of Actuarial Accrued Liabilities Covered by Assets		
	Member Contributions (1)	Retirees and Beneficiaries, Inactive and Pay- Status Members (2)	Active Member Employer Financed Portion (3)	Actuarial Value of Assets	(1)	(2)	(3)
2001	\$8.4	\$18.4	\$11.3	\$38.8	100%	100%	100%
2002	8.6	20.6	11.3	39.5	100	100	91
2003	9.2	21.2	12.0	39.6	100	100	77
2004	9.3	23.8	11.4	40.0	100	100	61
2005	9.7	25.0	11.5	40.7	100	100	52
2006	9.2	28.8	11.1	42.8	100	100	43

Analysis of Financial Experience – HPRS

Changes in the Contribution Rate During Years Ended June 30
Resulting from Differences Between Assumed Experience and Actual Experience

<u>Plan Year Ended</u>	<u>June 30, 2003</u>	<u>June 30, 2004</u>	<u>June 30, 2005</u>	<u>June 30, 2006</u>
Employer Cost Rate at Beginning of Year	14.59%	16.96%	19.03%	17.61%
Plan Experience	2.50	2.29	1.68	0.84
Change in Ammortization Schedule	-0.13	-0.22	-0.27	-0.27
Assumption Changes	0.00	0.00	0.00	0.70
Change in Normal Cost Methodology	0.00	0.00	-2.83	0.00
Miscellaneous	0.00	0.00	0.00	0.15
Employer Cost Rate at End of Year	16.96%	19.03%	17.61%	19.03%



**THE SEGAL COMPANY**

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November 15, 2006

State Retirement Board
 North Dakota Public Employees Retirement System
 400 East Broadway, Suite 505
 Bismarck, ND 58502

Re: Introductory Letter for Actuarial Section for Retirement Plan For
 Employees of Job Service North Dakota
 Financial Report for Fiscal Year Ended June 30, 2006

Dear Members of the Board:

The Retirement Plan for Employees of Job Service North Dakota is a funded retirement plan. The Retirement Plan's basic financial objective is to establish and receive contributions that remain relatively level as a percentage of active member payroll over a long period of years.

Actuarial valuations are prepared annually by the independent actuary for the Retirement Plan for Employees of Job Service North Dakota. The basic purpose of annual actuarial valuations is to determine the Retirement Plan's actuarial liabilities and the scheduled contribution determined based on the funding policy adopted by the Employer.

Basic Elements

The most recent actuarial valuation prepared as of July 1, 2006 is based on the following major elements:

- Current benefit provisions.
- Membership data as of June 30, 2006 (provided by the Retirement Plan).
- Assets as of June 30, 2006 (obtained from the Retirement Plan).
- Actuarial assumptions and methods.

Each annual actuarial valuation involves a projection of the benefits expected to be paid in the future to all members of the Retirement Plan. The projection of expected future benefit payments is based on the benefit provisions in effect on the actuarial valuation date.

Actuarial Assumptions

In addition to utilizing current membership and financial data, an actuarial valuation requires the use of a series of assumptions regarding uncertain future events. Assumptions must be made to project the number of active members who will become eligible for benefits, the amount of those benefits, and the number of years benefits will be payable to current and future benefit recipients.

If the actuarial assumptions prove to be a good indicator of actual emerging experience, the actuarially-determined contribution for the existing schedule of benefits will remain relatively level. Annual contributions are redetermined in connection with each annual actuarial valuation to reflect actual experience and any benefit changes enacted since the last valuation.

The actuarial assumptions and methods used for funding the Retirement System meet the parameters set for disclosure by the Governmental Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

The actuarial assumptions used in the July 1, 2006 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement.

**COMMENTS
 FROM
 THE SEGAL
 COMPANY**

**JOB SERVICE
 RETIREMENT
 PLAN**

Actuarial Cost Method

There is a wide range of funding methods that are considered acceptable by the actuarial profession, which are recognized by accountants, and that meet government standards. The Frozen Initial Liability Actuarial Cost Method is the method currently used for the Retirement Plan for Employees of Job Service North Dakota.

The “annual contribution” under this method is the normal cost plus the payment required to amortize the unfunded initial actuarial accrued liability over a selected period of years. The normal cost is determined by calculating the total value of all future benefits, subtracting the outstanding balance (if any) of the unfunded initial actuarial accrued liability, subtracting the actuarial value of assets, and determining payments (not less than zero) that are a level percent of pay over the future working lifetime of all participants. In the absence of an unfunded initial actuarial accrued liability, The Frozen Initial Liability Actuarial Cost Method is the same as the Aggregate Cost Method.

The “scheduled contribution” will be determined when the plan is not in surplus and will be based on a funding policy adopted by the Employer.

Exhibits

The enclosed supporting exhibits, prepared by Segal, provide further related information regarding the 2006 valuation. Specifically, those exhibits are:

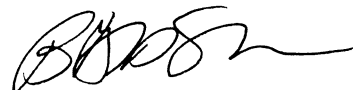
- Actuarial Valuation Certificate
- Actuarial Assumptions and Cost Method
- Changes in Actuarial Assumptions or Cost Method
- Summary of Plan Provisions
- Changes in Plan Provisions
- Active Member Valuation Data
- Retirees and Beneficiaries Added to and Removed from the Rolls
- Solvency Test
- Analysis of Financial Experience
- Schedule of Retired Members by Type of Benefit
- Schedule of Average Benefit Payments

Segal did not prepare the Schedule of Employer Contributions and the Schedule of Funding Progress for the financial section of the CAFR.

Sincerely,



Michael Moehle, FSA, MAAA, EA
Vice President and Actuary



Brad Ramirez, FSA, MAAA, EA
Consulting Actuary

**ACTUARIAL
VALUATION
CERTIFICATE**

**NORTH DAKOTA
PUBLIC EMPLOYEES RETIREMENT SYSTEM
RETIREMENT PLAN FOR EMPLOYEES OF
JOB SERVICE NORTH DAKOTA**

NOVEMBER 15, 2006

Actuarial Valuation Certificate


This is to certify that we have prepared an Actuarial Valuation of the Plan as of July 1, 2006 in accordance with generally accepted actuarial principles and practices.

The valuation was based on the assumption that the plan is qualified and on information supplied by the Retirement Office with respect to participants and for financial data. We have not verified, and customarily would not verify, such information but we have had no reason to doubt its substantial accuracy.

In our opinion, the assumptions used in the aggregate are reasonably related to the experience of the Plan and to reasonable expectations.



*Michael Moehle, FSA, MAAA, EA
Vice President and Actuary*



*Brad Ramirez, FSA, MAAA, EA
Consulting Actuary*

Actuarial Assumptions and Cost Method – Retirement Plan for Employees of Job Service North Dakota

Actuarial Cost Method

The Frozen Initial Liability Actuarial Cost Method is the method currently used for the Retirement Plan for Employees of Job Service North Dakota.

Asset Valuation Method

The asset value is adjusted toward market value by adding to the “preliminary asset value,” 20% of the difference between the market value and the preliminary asset value. The preliminary asset value is the actuarial asset value at the beginning of the year plus net new money. Net new money is the sum of contributions, dividends, and interest, less the sum of benefit payments, administrative expenses and investment fees. If necessary, the actuarial value is further adjusted to be within 20% of market value.

Actuarial Assumptions

Mortality tables:

Healthy: 1994 Group Annuity Mortality Table (sample rates below).

Disabled: 1983 Railroad Retirement Board Disabled Life Mortality Table.

Disability incidence: Sample rates shown below.

Withdrawal rates: Sample rates shown below.

Age	Rates (%)			
	Mortality		Disability	
	Male	Female	Incidence	Withdrawal
20	0.05	0.03	0.06	5.44
25	0.07	0.03	0.09	5.29
30	0.08	0.04	0.11	5.07
35	0.09	0.05	0.15	4.70
40	0.11	0.07	0.22	4.19
45	0.16	0.10	0.36	3.54
50	0.26	0.14	0.61	2.48
55	0.44	0.23	1.01	0.94
60	0.80	0.44	1.63	0.09

Withdrawal rates end when first eligible for the earlier of optional or normal retirement.

Retirement age: 75% of active participants are assumed to retire when first eligible for optional retirement, and the remaining participants retire at normal retirement. If currently older than first eligible optional retirement age, retirement assumed to occur at normal retirement, or current age, if older.

100% of inactive vested participants are assumed to retire at first optional retirement age.

Salary scale: 5.0% per year.

Post-retirement cost-of-living adjustment: 5.0% per year.

Percent married: 85% of all active and inactive vested participants are assumed to be married.

Age of spouse: Females are assumed to be four years younger than males.

Rate of return: 7.5% per year, compounded annually, net of investment and administrative expenses.

Future benefit accruals: One year of credited service per year per active employee included in the valuation.

Changes in Actuarial Assumptions or Cost Method

The actuarial rate of return assumption was changed from 8.0% to 7.5% since the previous valuation.

Summary of Plan Provisions

This section summarizes the major provisions of the Retirement Plan for Employees of Job Service North Dakota as included in the valuation. It is not intended to be, nor should it be, interpreted as a complete description of all plan provisions. Benefits are established through the plan document, as amended. The system provides a post-retirement cost-of-living adjustment each year, based on the Consumer Price Index.

Normal retirement

Age requirement: 65.

Service requirement: None.

Benefit: Average monthly earnings multiplied by the sum of:

- a. 1.50% times credited service up to five years, plus
- b. 1.75% times credited service between six and ten years, plus
- c. 2.00% times credited service in excess of ten years.

Average monthly earnings - monthly average earnings during the highest three consecutive years of employment.

Optional retirement

Age and service requirements: Age 62 with five years of credited service, or
Age 60 with twenty years of credited service, or
Age 55 with thirty years of credited service.

Benefit: Accrued normal retirement benefit.

Early retirement

Age requirement: Ten years before normal or optional retirement age.

Service requirement: Same as optional retirement.

Benefit: Accrued normal retirement benefit, reduced if payments begin before normal or optional retirement.

Disability

Age requirement: None.

Service requirement: Five years of credited service.

Benefit: Greater of accrued normal retirement benefit or 40% of average monthly earnings.

Vesting

Age requirement: None.

Service requirement: Five years of credited service.

Benefit: Accrued normal retirement benefit payable at normal or optional retirement. After attainment of early retirement age, reduced benefits may be paid.

Employees who meet the requirements for a vested benefit may elect to receive a return of their accumulated employee contributions (including interest at 4% per year) in lieu of all other benefits under the plan.

Return of accumulated employee contributions:

Employees who do not meet the requirements for a vested benefit will receive a return of their accumulated employee contributions (including interest at 4% per year).

Pre-retirement death benefits*Married participants*

Surviving spouse's benefit:
Age requirement: None.

Service requirement: None.

Benefit: 55% of the greater of (a) or (b).

(a) Accrued normal retirement benefit.

(b) The lesser of (1) or (2).

(1) 40% of average monthly earnings.

(2) Normal retirement benefit based on credited service to age 60.

Children's benefit: Provided for children under age 18 (age 22 if a full-time student) - note: the actuarial valuation does not consider benefits for expected surviving children.

Single participants with no eligible children

120 payment guarantee:

Age requirement: None.

Service requirement: Five years of credited service.

Benefit: Accrued normal retirement benefit payable for 120 months. Not payable if surviving spouse or children's benefit is payable.

Lump sum benefit:

Age requirement: None.

Service requirement: None.

Benefit: Accumulated employee contributions (including interest at 4% per year). Not payable if the surviving spouse, children's benefit or 120 payment guarantee is in effect.

Post-retirement death benefits

Based on form of payment elected by the pensioner.

Post-retirement cost-of-living adjustment

Based on the Consumer Price Index.

Participation

Plan participant before October 1, 1980.

Credited service

Monthly salaried employment in a probationary or permanent status including only: service for which contributions were made (including purchased service), eligible military service and unused sick leave.

Contribution rate

Employee: 7% of average monthly earnings (4% picked up by employer).

Employer: remaining scheduled cost, if any.

Changes in Plan Provisions

There were no changes in plan provisions since the preceding valuation.

**Schedule of Active Member Valuation Data – Job Service Retirement Plan
2001 to 2006**

<u>Valuation Date as of July 1</u>	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>% Increase in Average Salary</u>
2001	85	\$3.5	\$41,282	3.6%
2002	76	3.2	42,390	2.7
2003	68	2.9	42,240	(0.4)
2004	60	2.5	40,992	(3.0)
2005	52	2.2	42,825	4.5
2006	44	1.9	43,697	2.0

**Retirement Plan for Employees of Job Service North Dakota
Retirees and Beneficiaries (Including Travelers Annuitants)
Added to and Removed from the Rolls, 2001-2006**

<u>Plan Year</u>	<u>Beginning Number</u>	<u>Ending Number</u>	<u>Average Annual Benefits</u>	<u>Annual Pension Benefits</u>	<u>% Increase in Annual Benefits</u>
2001	199	205	\$ 9,124	\$1,870,518	14.4%
2002	205	209	10,525	2,199,758	17.6
2003	209	214	11,461	2,452,583	11.5
2004	214	213	12,723	2,710,008	10.5
2005	213	217	13,401	2,908,106	7.3
2006	217	221	14,808	3,272,565	12.5

Solvency Test — Job Service Retirement Plan 2001-2006

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) the actuarial present value of benefits for active employees; 2) the liabilities for future benefits to inactive vested employees not in pay status; and 3) the liabilities for future benefits to present pensioners (including

disabled) and beneficiaries. In a system that has been following level percent of payroll financing, the liabilities for pensioners (including disabled) and beneficiaries (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time.

(Amounts in Millions)

July 1	<u>Actuarial Present Value of Benefits</u>			<u>Actuarial Value of Assets</u>	<u>Portion of Actuarial Present Value of Benefits Covered by Assets</u>		
	<u>Active Employees</u>	<u>Inactive Vested Employees Not in Pay Status</u>	<u>Pensioners (Including Disableds & Beneficiaries)</u>		<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
2001	\$26.4	\$0.2	\$32.1	\$70.8	100%	100%	100%
2002	25.0	0.2	34.7	67.6	100	100	100
2003	22.9	0.2	37.6	66.0	100	100	100
2004	20.2	0.2	41.5	67.5	100	100	100
2005	18.8	0.2	44.3	69.3	100	100	100
2006	17.7	0.3	52.0	70.6	100	100	100

Analysis of Financial Experience – Job Service Retirement Plan

Changes in the Contribution Rate During Years Ended June 30
Resulting from Differences Between Assumed Experience & Actual Experience

<u>Plan Year Ended</u>	<u>June 30, 2003</u>	<u>June 30, 2004</u>	<u>June 30, 2005</u>	<u>June 30, 2006</u>
Employer Cost Rate at Beginning of Year	0.00%	0.00%	0.00%	0.00%
Plan Experience	0.00	0.00	0.00	0.00%
Change in Ammortization Schedule	0.00	0.00	0.00	0.00
Assumption Changes	0.00	0.00	0.00	0.00
Amendments	0.00	0.00	0.00	0.00
Miscellaneous	0.00	0.00	0.00	0.00
Employer Cost Rate at End of Year	0.00%	0.00%	0.00%	0.00%

**COMMENTS
FROM
THE SEGAL
COMPANY**

**RETIREE
HEALTH
INSURANCE
CREDIT FUND**



THE SEGAL COMPANY

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November 15, 2006

State Retirement Board
North Dakota Public Employees Retirement System
400 East Broadway, Suite 505
Bismarck, ND 58502

Re: Introductory Letter for Actuarial Section for North Dakota
Public Employees Retirement System Retiree Health Insurance Credit Fund
Financial Report for Fiscal Year Ended June 30, 2006

Dear Members of the Board:

The North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund is a funded retiree health plan. The program's basic financial objective is to establish and receive contributions that remain relatively level as a percentage of active member payroll over a long period of years.

Actuarial valuations are prepared annually by the independent actuary for the North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund. The basic purpose of annual actuarial valuations is to determine the System's actuarial liabilities and the level percentage-of-payroll contribution rates required to fund the System on an actuarial reserve basis.

Basic Elements

The most recent actuarial valuation prepared as of July 1, 2006 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2006 (obtained from data provided by the Retirement System).
- Assets as of June 30, 2006 (obtained from the Retirement System's financial statements).
- Actuarial assumptions and methods adopted by the Public Employees Retirement Board.

Each annual actuarial valuation involves a projection of the benefits expected to be paid in the future to all members of the Retirement System. The projection of expected future benefit payments is based on the benefit provisions in effect on the actuarial valuation date.

Actuarial Assumptions

In addition to utilizing current membership and financial data, an actuarial valuation requires the use of a series of assumptions regarding uncertain future events. Assumptions must be made to project the number of active members who will become eligible for benefits, the amount of those benefits, and the number of years benefits will be payable to current and future benefit recipients.

If the actuarial assumptions prove to be a good indicator of actual emerging experience, the actuarially-determined contribution rates for the existing schedule of benefits will remain relatively level as a percentage of salary. Contribution rates are redetermined in connection with each annual actuarial valuation to recognize actual experience and any benefit changes enacted since the last valuation.

The actuarial assumptions used in the July 1, 2006 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement.

Actuarial Funding Method

An actuarial valuation is based on a particular actuarial cost or funding method, which allocates the present value of expected future benefit payments to various time periods. The funding method used in annual actuarial valuations of the North Dakota Retiree Health Insurance Credit Fund is the projected unit credit cost method.

Under the projected unit credit cost funding method, the total actuarially-determined employer contribution rates consist of the normal cost plus the payment required to amortize the unfunded actuarial accrued liability over the established amortization period. Actuarial gains and losses resulting from differences between actual and assumed experience become part of the System's actuarial accrued liabilities.

The North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund's unfunded actuarial accrued liability amounted to \$48.6 million as of July 1, 2006. The unfunded actuarial accrued liability is being amortized by level percentage-of-payroll payments over a fixed period that ends June 30, 2030.

Calculated and Statutory Contribution Rates

The July 1, 2006 actuarial valuation of the North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund indicates the following contribution requirements: the actuarially determined employer-pay contribution rate is 1.00%, while the statutory contribution rate is 1.00% of payroll.

Exhibits

The enclosed supporting exhibits prepared by Segal provide further related information regarding the 2006 valuation. Specifically, they are:

- Actuarial Valuation Certificate
- Actuarial Assumptions and Cost Method
- Changes in Actuarial Assumptions or Cost Method
- Summary of Plan Provisions
- Changes in Plan Provisions
- Retired Members, Average Benefit, and Active Member/Retiree Comparison
- Analysis of Financial Experience
- Assets and Actuarial Accrued Liabilities

Segal did not prepare the Schedule of Employer Contributions and the Schedule of Funding Progress for the financial section of the CAFR.

Sincerely,



Michael Moehle, FSA, MAAA, EA
Vice President and Actuary



Brad Ramirez, FSA, MAAA, EA
Consulting Actuary

**ACTUARIAL
VALUATION
CERTIFICATE**

**NORTH DAKOTA
PUBLIC EMPLOYEES RETIREMENT SYSTEM
RETIREE HEALTH INSURANCE CREDIT FUND**

NOVEMBER 15, 2006

Actuarial Valuation Certificate

This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2006 in accordance with generally accepted actuarial principles and practices.

The valuation was based on the assumption that the plan is qualified and on information supplied by the Retirement Office with respect to members and for financial data. We have not verified, and customarily would not verify, such information but we have had no reason to doubt its substantial accuracy.

In our opinion, the assumptions used in the aggregate are reasonably related to the experience of the System and to reasonable expectations.

Mike Moehle

*Michael Moehle, FSA, MAAA, EA
Vice President and Actuary*

BR Ramirez

*Brad Ramirez, FSA, MAAA, EA
Consulting Actuary*



Actuarial Assumptions and Cost Method – Retiree Health Insurance Credit Fund (Adopted July 1, 2005)

Mortality Tables

Healthy: 1983 Group Annuity Mortality Table, set back one year for males.

Disabled: The Pension Benefit Guaranty Corporation Disabled Life Mortality Table for Individuals Receiving Social Security Disability Benefits.

Annual Withdrawal Rates

Different withdrawal rates are applied to the active members of the Main System, Highway Patrol, Judges, National Guard and Law Enforcement. Rates for the Main System are detailed below. The withdrawal assumptions applied to the active members in the other groups are detailed in the respective actuarial sections.

Select and ultimate rates are used for active members of the Main System. During the select period (first five years of active employment) rates vary by entry age and year of employment. During the ultimate period (active employment after the first five years), rates vary by attained age and sex.

Select Period

Age	Year of Employment				
	1	2	3	4	5
29 & Under	18%	15%	12%	10%	15%
30 - 39	12	12	11	10	11
40 & Over	10	10	8	7	6

Ultimate Period

Age	Male	Female
20-24	12.0%	12.0%
25-29	8.0	10.0
30-34	5.0	8.0
35-39	3.5	5.0
40-44	3.0	4.0
45-49	2.5	3.5
50 & Over	2.0	3.0

Disability Incidence Rates

Different disability incidence rates are applied to the active members of PERS and the Highway Patrol. The disability rates applied to the Highway Patrol are described in the respective valuation section.

Sample rates for PERS are:

Age	Males	Females
20	0.03%	0.02%
30	0.05	0.03
40	0.09	0.07
50	0.25	0.18
60	0.68	0.49

Retirement Rates for Active Members

Different retirement rates are applied to the active members of the Main System, Highway Patrol, Judges, National Guard and Law Enforcement. Retirement rates for the Main System are detailed below. The retirement rates applied to the active members of the other groups are detailed in the respective actuarial sections.

Annual Rates for the Main System are as follows:

Age	Rule of 85 Eligible Rate	All Other Retirements
55	4%	4%
56	6	4
57	6	4
58	6	4
59	6	4
60	8	6
61	15	12
62	35	25
63	25	20
64	25	20
65	40	30
66	20	20
67	20	20
68	20	20
69	20	20
70	100	100

Age 64 and 20 years of service: 100%

Participation Rates

The percentage of eligible members electing coverage under the health insurance program and receiving the stipend varies with years of service. Rates are as follows:

Main System, National Guard and Law Enforcement:

Years of Service	Participation Rate
3-4	25%
5-9	50
10-14	70
15-19	80
20-24	95
25+	100

Judges and Highway Patrol:

Years of Service	Participation Rate
5-9	50%
10-14	70
15-19	80
20-24	95
25+	100

Joint and Survivor Option Election Rates

Main System, Judges, National Guard and Law Enforcement: 65% of male retirees and 20% of female retirees will elect a joint and survivor form of pension from the retirement system in which they participated.

Highway Patrol:

90% of retirees will elect a joint and survivor form of pension from the retirement system.

Interest Rate

8.0% per annum, net of investment expenses

Inflation

3.50% per annum

Administrative Expenses

\$65,000 per year.

Marital Status:

Main System, Judges, National Guard and Law Enforcement: At death, 75% of active male members and 60% of active female members are assumed to have spouses. Males are assumed to be five years older than their female spouses. For the Main System, males are assumed to be four years older than their female spouses.

Highway Patrol: At death, 90% of all active members are assumed to have spouses. Males are assumed to be three years older than their female spouses.

Optional Defined Contribution Plan

The actuarial assumptions used to determine the liabilities for the members of the optional defined contribution plan are the same as those used for the Main System.

Actuarial Cost Method

Projected Unit Credit Actuarial Cost Method. The unfunded actuarial accrued liability is amortized in installments assuming 4.5% inflation assumption over a fixed period which ends on June 30, 2030.

Actuarial Value of Assets

Adjusted market value that immediately recognizes interest and dividends. The procedure recognizes 20% of each year's total appreciation (depreciation) beginning with the year of occurrence. After five years, the appreciation (depreciation) is fully recognized.

Changes in Actuarial Assumptions or Cost Method – Retiree Health Insurance Credit Fund

The following actuarial assumptions were changed since the preceding valuation as a result of the actuarial experience study conducted in 2005:

The inflation assumption was changed from 4.5% to 3.5%.

The mortality assumptions for males was changed from 1983 GAM to 1983 GAM with a one year set back.

The withdrawal assumptions for the Main System were lowered during the five-year select period and the ultimate period for males and females at most ages.

The retirement rates for the Main System were split by eligibility for Rule 85 and other retirements.

The assumption for spouse ages for the Main System was changed from males being five years older than females to males being four years older than females.

Summary of Plan Provisions – Retiree Health Insurance Credit Fund

This section summarizes the major benefit provisions of the North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund as included in the valuation. It is not intended to be, nor should it be interpreted as, a complete statement of all plan provisions. Benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases.

1. Normal Retirement

Age requirement:

Main System and Judges: Age 65 or Rule of 85.

Highway Patrol: Age 55 or Rule of 80.

National Guard: Age 55.

Law Enforcement: Age 55 or Rule of 85.

Service requirement:

Main System and Judges: None.

Highway Patrol: 10 years.

National Guard and Law Enforcement:

3 consecutive years.

Other requirements:

Participation in the North Dakota Uniform Group Insurance Program.

Benefit amount:

A monthly stipend equal to \$4.50 times service.



2. Early Retirement

Age requirement:

Main System and Judges: Age 55.

Highway Patrol, National Guard and Law

Enforcement: Age 50.

Service requirement:

Main System, National Guard and Law

Enforcement: 3 years.

Judges: 5 years.

Highway Patrol: 10 years.

Benefit amount:

Main System and Judges:

The Normal Retirement Benefit reduced by 3% for retirements at age 64 and an additional 6% for each year by which retirement precedes age 64.

Benefits are unreduced upon the fulfillment of the Rule of 85.

Highway Patrol, National Guard and Law

Enforcement:

The Normal Retirement Benefit reduced by 3% for retirements at age 54 and an additional 6% for each year by which retirement precedes age 54.

Benefits are unreduced upon the fulfillment of the Rule of 80.

3. Disability Retirement

Age requirement: None

Service requirement: 6 months

Other requirements: As required by applicable pension plan

Benefit amount: Same as Normal Retirement Benefit

4. Pre-Retirement Death Benefit

Age requirement: None

Service requirement:

Main System, National Guard and Law

Enforcement: 3 years.

Judges: 5 years.

Highway Patrol: 10 years.

Benefit amount:

Same as Normal Retirement Benefit accrued to the date of the member's death, payable for as long as benefits are payable to the spouse from the Retirement System under the standard option.

5. Post-Retirement Death Benefit

Following a retired member's death, the Retiree Health Insurance Credit Fund will: (1) continue benefits to the member's spouse if the spouse continues to receive a monthly pension from member's Retirement Plan or (2) provide benefits to the member's spouse if the member selected a joint and survivor option from the Retiree Health Insurance Credit Fund.

6. Alternative Options

If benefits from the member's Retirement Plan are paid under single life, level Social Security, or 10 or 20-year term certain options (without a continuation to the spouse after the certain period ends), actuarially reduced health credit benefits may be elected for the spouse. Alternative options in the Retiree Health Insurance Credit Fund include 50% and 100% joint and survivor annuities.

7. Service

Members receive credit for each year and month of employment.

8. Contributions

The employer contributes 1.00% of covered salaries and wages for participating employees.

Plan Amendments –**Retiree Health Insurance Credit Fund**

There have been no changes in the plan provisions since the preceding actuarial valuation.

**Retired Members, Average Benefit, and Active Member/Retiree Comparison –
Retiree Health Insurance Credit Fund
2001-2006**

<u>July 1</u>	<u>Number of Retired Members</u>	<u>Average Annual Benefit</u>	<u>Active Members Per Retiree</u>
2001	3,306	\$1,116	5.2
2002	3,393	1,128	5.1
2003	3,519	1,128	5.0
2004	3,607	1,142	5.0
2005	3,682	1,152	5.0
2006	3,838	1,168	4.8

**Funding Progress – Retiree Health Insurance Credit Fund
2001-2006**

(Amounts in Millions)

<u>July 1</u>	<u>Total Actuarial Accrued Liability</u>	<u>Total Actuarial Value of Assets</u>	<u>Assets as of % of Total Actuarial Accrued Liability</u>
2001	\$65.5	\$24.8	37.9%
2002	69.0	26.4	38.3
2003	72.0	27.5	38.2
2004	74.6	28.9	38.8
2005	78.1	30.9	39.6
2006	82.6	34.0	41.2

**Analysis of Financial Experience –
Retiree Health Insurance Credit Fund**

Changes in the Contribution Rate During Years Ended June 30
Resulting from Differences Between Assumed Experience & Actual Experience

<u>Plan Year Ended</u>	<u>June 30, 2003</u>	<u>June 30, 2004</u>	<u>June 30, 2005</u>	<u>June 30, 2006</u>
Employer Cost Rate at Beginning of Year	0.98%	0.98%	0.99%	1.00%
Plan Experience	0.00	0.01	0.01	-0.02
Assumption and Method Changes	0.00	0.00	0.00	0.02
Miscellaneous	0.00	0.00	0.00	0.00
Employer Cost Rate at End of Year	0.98%	0.99%	1.00%	1.00%





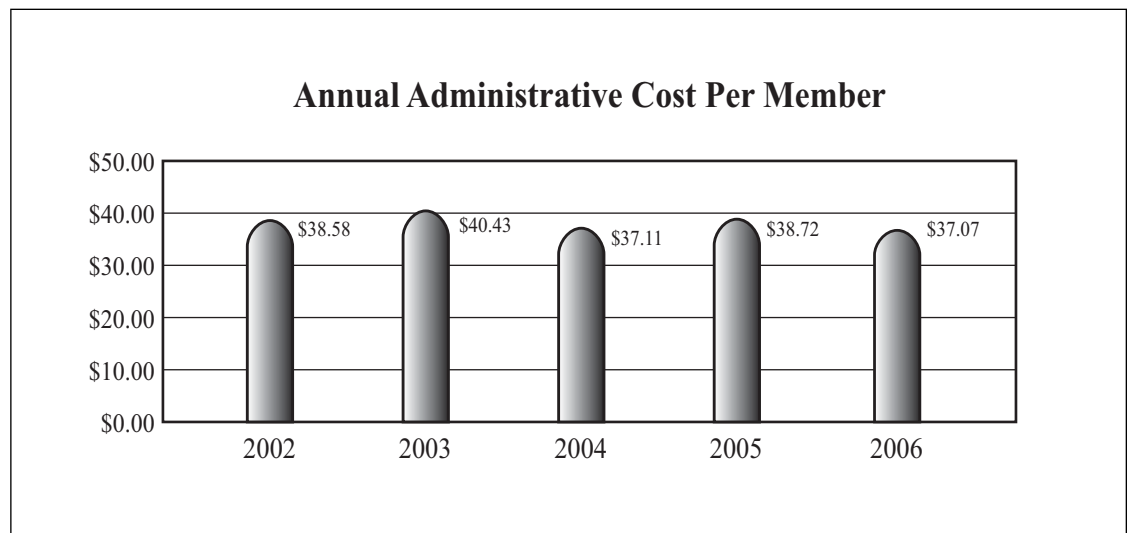
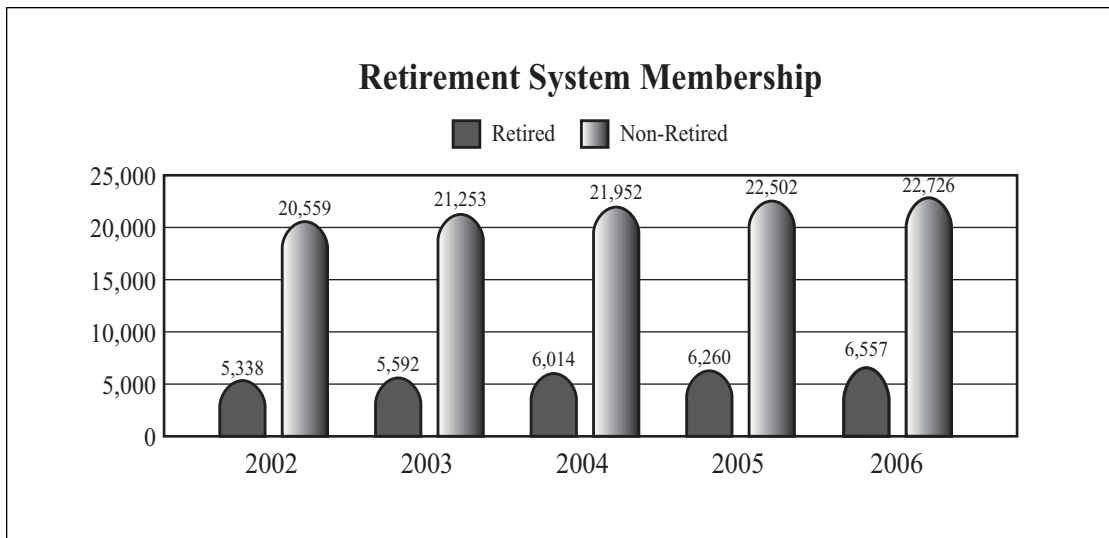
STATISTICAL SECTION

**Retirement System Membership – PERS, HPRS, Job Service and OASIS⁽¹⁾
As of June 30**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
State Agencies	11,451	11,688	11,979	12,258	11,959
Cities	404	431	492	560	594
Counties	3,433	3,530	3,650	3,741	3,885
School Districts	4,815	5,083	5,285	5,389	5,886
Other Political Subdivisions	<u>456</u>	<u>521</u>	<u>546</u>	<u>554</u>	<u>402</u>
Total Non-Retired ⁽²⁾	20,559	21,253	21,952	22,502	22,726
Retired Members & Beneficiaries	<u>5,338</u>	<u>5,592</u>	<u>6,014</u>	<u>6,260</u>	<u>6,557</u>
Total Membership	25,897	26,845	27,966	28,762	29,283
Administrative Expenses	\$ 999,177	\$ 1,085,272	\$ 1,037,958	\$1,113,714	\$1,085,563
Administrative Cost per Member	\$ 38.58	\$ 40.43	\$ 37.11	\$ 38.72	\$ 37.07

⁽¹⁾ Job Service and OASIS were added in 2004.

⁽²⁾ Total non-retired members includes all contributing members plus all non-contributing members who have not begun to receive retirement benefits.



Revenues by Source – Fiscal Year Ended June 30

	FY Ended June 30	Member Contributions ⁽¹⁾	Employer Contributions	Investment Income	Miscellaneous Income	Total	Employer Contributions as a % of Covered Payroll
Public Employees Retirement System:	2001	\$17,353,268	\$17,101,628	\$(53,115,303)	\$ 7,570	\$(18,652,837)	3.95%
	2002	18,439,125	18,244,655	(78,163,075)	12,301	(41,466,994)	3.95
	2003	19,758,764	19,212,733	53,998,006	9,184	92,978,687	4.01
	2004	25,941,395 ⁽²⁾	19,732,842	180,631,261	6,299	226,311,797	3.94
	2005	24,097,496	20,704,241	178,042,364	13,399	222,857,500	3.97
	2006	24,508,623	21,969,517	170,879,698	11,218	217,369,056	4.02
Highway Patrolmen's Retirement System:	2001	486,332	788,125	(1,872,449)	60	(597,932)	16.17
	2002	501,850	814,035	(2,712,925)	85	(1,396,955)	16.05
	2003	513,812	833,074	1,820,797	56	3,167,739	15.54
	2004	520,700	844,241	6,116,743	74	7,481,758	15.65
	2005	535,233	867,803	5,930,032	101	7,333,169	16.38
	2006	574,341	931,206	5,623,010	219	7,128,776	16.37
Job Service Retirement Plan:	2004	67,106,086 ⁽³⁾	0	\$ 8,551,044	0	75,657,130	0.00
	2005	163,594	0	10,884,059	0	11,047,653	0.00
	2006	176,560	0	5,766,011	0	5,942,571	0.00

⁽¹⁾Member contributions include statutory contributions and service purchases. Contributions for repurchased service credit were \$3,728,835 and \$4,427,425 for the fiscal years ended June 30, 2006 and 2005.

⁽²⁾Member contributions include \$3,789,350 contributions from external pension plans.

⁽³⁾Member contributions include \$66,888,685 contributions from external pension plans.

Expenses by Type – Fiscal Year Ended June 30

	FY Ended June 30	Benefits	Administrative Expenses	Transfers and Refunds	Total
Public Employees Retirement System:	2001	\$36,676,998	\$ 894,868	\$4,050,284	\$41,622,150
	2002	40,871,330	983,258	3,467,354	45,321,942
	2003	43,733,098	1,068,803	2,728,091	47,529,992
	2004	47,515,319	995,879	3,677,037	52,188,235
	2005	51,286,688	1,072,277	4,454,425	56,813,390
	2006	57,820,126	1,037,535	4,277,700	63,135,361
Highway Patrolmen's Retirement System:	2001	1,660,303	14,482	10,994	1,685,779
	2002	1,928,173	15,919	122,434	2,066,526
	2003	2,044,071	16,469	19,412	2,079,952
	2004	2,188,234	16,562	34,411	2,239,207
	2005	2,351,564	16,058	95,601	2,463,223
	2006	2,662,076	17,470	0	2,679,546
Job Service Retirement Plan:	2004	2,330,771	24,174	0	2,354,945
	2005	2,817,963	24,019	0	2,841,982
	2006	3,062,585	29,335	0	3,091,920

**Schedule of Benefit Expenses by Type – PERS and HPRS
Fiscal Year Ended June 30**

FY Ended June 30	Annuities ⁽¹⁾		Refunds		Transfers	Total
	Retirant	Survivor	Death	Separation		
2001	\$ 35,369,114	\$ 2,776,478	\$ 191,709	\$ 3,746,348	\$ 314,930	\$ 42,398,579
2002	39,527,603	3,138,775	133,125	3,451,513	138,275	46,389,291
2003	42,260,036	3,373,214	143,919	2,691,613	55,890	48,524,672
2004	45,860,843	3,650,879	191,831	3,693,861	17,587	53,415,001
2005	49,568,148	3,885,905	184,199	4,528,895	21,131	58,188,278
2006	56,057,166	4,257,059	167,977	4,236,429	41,271	64,759,902

⁽¹⁾ Includes disability benefits

**Schedule of Benefit Expenses by Type – Job Service Retirement Plan
Fiscal Year Ended June 30**

FY Ended June 30	Annuities		Refunds		Transfers	Total
	Retirant	Survivor	Death	Separation		
2004	\$ 2,196,012	\$ 134,759	\$ 0	\$ 0	\$ 0	\$ 2,330,771
2005	2,654,887	163,076	0	0	0	2,817,963
2006	2,870,309	192,276	0	0	0	3,062,585



**Schedule of Retired Members by Type of Benefit – PERS
As of June 30, 2006**

Main System

Monthly Amount	Total	Type of Pension				Service *
		Normal	Early	Disability		
Total	5,540	1,829	1,793	333	1,585	
Less than \$200	810	354	419	25	12	
\$200 - \$ 399	1,274	480	648	134	12	
400 - 599	898	338	419	110	31	
600 - 799	538	227	167	44	100	
800 - 999	436	128	68	14	226	
1,000 - 1,199	389	101	38	4	246	
1,200 - 1,399	297	63	13	-	221	
1,400 - 1,599	190	35	7	1	147	
1,600 - 1,799	168	30	2	-	136	
1,800 - 1,999	110	14	3	-	93	
2,000 - 2,199	103	12	1	1	89	
2,200 - 2,399	90	11	6	-	73	
2,400 - 2,599	60	4	1	-	55	
2,600 - 2,799	51	7	-	-	44	
2,800 - 2,999	30	7	1	-	22	
3,000 & Over	96	18	-	-	78	
Life	3,672	1,277	1,338	268	789	
Level Social Security Payment	94	-	16	-	78	
Joint & 100% Survivor	893	326	214	30	323	
Joint & 50% Survivor	651	157	125	25	344	
20 Year C & L	6	3	3	-	-	
10 Year C & L	179	53	82	4	40	
5 Year C & L	45	13	15	6	11	
Total	5,540	1,829	1,793	333	1,585	

**Includes Rule of 85, Rule of 88 and Rule of 90.*

**Schedule of Average Benefit Payments – PERS
As of June 30**

Main System

	Years of Credited Service						Total
	<10	10-14	15-19	20-24	25-29	>=30	
2002							
Number of Retirees	841	942	891	684	542	741	4,641
Average Monthly Benefit	\$ 213	\$ 331	\$ 482	\$ 726	\$ 1,114	\$ 1,688	\$ 705
Average Years of Service	6.39	12.30	17.39	22.29	27.18	35.03	19.05
2003							
Number of Retirees	891	969	918	725	594	783	4,880
Average Monthly Benefits	\$ 215	\$ 334	\$ 492	\$ 747	\$ 1,162	\$ 1,730	\$ 728
Average Years of Service	6.37	12.32	17.39	22.29	27.17	34.99	19.11
2004							
Number of Retirees	937	988	943	749	627	819	5,063
Average Monthly Benefits	\$ 218	\$ 346	\$ 502	\$ 773	\$ 1,186	\$ 1,760	\$ 747
Average Years of Service	6.36	12.31	17.38	22.31	27.22	34.96	19.14
2005							
Number of Retirees	991	1,019	963	767	669	869	5,278
Average Monthly Benefits	\$ 218	\$ 352	\$ 507	\$ 802	\$ 1,207	\$ 1,811	\$ 769
Average Years of Service	6.29	12.32	17.37	22.31	27.21	35.02	19.19
2006							
Number of Retirees	1,042	1,048	987	818	731	914	5,540
Average Monthly Benefit	\$ 222	\$ 361	\$ 521	\$ 840	\$ 1,248	\$ 1,846	\$ 796
Average Years of Service	6.27	12.33	17.35	22.35	27.24	35.00	19.27

**Schedule of Retired Members by Type of Benefit – PERS
As of June 30, 2006**

Monthly Amount	Total	Judges			
		Type of Pension			
		Normal	Early	Disability	Service *
Total	21	13	3	0	5
Less than \$200	-	-	-	-	-
\$200 - \$ 399	-	-	-	-	-
400 - 599	-	-	-	-	-
600 - 799	-	-	-	-	-
800 - 999	-	-	-	-	-
1,000 - 1,199	-	-	-	-	-
1,200 - 1,399	2	1	-	-	1
1,400 - 1,599	-	-	-	-	-
1,600 - 1,799	2	1	1	-	-
1,800 - 1,999	-	-	-	-	-
2,000 - 2,199	-	-	-	-	-
2,200 - 2,399	1	1	-	-	-
2,400 - 2,599	-	-	-	-	-
2,600 - 2,799	3	3	-	-	-
2,800 - 2,999	2	2	-	-	-
3,000 & Over	11	5	2	-	4
Life	1	1	-	-	-
Level Social Security Payment	-	-	-	-	-
Joint & 100% Survivor	15	11	1	-	3
Joint & 50% Survivor	5	1	2	-	2
10 Year C & L	-	-	-	-	-
5 Year C & L	-	-	-	-	-
Total	21	13	3	0	5

**Includes Rule of 85, Rule of 88, and Rule of 90.*

**Schedule of Average Benefit Payments – PERS
As of June 30**

	Judges						Total
	Years of Credited Service						
	<10	10-14	15-19	20-24	25-29	>=30	
2002							
Number of Retirees	1	5	3	2	0	0	11
Average Monthly Benefit	\$ 1,237	\$ 1,827	\$ 3,244	\$ 4,019	\$ 0	\$ 0	\$ 2,558
Average Years of Service	8.50	11.30	18.61	23.63	0.00	0.00	15.28
2003							
Number of Retirees	1	5	3	3	0	0	12
Average Monthly Benefit	\$ 1,262	\$ 1,864	\$ 3,309	\$ 4,292	\$ 0	\$ 0	\$ 2,782
Average Years of Service	8.50	11.30	18.61	23.75	0.00	0.00	16.01
2004							
Number of Retirees	1	5	3	3	1	1	14
Average Monthly Benefit	\$ 1,262	\$ 1,864	\$ 3,309	\$ 4,292	\$ 4,885	\$ 5,625	\$ 3,135
Average Years of Service	8.50	11.30	18.61	23.75	26.17	30.00	17.73
2005							
Number of Retirees	1	6	4	3	4	1	19
Average Monthly Benefit	\$ 1,262	\$ 2,022	\$ 3,439	\$ 4,292	\$ 4,956	\$ 5,625	\$ 3,446
Average Years of Service	8.50	11.42	18.25	23.75	25.46	30.00	18.58
2006							
Number of Retirees	1	8	4	3	4	1	21
Average Monthly Benefit	\$ 1,262	\$ 2,239	\$ 3,439	\$ 4,292	\$ 4,956	\$ 5,625	\$ 3,393
Average Years of Service	8.50	11.34	18.25	23.75	25.46	30.00	17.87



**Schedule of Retired Members by Type of Benefit – PERS
As of June 30, 2006**

National Guard

Monthly Amount	Total	Type of Pension			
		Normal	Early	Disability	Service *
Total	5	2	3	0	0
Less than \$200	-	-	-	-	-
\$200 - \$ 399	-	-	-	-	-
400 - 599	1	1	-	-	-
600 - 799	1	-	1	-	-
800 - 999	2	1	1	-	-
1,000 - 1,199	-	-	-	-	-
1,200 - 1,399	-	-	-	-	-
1,400 - 1,599	-	-	-	-	-
1,600 - 1,799	-	-	-	-	-
1,800 - 1,999	-	-	-	-	-
2,000 - 2,199	-	-	-	-	-
2,200 - 2,399	-	-	-	-	-
2,400 - 2,599	-	-	-	-	-
2,600 - 2,799	1	-	1	-	-
2,800 - 2,999	-	-	-	-	-
3,000 & Over	-	-	-	-	-
Life	4	2	2	-	-
Level Social Security Payment	1	-	1	-	-
Joint & 100% Survivor	-	-	-	-	-
Joint & 50% Survivor	-	-	-	-	-
10 Year C & L	-	-	-	-	-
5 Year C & L	-	-	-	-	-
Total	5	2	3	0	0

**Includes Rule of 85, Rule of 88, and Rule of 90.*

**Schedule of Average Benefit Payment – PERS
As of June 30**

National Guard

	Years of Credited Service						Total
	<10	10-14	15-19	20-24	25-29	>=30	
2002							
Number of Retirees	0	1	1	1	0	0	3
Average Monthly Benefits	\$ 0	\$ 537	\$ 723	\$ 1,733	\$ 0	\$ 0	\$ 998
Average Years of Service	0.00	11.08	19.17	22.17	0.00	0.00	17.47
2003							
Number of Retirees	0	1	1	1	0	0	3
Average Monthly Benefits	\$ 0	\$ 537	\$ 723	\$ 1,733	\$ 0	\$ 0	\$ 998
Average Years of Service	0.00	11.08	19.17	22.17	0.00	0.00	17.47
2004							
Number of Retirees	0	1	1	1	0	0	3
Average Monthly Benefits	\$ 0	\$ 537	\$ 723	\$ 1,733	\$ 0	\$ 0	\$ 998
Average Years of Service	0.00	11.08	19.17	22.17	0.00	0.00	17.47
2005							
Number of Retirees	0	1	1	1	1	0	4
Average Monthly Benefits	\$ 0	\$ 537	\$ 723	\$ 943	\$ 2,689	\$ 0	\$ 1,223
Average Years of Service	0.00	11.08	19.17	22.17	29.50	0.00	20.48
2006							
Number of Retirees	0	1	2	1	1	0	5
Average Monthly Benefits	\$ 0	\$ 537	\$ 829	\$ 943	\$ 2,689	\$ 0	\$ 1,165
Average Years of Service	0.00	11.08	16.13	22.17	29.50	0.00	19.00

**Schedule of Retired Members by Type of Benefit – HPRS
As of June 30, 2006**

Monthly Amount	Total	Type of Pension			
		Normal	Early	Disability	Rule of 80
Total	78	31	1	3	43
Less than \$200	-	-	-	-	-
\$200 - \$ 399	1	1	-	-	-
400 - 599	2	2	-	-	-
600 - 799	-	-	-	-	-
800 - 999	-	-	-	-	-
1,000 - 1,199	1	1	-	-	-
1,200 - 1,399	1	1	-	-	-
1,400 - 1,599	1	-	-	1	-
1,600 - 1,799	2	1	-	-	1
1,800 - 1,999	1	1	-	-	-
2,000 - 2,199	6	3	1	1	1
2,200 - 2,399	7	3	-	1	3
2,400 - 2,599	10	6	-	-	4
2,600 - 2,799	10	3	-	-	7
2,800 - 2,999	5	1	-	-	4
3,000 & Over	31	8	-	-	23
Life	12	2	-	3	7
Level Social Security Payment	-	-	-	-	-
Joint & 100% Survivor	21	5	-	-	16
Joint & 50% Survivor	45	24	1	-	20
10 Year C & L	-	-	-	-	-
5 Year C & L	-	-	-	-	-
Total	78	31	1	3	43

**Schedule of Average Benefit Payment – HPRS
As of June 30**

	Years of Credited Service						Total
	<10	10-14	15-19	20-24	25-29	>=30	
2002							
Number of Retirees	1	1	5	4	42	13	66
Average Monthly Benefits	\$ 1,456	\$ 1,133	\$ 375	\$ 1,421	\$ 2,602	\$ 2,850	\$ 2,371
Average Years of Service	2.25	13.50	16.30	21.88	28.24	31.41	27.00
2003							
Number of Retirees	1	1	4	4	42	14	66
Average Monthly Benefits	\$ 1,456	\$ 1,133	\$ 387	\$ 1,421	\$ 2,625	\$ 2,896	\$ 2,434
Average Years of Service	2.25	13.50	16.10	21.88	28.15	31.11	27.05
2004							
Number of Retirees	1	2	3	4	46	15	71
Average Monthly Benefits	\$ 1,456	\$ 1,593	\$ 420	\$ 1,421	\$ 2,694	\$ 3,074	\$ 2,558
Average Years of Service	2.25	12.34	16.25	21.88	28.02	31.04	27.01
2005							
Number of Retirees	1	2	3	4	44	16	70
Average Monthly Benefits	\$ 1,456	\$ 1,593	\$ 1,064	\$ 1,421	\$ 2,845	\$ 3,175	\$ 2,707
Average Years of Service	2.25	12.34	17.33	21.88	28.01	31.14	27.10
2006							
Number of Retirees	1	2	3	5	51	16	78
Average Monthly Benefits	\$ 1,456	\$ 1,593	\$ 1,064	\$ 1,878	\$ 2,950	\$ 3,175	\$ 2,801
Average Years of Service	2.25	12.34	17.33	21.73	27.92	31.14	27.05



**Schedule of Retired Members by Type of Benefit – Job Service Retirement Plan
As of June 30, 2006**

Monthly Amount	Total	Type of Pension	
		Retirement	Disability
Total	194	188	6
Less than \$200	67	67	-
\$200 - \$ 399	22	22	-
400 - 599	1	1	-
600 - 799	-	-	-
800 - 999	5	4	1
1,000 - 1,199	3	2	1
1,200 - 1,399	13	12	1
1,400 - 1,599	8	6	2
1,600 - 1,799	10	10	-
1,800 - 1,999	8	8	-
2,000 - 2,199	16	16	-
2,200 - 2,399	9	8	1
2,400 - 2,599	13	13	-
2,600 - 2,799	3	3	-
2,800 - 2,999	4	4	-
3,000 & Over	12	12	-
Life	45	45	-
Joint & 55% Survivor	43	42	1
Joint & 75% Survivor	23	23	-
Joint & 100% Survivor	10	10	-
10 Year C & L	40	35	5
15 Year C & L	5	5	-
20 Year C&L	28	28	-
Total	144	188	6

**Schedule of Average Benefit Payments – Job Service Retirement Plan
As of June 30**

	Retirement Plan	Travelers Annuity	Total
2002			
Number of Retirees	87	122	209
Average Monthly Benefits	\$ 1,734	\$ 266	\$ 877
2003			
Number of Retirees	95	119	214
Average Monthly Benefits	\$ 1,794	\$ 285	\$ 955
2004			
Number of Retirees	100	113	213
Average Monthly Benefits	\$ 1,911	\$ 308	\$ 1,060
2005			
Number of Retirees	108	109	217
Average Monthly Benefits	\$ 1,896	\$ 345	\$ 1,117
2006			
Number of Retirees	115	106	221
Average Monthly Benefits	\$ 2,002	\$ 401	\$ 1,651

Since there are no retirees for the Law Enforcement with prior Main service and Law Enforcement without prior Main service plans, schedules of retired members by type of benefits and average benefit payments as of June 30 are not shown.

SCHEDULE OF PARTICIPATING EMPLOYERS

STATE AGENCIES:

ADJUTANT GENERAL ND NATL GRD
 AERONAUTICS COMMISSION
 ATTORNEY GENERAL'S OFFICE
 BANK OF NORTH DAKOTA
 BEEF COMMISSION
 BISMARCK STATE COLLEGE
 BOARD OF ANIMAL HEALTH
 BOARD OF MEDICAL EXAMINERS
 BOARD OF NURSING
 BOARD OF PHARMACY
 CAREER & TECHNICAL ED
 DAIRY PROMOTION COMMISSION
 DEPT OF AGRICULTURE
 DEPT OF BANKING & FINANCE
 DEPT OF COMMERCE
 DEPT OF EMERGENCY SERVICES
 DEPT OF HUMAN SERVICES
 DEPARTMENT OF CORRECTIONS
 DEPARTMENT OF TRANSPORTATION
 DEVELOPMENTAL CENTER
 DICKINSON STATE UNIVERSITY
 EDUCATION STANDARDS & PRACTICE
 ELECTRICAL BOARD
 FIELD SERVICES DIVISION
 GAME & FISH DEPT
 GOVERNOR'S OFFICE
 HIGHWAY PATROL
 HISTORICAL SOCIETY
 HOUSING FINANCE AGENCY
 INDIAN AFFAIRS COMMISSION
 INDUSTRIAL COMMISSION
 INFORMATION TECHNOLOGY DEPARTMENT
 INSURANCE DEPARTMENT
 JAMES RIVER CORRECTIONAL CENTER
 JAMESTOWN STATE HOSPITAL
 JOB SERVICE NORTH DAKOTA
 LAND DEPARTMENT
 LEGAL COUNSEL OF INDIGENTS
 LEGISLATIVE COUNCIL
 MAYVILLE STATE UNIVERSITY
 MILK MARKETING BOARD
 MILL & ELEVATOR ASSOCIATION
 MINOT STATE UNIVERSITY
 ND BARLEY COUNCIL
 ND CORN UTILIZATION COUNCIL
 ND COUNCIL ON THE ARTS
 ND DEPARTMENT OF HEALTH
 ND DEPARTMENT OF LABOR
 ND OILSEED COUNCIL
 ND SECURITIES DEPARTMENT
 ND SOYBEAN COUNCIL
 ND STATE BOARD OF ACCOUNTANCY
 ND STATE BOARD OF COSMETOLOGY
 ND STATE COLLEGE OF SCIENCE
 ND STATE LIBRARY
 ND SUPREME COURT
 ND UNIVERSITY SYSTEM
 ND VETERANS HOME
 ND WHEAT COMMISSION
 ND YOUTH CORRECTIONAL CENTER
 NORTH DAKOTA STATE UNIVERSITY
 OFFICE OF ADM HEARING
 OFFICE OF MANAGEMENT & BUDGET
 PARKS & RECREATION DEPARTMENT
 PLUMBING BOARD
 PROTECTION & ADVOCACY PROJECT
 PUBLIC EMPLOYEES RETIREMENT
 PUBLIC FINANCE AUTHORITY
 PUBLIC INSTRUCTION
 PUBLIC SERVICE COMMISSION
 RACING COMMISSION
 REAL ESTATE COMMISSION
 RETIREMENT & INVESTMENT OFFICE
 ROUGH RIDER INDUSTRIES
 SCHOOL FOR THE BLIND
 SCHOOL FOR THE DEAF

SECRETARY OF STATE
 SOIL CONSERVATION COMMITTEE
 STATE AUDITOR'S OFFICE
 STATE BOARD OF LAW EXAMINERS
 STATE FAIR ASSN
 STATE PENITENTIARY
 STATE SEED DEPARTMENT
 STATE TREASURER'S OFFICE
 TAX DEPARTMENT
 UND - LAKE REGION
 UNIVERSITY OF NORTH DAKOTA
 VALLEY CITY STATE UNIVERSITY
 VETERANS AFFAIRS DEPARTMENT
 WATER COMMISSION
 WILLISTON STATE COLLEGE
 WORKFORCE SAFETY AND INSURANCE
Total = 92

COUNTIES:

ADAMS COUNTY
 BARNES COUNTY
 BENSON COUNTY
 BILLINGS COUNTY
 BOTTINEAU COUNTY
 BOWMAN COUNTY
 BURKE COUNTY
 BURLEIGH COUNTY
 CASS COUNTY
 CAVALIER COUNTY
 DICKEY COUNTY
 DIVIDE COUNTY
 DUNN COUNTY
 EDDY COUNTY
 EMMONS COUNTY
 FOSTER COUNTY
 GRAND FORKS COUNTY
 GRANT COUNTY
 GRIGGS COUNTY
 HETTINGER COUNTY
 LAMOURE COUNTY
 LOGAN COUNTY
 MCHENRY COUNTY
 MCINTOSH COUNTY
 MCKENZIE COUNTY
 MCLEAN COUNTY
 MOUNTRAIL COUNTY
 NELSON COUNTY
 PEMBINA COUNTY
 PIERCE COUNTY
 RAMSEY COUNTY
 RANSOM COUNTY
 RENVILLE COUNTY
 RICHLAND COUNTY
 SHERIDAN COUNTY
 SLOPE COUNTY
 STARK COUNTY
 STEELE COUNTY
 STUTSMAN COUNTY
 TRAILL COUNTY
 WALSH COUNTY
 WARD COUNTY
 WELLS COUNTY
 WILLIAMS COUNTY
Total = 44

SCHOOLS:

APPLE CREEK ELEMENTARY SCHOOL
 BEACH PUBLIC SCHOOL DISTRICT
 BELCOURT SCHOOL DIST #7
 BELFIELD PUBLIC SCHOOL #13
 BEULAH PUBLIC SCHOOL #27
 BILLINGS COUNTY SCHOOL DISTRICT
 BISMARCK PUBLIC SCHOOLS
 BOTTINEAU PUBLIC SCHOOL
 CARRINGTON SCHOOL DIST #49
 CAVALIER PUBLIC SCHOOLS
 CENTRAL CASS PUBLIC SCHOOL #7



DAKOTA PRAIRIE PUBLIC SCHOOLS
 DEVILS LAKE PUBLIC SCHOOL
 DICKEY LAMOURE MULTIDIST SP ED
 DICKINSON PUBLIC SCHOOLS
 DIVIDE COUNTY SCHOOL DIST #1
 DRAKE PUBLIC SCHOOL DISTRICT
 DRAYTON PUBLIC SCHOOL #19
 DUNSEITH SCHOOL DISTRICT #1
 ELLENDALE PUBLIC SCHOOL #40
 ENDERLIN PUBLIC SCHOOL
 FARGO PUBLIC SCHOOLS
 FT. TOTTEN SCHOOL DISTRICT #30
 GARRISON PUBLIC SCHOOL
 GLENBURN PUBLIC SCHOOL
 GLEN ULLIN PUBLIC SCHOOL #48
 GRAFTON PUBLIC SCHOOL DIST #3
 HALLIDAY PUBLIC SCHOOL
 HARVEY PUBLIC SCHOOL DIST #38
 HAZEN PUBLIC SCHOOL DIST #3
 HILLSBORO PUBLIC SCHOOL
 JAMESTOWN PUBLIC SCHOOL #1
 KENMARE PUBLIC SCHOOLS
 KILLDEER PUBLIC SCHOOL #16
 KINDRED PUBLIC SCHOOL DIST #2
 KULM PUBLIC SCHOOL DIST #7
 LAKE REGION SPECIAL ED UNIT
 LAKOTA PUBLIC SCHOOL DISTRICT #66
 LAMOURE SCHOOL DISTRICT #8
 LARIMORE PUBLIC SCHOOL
 LEWIS AND CLARK PUBLIC SCHOOLS
 LIDGERWOOD PUBLIC SCHOOL
 LINTON PUBLIC SCHOOL
 LISBON PUBLIC SCHOOL
 LITTLE HEART PUBLIC SCHOOL DIST #4
 MANDAN PUBLIC SCHOOL DIST #1
 MANDAREE PUBLIC SCHOOL #36
 MANVEL PUBLIC SCHOOL
 MAPLETON PUBLIC SCHOOL
 MAPLE VALLEY SCHOOL DISTRICT
 MCCLUSKY PUBLIC SCHOOLS
 MCKENZIE CTY PUBLIC SCHOOL #1
 MIDWAY PUBLIC SCHOOL DIST #128
 MILNOR PUBLIC SCHOOLS
 MINOT PUBLIC SCHOOL DIST #1
 MINTO PUBLIC SCHOOL DIST #20
 MOHALL/LANSFORD/SHERWOOD SCHOOLS
 MOTT/REGENT PUBLIC SCHOOL DIST #1
 MT PLEASANT SCHOOL DIST #4
 NAPOLEON PUBLIC SCHOOL DIST #2
 NEW PUBLIC SCHOOL #8
 NEW SALEM SCHOOL DIST #7
 NEW TOWN PUBLIC SCHOOL #1
 NEWBURG UNITED PUBLIC SCHOOL
 NORTHERN CASS SCHOOL DIST #97
 NORTH BORDER SCHOOL DIST #100
 NORTHERN PLAINS SPECIAL EDUCATION UNIT
 NORTH VALLEY VO-TECH CENTER
 OAKES PUBLIC SCHOOLS
 OLIVER-MERCER SPECIAL ED UNIT
 PARK RIVER PUBLIC SCHOOLS
 PEACE GARDEN SPECIAL SERVICES
 RICHLAND SCHOOL DIST #44
 ROLETTE COUNTY ALT ED CONSORT
 ROLETTE PUBLIC SCHOOLS
 RUGBY PUBLIC SCHOOL DIST #5
 RURAL CASS MULTI-DISTRICT SPECIAL ED
 SHELDON PUBLIC SCHOOL
 SHEYENNE VALLEY CAREER TECH CT
 SOLEN PUBLIC SCHOOL DIST #3
 SOURIS VALLEY SPECIAL SERVICES
 ST JOHN SCHOOL DIST #3
 STANLEY PUBLIC SCHOOL DIST #2
 SURREY SCHOOLS
 SW SPECIAL EDUCATION UNIT
 SWEET BRIAR SCHOOL DIST #17
 TGU SCHOOL DIST #60
 THOMPSON PUBLIC SCHOOL

TIOGA PUBLIC SCHOOL
 TURTLE LAKE MERCER SCHOOL DISTRICT
 UNDERWOOD SCHOOL DIST #8
 UNITED PUBLIC SCHOOL DISTRICT
 VALLEY CITY PUBLIC SCHOOL
 WARWICK PUBLIC SCHOOL
 WEST FARGO PUBLIC SCHOOL #6
 WESTHOPE PUBLIC SCHOOL #17
 WHITE SHIELD SCHOOL DIST #85
 WILLISTON PUBLIC SCHOOL #1
 WILTON PUBLIC SCHOOL DISTRICT
 YELLOWSTONE SCHOOL DIST #14
 ZEELAND PUBLIC SCHOOLS
Total = 101

CITIES:

CITY OF ASHLEY
 CITY OF BELFIELD
 CITY OF BOWMAN
 CITY OF BURLINGTON
 CITY OF CARRINGTON
 CITY OF CAVALIER
 CITY OF COOPERSTOWN
 CITY OF CROSBY
 CITY OF DRAYTON
 CITY OF ELGIN
 CITY OF ELLENDALE
 CITY OF EMERADO
 CITY OF FESSENDEN
 CITY OF FINLEY
 CITY OF GLENBURN
 CITY OF GRAFTON
 CITY OF GRANVILLE
 CITY OF GWINNER
 CITY OF HANKINSON
 CITY OF HARVEY
 CITY OF HARWOOD
 CITY OF HATTON
 CITY OF HETTINGER
 CITY OF KENMARE
 CITY OF KILLDEER
 CITY OF LARIMORE
 CITY OF LAMOURE
 CITY OF LIDGERWOOD
 CITY OF LINCOLN
 CITY OF LINTON
 CITY OF LISBON
 CITY OF MAPLETON
 CITY OF MCVILLE
 CITY OF MCCLUSKY
 CITY OF MEDORA
 CITY OF MICHIGAN
 CITY OF MINTO
 CITY OF MOHALL
 CITY OF MOTT
 CITY OF NAPOLEON
 CITY OF NECHE
 CITY OF NEW ENGLAND
 CITY OF NEW LEIPZIG
 CITY OF NEW ROCKFORD
 CITY OF NEW SALEM
 CITY OF NEW TOWN
 CITY OF NORTHWOOD
 CITY OF OAKES
 CITY OF PARK RIVER
 CITY OF PEMBINA
 CITY OF POWERS LAKE
 CITY OF RAY
 CITY OF RHAME
 CITY OF ROLLA
 CITY OF RUGBY
 CITY OF SAWYER
 CITY OF SCRANTON
 CITY OF SHERWOOD
 CITY OF STANLEY
 CITY OF SURREY
 CITY OF THOMPSON

104 North Dakota Public Employees Retirement System

CITY OF TIOGA
CITY OF TOWNER
CITY OF UNDERWOOD
CITY OF VELVA
CITY OF WAHPETON
CITY OF WALHALLA
CITY OF WATFORD CITY
CITY OF WEST FARGO
CITY OF WESTHOPE
CITY OF WILLISTON
CITY OF WILTON
CITY OF ZEELAND
Total = 73

OTHER POLITICAL SUBDIVISIONS:

BARNES COUNTY SOIL CONSERVATION DISTRICT
BISMARCK RURAL FIRE PROTECTION
BOWMAN CITY PARK BOARD
BURLEIGH COUNTY COUNCIL ON AGING
BURLEIGH COUNTY SOIL CONSERVATION
CARNEGIE REGIONAL LIBRARY
CASS COUNTY SOIL CONSERVATION DISTRICT
CASS CTY WATER RESOURCE DISTRICT
CAVALIER COUNTY JOB DEVELOPMENT
CAVALIER COUNTY HEALTH DISTRICT
CAVALIER COUNTY HOUSING AUTHORITY
CENTRAL PLAINS WATER DISTRICT
CENTRAL VALLEY HEALTH UNIT
CITY-COUNTY HEALTH DISTRICT
CONSOLIDATED WASTE LTD
CUSTER DIST HEALTH UNIT
DEVILS LAKE BASIN JOINT WATER
DUNSEITH COMMUNITY NURSE HOME
EMMONS COUNTY PUBLIC HEALTH
FIRST DISTRICT HEALTH UNIT
GARRISON DIVERSION CONSERVATION DISTRICT
GRAFTON PARK DISTRICT
GRAND FORKS CITY WATER RESOURCE
GREATER RAMSEY WATER DISTRICT
GRIGGS COUNTY LIBRARY
KIDDER COUNTY DISTRICT HEALTH UNIT
LAKE METIGOSHE REC SERV DISTRICT
LAKE REGION DISTRICT HEALTH UNIT
MCINTOSH CITY HOUSING AUTHORITY
MCINTOSH DISTRICT HEALTH UNIT
MERCER CTY SOIL CONSERVATION DISTRICT
MINOT RURAL FIRE DEPT
NELSON COUNTY SOIL CONSERVATION
NELSON-GRIGGS DIST HEALTH UNIT
R & T WATER SUPPLY ASSOCIATION
RAMSEY COUNTY HOUSING AUTHORITY
RAMSEY COUNTY SOIL CONSERVATION DISTRICT
RANSOM COUNTY SOIL CONSERVATION DISTRICT
SARGENT CTY DIST HEALTH UNIT
SE REGION CAREER AND TECH CENTER
S W DISTRICT HEALTH UNIT
SOUTHWEST WATER AUTHORITY
STUTSMAN CO HOUSING AUTHORITY
TRAILL CTY WATER RESOURCE DISTRICT
TRAILL DISTRICT HEALTH UNIT
TRAILL RURAL WATER DISTRICT
UPPER MISSOURI HEALTH UNIT
WALSH COUNTY HOUSING AUTHORITY
WALSH COUNTY HEALTH DEPT
WALSH COUNTY HEATH DISTRICT
WALSH COUNTY WATER RESOURCE DISTRICT
WARD COUNTY WATER RESOURCE DISTRICT
WATFORD CITY PARK DISTRICT
WELLS COUNTY DIST HEALTH UNIT
WEST & CENTRAL STARK SOIL CONSERVATION DISTRICT
WEST FARGO PARK DISTRICT
WILLISTON HOUSING AUTHORITY
Total = 57

**Deferred Compensation Program
Schedule of Assets
By Provider**

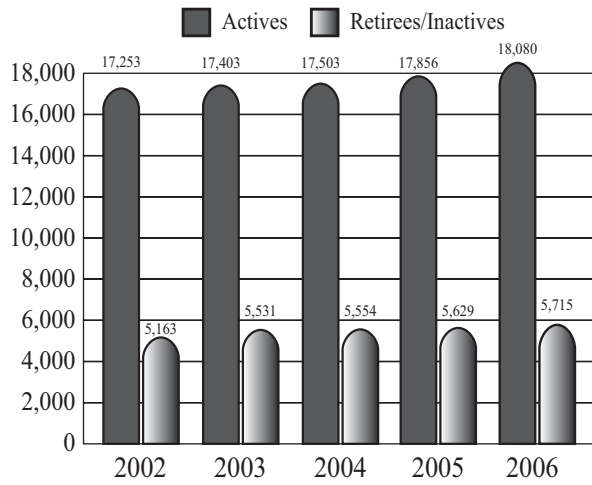
	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06
American Trust Center	\$ 0	\$ 0	\$ 0	\$ 1,586,865	\$ 2,620,264
AXA Equitable	22,424,207	21,916,044	24,736,781	23,943,326	25,928,019
Bank of North Dakota	2,917,814	3,046,742	3,065,131	3,134,285	3,438,691
Chase Financial (formerly Kemper)	2,522,224	3,051,776	4,201,892	5,170,950	5,852,970
Hartford Life Insurance Company	6,210,009	7,847,811	10,286,460	12,164,623	19,196,591
ING (formerly Aetna)	1,204,650	1,219,957	1,330,667	1,366,067	1,359,850
Jackson National Life	1,100,184	1,049,182	1,025,575	1,032,657	902,942
John Kinnard ⁽¹⁾	35,274	35,238	40,068	18,510	20,693
Kansas City Life (formerly Sunset Life)	362,938	339,516	370,013	328,503	354,895
Lincoln National	5,629,852	5,671,137	6,182,708	6,364,400	7,210,227
NDPERS Companion Plan ⁽¹⁾	7,917,076	10,267,537	13,591,832	14,585,960	18,143,181
Nationwide Life Insurance	8,578,288	8,682,214	10,346,269	10,365,570	6,789,074
New York Life ⁽¹⁾	694,345	589,652	656,923	602,490	458,737
Safeco Life	1,213,011	1,234,201	1,443,359	919,056	887,554
VALIC	884,995	1,245,292	1,592,037	4,501,538	5,745,622
Waddell & Reed Financial Services	<u>3,155,836</u>	<u>3,557,920</u>	<u>4,142,771</u>	<u>4,794,811</u>	<u>5,616,331</u>
Total	\$ 64,850,703	\$ 69,754,219	\$ 83,012,486	\$ 90,879,611	\$ 104,525,641

⁽¹⁾As of January 1, 1999, the System is the trustee for these deferred compensation assets and is reporting them as a trust fund in the June 30, 2006 and June 30, 2005 financial statements.

All other assets are being held in trust, by the respective provider company, for the exclusive benefit of participants and their beneficiaries. Accordingly, these assets are not included in the System's financial statements.

STATISTICS

**GROUP HEALTH INSURANCE PROGRAM
Average Number of Contracts in Force**



Health Insurance Premium Active State Contracts

