North Dakota
Retirement and Investment Office

An Agency of the State of North Dakota

Comprehensive Annual Financial Report

Prepared by the ND Retirement and Investment Office Staff
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For the Fiscal Year Ended June 30, 2003

All printed materials can be made available in alternate formats.
Contact the administrative office should this be necessary.

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ND 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 1, 2003

Members of the
North Dakota State Investment Board
North Dakota Teachers' Fund for Retirement Board

Dear Board Members:

With pleasure we present you with the June 30, 2003, Comprehensive Annual Financial Report (CAFR) for the North Dakota Retirement and Investment Office (RIO). The report is a complete review of the financial, investment, and actuarial conditions of the two programs for which you are responsible. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of RIO.

This CAFR is divided into five sections: the Introductory Section, which contains the administrative organization, the Certificate of Achievement for Excellence in Financial Reporting, and a letter of transmittal; the Financial Section, which contains the report of the Independent Auditors, a narrative introduction and overview in the Management's Discussion and Analysis, the financial statements of the agency, and certain required supplementary information; the Investment Section, which contains a report on investment activity, investment policies, investment results, and various investment schedules; the Actuarial Section, which contains the Actuary's Certification Letter and the results of the annual actuarial valuation; and the Statistical Section, which includes significant data pertaining to RIO.

RIO is an agency of the State of North Dakota. The agency was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of two important long-standing state programs – the retirement program of the Teachers' Fund for Retirement (TFFR) and the investment program of the State Investment Board (SIB).

Established in 1913, TFFR is one of the oldest retirement plans in the nation. TFFR is a qualified defined benefit public pension plan covered under Section 401(a) of the Internal Revenue Code. North Dakota Century Code Chapter 15-39.1 contains the actual language governing the fund. The plan covers North Dakota public school teachers and administrators. The TFFR plan is funded on an actuarial reserve basis. Benefit funding comes from member and employer contributions and investment earnings. TFFR serves over 10,000 teachers from 273 employer groups and pays benefits to more than 5,100 retirees and beneficiaries. High quality member services and outreach programs are offered to members and employers as part of the continuing effort to keep them informed about the retirement program.

The SIB is responsible for setting policies and procedures guiding the investment of $3.5 billion in assets for five pension funds and 15 other insurance-type funds. Their investments are divided into two investment trust funds and one individual investment account. The following table details the participants in each trust fund:

Pension Investment Pool Participants

Teachers' Fund for Retirement
Public Employees Retirement Fund
City of Bismarck Employees Pension Fund
City of Bismarck Police Pension Fund
Job Service of North Dakota Pension Fund

Individual Investment Account

PERS Retiree Health Insurance Credit Fund

Insurance Investment Pool Participants

Workers Compensation Fund
State Fire & Tornado Fund
State Bonding Fund
Insurance Regulatory Trust Fund
Petroleum Tank Release Compensation Fund
ND Health Care Trust Fund
State Risk Management Fund
Veterans Post War Trust Fund
Veterans Cemetery Trust Fund
ND Association of Counties Fund
ND Association of Counties Program Savings
City of Bismarck Deferred Sick Leave Fund
PERS Group Insurance Fund
City of Fargo FargoDome Permanent Fund

The pension investment pool is made up of only qualified pension funds whose monies must be invested exclusively for the benefit of their participants. The insurance investment pool is made up of mainly insurance-type funds, but also includes other funds that do not qualify as pension funds and would like to benefit from the cost savings of being pooled with other funds' assets. All of these funds are invested in accordance with the "Prudent Investor Rule."

The pension investment pool was created in July 1989 with the pooling of selected investments of TFFR and the Public Employees Retirement System (PERS). Assets from the City of Bismarck Employees and Police pension funds were added later that same fiscal year. In April 1994, Job Service of North Dakota made their initial contribution to the pool. No changes in participation have occurred in the pension investment pool since that time.

The insurance investment pool began in December 1993 with the pooling of the assets of the Workers Compensation, Fire and Tornado, Bonding, Insurance Regulatory, and Petroleum Tank Release funds.

Other additions to this pool have occurred as follows:

- The Risk Management Fund was added in October 1996.
- Both the Veterans Cemetery Trust and the Veterans Post War Trust funds were added during the fiscal year ended June 30, 1998, in August and December, respectively.
- The two North Dakota Association of Counties funds were added during fiscal year 1999, in January 1999 and March 1999, respectively.
- The City of Bismarck Deferred Sick Leave and PERS Group Insurance funds were both added in July 1999.
- The ND Health Care Trust fund was added in July 2001 by legislative mandate.
- The City of Fargo FargoDome Permanent Fund was added in October 2002.

There have only been two deletions from this pool - the Veterans' Home Improvement Fund, which was added in July 1996 and removed in August 1997, and the National Guard Tuition Waiver Fund, which was added in June 1996 and removed in June 1999.

MAJOR INITIATIVES

- Retirement Program

  Legislation initiated by the TFFR Board of Trustees and enacted into law by the 2003 Legislative Assembly was designed to continue addressing member and employer concerns and continue making TFFR competitive with its public retirement plan peers. The changes are not expected to have any actuarial cost implications. They include:

- ✓ Added partial lump sum distribution option
- ✓ Added 20-year term certain and life option
- ✓ Added employer service purchase option
- ✓ Incorporated federal changes dealing with service credit purchases
- ✓ Clarified salary definition
- ✓ Modified dual membership guidelines
- ✓ Modified retiree re-employment limits

Due to increasing costs to maintain TFFR's outdated mainframe computer system, staff worked with MSI consultants to study replacement or upgrade options. After completing a business needs analysis and market survey in 2002-03, TFFR received legislative budget approval to replace the current pension administration computer system in the 2003-05 biennium. An updated system will improve service to TFFR members, increase the reliability of data, provide tools for improving staff productivity, and enhance system integration capabilities.

- Investment Program

The various pension plans fell short of meeting their actuarial assumed returns for the year but in all cases relative returns exceeded their respective total fund benchmarks. The insurance funds' returns were highly reflective of their individual asset class exposures and in most cases exceeded their respective total fund benchmarks. Investment details by trust fund can be found in the Investment Section.

During the year, the SIB completed the following initiatives:

- ✓ After realizing successes in the pension investment pool, extended the concept of small cap international investing into the insurance investment pool by hiring two new managers.
- ✓ Diversified the international fixed income asset class in the pension investment pool by adding a second manager.
- ✓ Based on continuing satisfaction with the existing portfolio manager, increased the amount of timberland investments within the domestic fixed income asset class in the pension investment pool.

The City of Fargo FargoDome Permanent Fund was added to the insurance investment pool during the fiscal year.

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 RIO for its comprehensive annual financial report for the fiscal year ended June 30, 2002. This was the fifth consecutive year that RIO has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

FINANCIAL INFORMATION

RIO is subject to very strict operational controls. Well-established internal controls are in place, segregation of duties is maintained, and an internal audit program is in effect. In addition, an annual external audit is performed and the results are reported to the Legislative Audit and Fiscal Review Committee.

Brady Martz & Associates conducted the external audit under the direction of the North Dakota State Auditor. The auditor's opinion was unqualified for the agency for the year ended June 30, 2003.

The tables below summarize RIO's revenues and expenses for the current and prior fiscal years:

Pension Trust Fund (TFFR)	June 30, 2003	June 30, 2002	Incr/(Decr) $	Incr/(Decr) %
Additions	$ 84,710,265	$ (54,000,376)	$138,710,641	256.9%
Deductions	74,831,352	71,292,199	3,539,153	5.0 %
Net Increase/(Decrease)	$ 9,878,913	$(125,292,575)	$135,171,488	107.9%

Additions increased due to an increase in contributions and net investment income. Deductions increased because the average benefit increased from the previous year, as did the number of retirees receiving benefits throughout the year.

Internal Service Fund	June 30, 2003	June 30, 2002	Incr/(Decr) $	Incr/(Decr) %
Operating revenues	$1,452,162	$1,256,486	$195,676	15.6 %
Operating expenses	1,464,403	1,274,497	189,906	14.9 %
Non-operating revenues	810	1,291	(481)	(37.3)%
Net revenues (expenses)	$ (11,431)	$ (16,720)	$ 5,289	31.6 %

Operating revenues increased due to an increase in overall expenses being allocated to the programs. Operating expenses increased because of the addition of the expenses for the software replacement project in the retirement program and an increase in salaries due to legislative approval.

FUNDING STATUS

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The member and employer contribution rates are established by statute, and both are currently set at 7.75%. The rates are intended to be sufficient to pay TFFR's normal cost and to amortize TFFR's unfunded actuarial accrued liability (UAAL) in level payments over a period of 20 years from the valuation date. The funding period is set by the TFFR Board, and is considered reasonable by the actuary.

As of July 1, 2003, the employer contribution rate needed in order to meet these goals is 8.94%. This is more than the 7.75% rate currently required by law. The margin between the rate mandated by law and the rate necessary to fund the UAAL in 20 years is -1.19%. This margin decreased from 1.66% last year, mainly because of recognized investment experience losses. The funded ratio decreased from last year from 91.6% as of July 1, 2002, to 85.1% as of July 1, 2003. This decrease is also due to the recognized investment experience losses.

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Investment gains or losses are recognized over a five-year period at a rate of 20% per year. As prior years' losses are recognized over the next four valuations, we expect the negative margin to increase and the funded ratio to continue to decrease, in the absence of changes in the benefit/contribution structure of TFFR and in the absence of other experience gains or losses.

The funded ratio would have been 69.5%, rather than the 85.1%, if the market value of assets had been used rather than the actuarial value.

The following table summarizes the actuarial valuation of the TFFR plan. A detailed discussion of funding is provided in the Actuarial Section of this report.

	July 1, 2003 (in millions)	**July 1, 2002 (in millions)**
Actuarial value of assets	$ 1,438.4	$ 1,443.5
Actuarial accrued liability	251.9	132.3
Funded ratio	85.1%	91.6%

INVESTMENT ACTIVITIES

The investment policies and strategies for each of the funds under the SIB can be found in the Investment Section of this report. Each policy is created by the individual fund and presented to the SIB for acceptance. Once accepted, the policy is used as a guide to determine participation in the applicable pools. The policies are designed to provide safeguards on assets while optimizing return based on each fund's risk parameters.

The return information presented in the Investment Section is calculated with the assistance of our consultant, Callan Associates, based on data supplied by our custodian, The Northern Trust Company, and the individual investment managers. The investment return calculations were prepared using a monthly time-weighted rate of return methodology in accordance with AIMR's Performance Presentation Standards, and are subject to independent audit.

PROFESSIONAL SERVICES

Professional consultants are selected by the TFFR Board and the SIB to perform professional services that are essential to the effective and efficient operation of the retirement and investment programs. An opinion from the certified public accountant and the actuary are included in this report. The consultants chosen by the boards are listed in the Introductory Section of this report.

Respectfully yours,

Fay Kopp

Connie L. Flanagan

STEVE COCHRANE, CFA
Executive Director/CIO

FAY KOPP
Deputy Executive Director

CONNIE L. FLANAGAN
Fiscal & Investment Officer

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Mission

The North Dakota Retirement and Investment Office exists in order that:

- SIB clients receive cost-effective investment services directed at meeting their written financial goals under the Prudent Investor Rule.
- SIB clients receive investment returns consistent with their written investment policies and market variables.
- Potential SIB clients have access to information regarding the investment services provided by the SIB.
- TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.
- TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.
- SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff of the office.

Administrative Staff

Steve Cochrane, CFA
Executive Director/CIO

Fay Kopp
Deputy Executive Director

Supervisory Staff

Connie L. Flanagan
Fiscal Management

Shelly Schumacher
Retirement Services

Les Mason
Internal Audit

Bonnie Heit
Administrative Services

Gary Vetter
Information Services

NORTH DAKOTA STATE INVESTMENT BOARD

Investment Program

Investment Process

The ND State Investment Board believes that an investment program must be built and managed like any good business, with a clear statement of mission, overall objectives, roles and responsibilities, and policies and guidelines. Major issues include:

Asset allocation targets:

- Setting appropriate benchmarks.
- Finding the right managers.
- Monitoring the program.
- Searching for appropriate new opportunities.

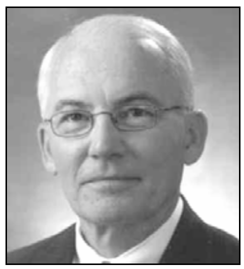
To ensure rigorous attention to all aspects of the investment program, the SIB follows an established investment process. This process involves three phases:

- Investment policy development/modification
- Implementation/monitoring
- Evaluation

Board Members

Jack Dalrymple
Chair
Lt. Governor
Term expires 12/31/04

Howard Sage
Vice Chair
PERS Trustee
Term expires 6/30/03

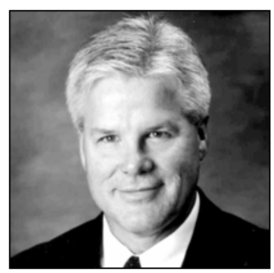


Mark Sanford
TFFR Trustee
Term expires 6/30/05

Kathi Gilmore
State Treasurer
Term expires 12/31/04

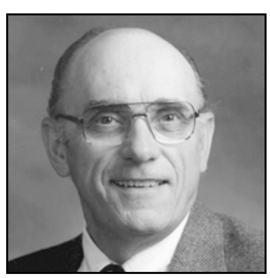
Jim Poolman
State Insurance Commissioner
Term expires 12/31/04

Gary Preszler
University and School Land Commissioner



Brent Edison
Executive Director Workers Comp.

Paul Lofthus
TFFR Trustee
Term expires 6/30/06



Weldee Baetsch
PERS Trustee
Term expires 6/30/04

David Gunkel
PERS Trustee
Term expires 6/30/04

Norman Stuhlmiller
TFFR Trustee
Term expires 6/30/03

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

Retirement Program

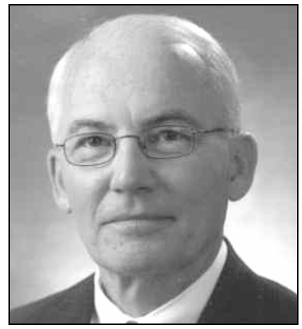
Mission

The mission of the Teachers' Fund for Retirement, a trust fund, is to advocate for, develop, and administer a comprehensive retirement program for all trust fund members within the resources available.

Goals

- To provide a replacement income equal to 60 percent of the final average salary of a career employee who has 30 or more years of credited service.
- To provide ad hoc biennial benefit increases and 2% annual benefit increases to retired members and beneficiaries to provide income protection and assist retirees in accessing affordable health insurance.
- To continue providing statewide pre-retirement planning services and benefits counseling to members.

Board of Trustees



Mark Sanford
President
(represents administrators)
Term expires 6/30/05

Barbara Evanson
Vice President
(represents active teachers)
Term expires 6/30/04

Paul Lofthus
Trustee
(represents active teachers)
Term expires 6/30/06

Norman Stuhlmiller
Trustee
(represents retired teachers)
Term expires 6/30/03

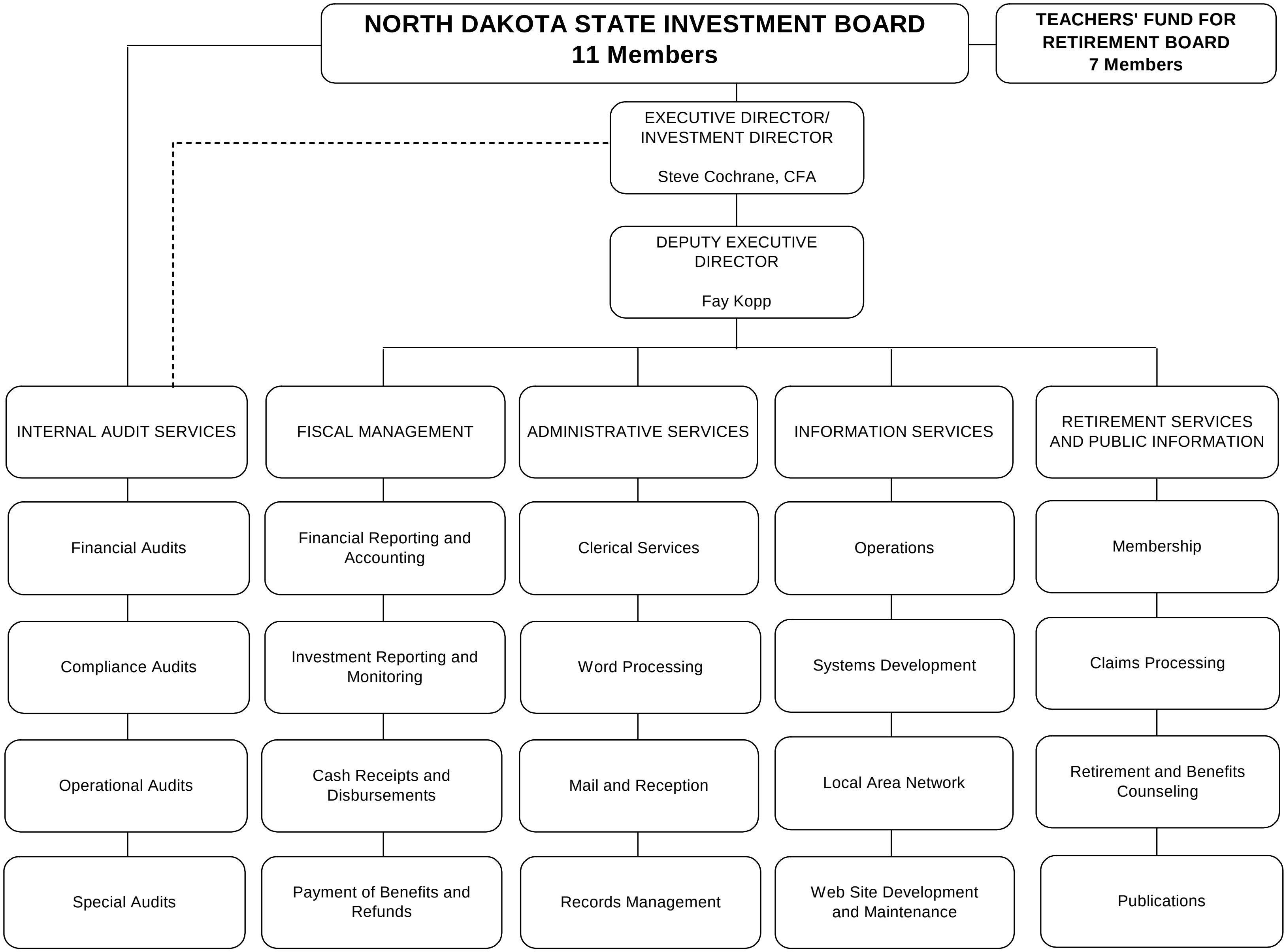
Clarence Corneil
Trustee
(represents retired teachers)
Term expires 6/30/07

Kathi Gilmore
State Treasurer
Term expires 12/31/04

Wayne Sanstead
State Superintendent of Public Instruction
Term expires 12/31/04

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

ADMINISTRATIVE ORGANIZATION
JUNE 30, 2003



NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

CONSULTING AND PROFESSIONAL SERVICES
AS OF JUNE 30, 2003

Actuary
Gabriel, Roeder, Smith & Co.
Dallas, Texas

Auditor
Brady, Martz & Associates, P.C.
Bismarck, North Dakota

Legal Counsel
North Dakota Attorney General's Office
Bismarck, North Dakota

Master Custodian
The Northern Trust Company
Chicago, Illinois

Investment Consultant and Performance Measurement
Callan Associates Inc.
San Francisco, California

Investment Managers

Adams Street Partners, LLC
Chicago, Illinois

AllianceBernstein Capital Management
Chicago, Illinois

Bank of Ireland Asset Management
Chicago, Illinois

Bank of North Dakota
Bismarck, North Dakota

Brandywine Asset Management
Wilmington, Delaware

Capital Guardian Trust Company
Los Angeles, California

Coral Partners, Inc.
Minneapolis, Minnesota

Evergreen Timberland Investment Mgmt
Winston-Salem, North Carolina

Hearthstone Homebuilding Investors, LLC
Encino, California

Heitman/JMB Advisory Corp.
Chicago, Illinois

INVESCO Realty Advisors
Dallas, Texas

Investment Managers cont.

InvestAmerica L&C, LLC
Cedar Rapids, Iowa

J.P. Morgan Investment Mgmt, Inc.
New York, New York

Lazard Asset Management
New York, New York

Los Angeles Capital Management
Los Angeles, California

LSV Asset Management
Chicago, Illinois

Matlin Patterson Global Advisers LLC
New York, New York

Northern Trust Global Investments
Chicago, Illinois

SEI Investments Management Co.
Oaks, Pennsylvania

State Street Global Advisors
Boston, Massachusetts

Strong Capital Management, Inc.
Menomonee Falls, Wisconsin

Trust Company of the West
Los Angeles, California

UBS Global Asset Management
Chicago, Illinois

The Vanguard Group
Valley Forge, Pennsylvania

Wellington Trust Company, NA
Boston, Massachusetts

WestAM Asset Management Co.
Houston, Texas

Western Asset Management Company
Pasadena, California

Westridge Capital Management, Inc.
Santa Barbara, California

Certificate of Achievement for Excellence in Financial Reporting

Presented to

North Dakota Retirement and Investment Office

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2002

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Financial Section

BRADY MARTZ

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Governor John Hoeven
The Legislative Assembly
Steve Cochrane, Executive Director
State Investment Board
Teachers' Fund for Retirement Board
North Dakota Retirement and Investment Office

We have audited the accompanying financial statements of the business-type activities and fiduciary funds of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements, as listed in the table of contents, as of and for the year ended June 30, 2003. These financial statements are the responsibility of RIO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 RIO are intended to present the financial position, the changes in financial position and plan net assets and the cash flows 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 RIO. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2003, and the changes in its financial position, plan net assets and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and fiduciary funds of RIO as of June 30, 2003, and the respective changes in financial position, plan net assets and cash flows where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining and individual fund financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds of RIO as of June 30, 2003, and the results of operations of such funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information and supporting schedules shown on pages 39 and 40 are presented for purposes of additional analysis and are not a required part of the financial statements. The required supplementary information and supporting schedules are the responsibility of RIO's management. The Schedules of Funding Progress and Employer Contributions and related notes and the supporting schedules have 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, when considered in relation to the basic financial statements taken as a whole.

BRADY, MARTZ & ASSOCIATES, P.C.
207 East Broadway, Suite 200 P.O. Box 1297
Bismarck, ND 58502-1297 (701) 223-1717 Fax (701) 222-0894

OTHER OFFICES: Minot and Grand Forks, ND
Thief River Falls, MN

RSM McGladrey Network
An Independently Owned Member

The Management's Discussion and Analysis (MD&A) on pages 16 through 19 are not a required part of the basic financial statements, but is 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 audits were made for the purpose of forming an opinion on the financial statements that collectively comprise RIO's basic financial statements and on the combining and individual fund financial statements. The Supplementary Information shown on pages 46 through 50 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in our audit of the basic, combining and individual fund financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the basic, combining and individual fund financial statements taken as a whole.

We did not audit the data included in the introductory, investment, actuarial and statistical sections of this report, and accordingly, we do not express an opinion thereon.

A report in accordance with Government Auditing Standards, on the RIO's internal control over financial reporting and its compliance with certain provisions of laws, regulations, contracts and grants is issued under separate cover.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

September 8, 2003

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

June 30, 2003

Our discussion and analysis of the ND Retirement and Investment Office's (RIO) financial performance provides an overview of RIO's financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

Total liabilities exceeded total assets in the proprietary fund at the close of fiscal year 2003 by $24,594. This was mainly due to an increase in accounts payable from the prior year.

Total net assets increased in the fiduciary fund by $132.4 million or 4.0% due to net gains in the investment markets.

The ND Teachers' Fund for Retirement's (TFFR) funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2003, the funded ratio was approximately 85.1%.

Revenues and expenses in the proprietary fund increased slightly from the prior year.

Additions in the fiduciary fund for the year were $230,849,426, which is comprised of contributions of $60,210,068 and investment income of $170,639,358.

Deductions in the fiduciary fund increased over the prior year from $71,292,199 to $74,831,352 or 5.0%. Most of this increase represented increased retirement benefits.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of four parts – *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and an optional section that presents *combining statements* for the investment trust funds. The basic financial statements include fund financial statements that focus on individual parts of RIO's activities (proprietary and fiduciary funds).

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our investment trust funds, each of which are added together and presented in single columns in the basic financial statements.

Fund Financial Statements

The fund financial statements provide detailed information about RIO's activities. Funds are accounting devices that RIO uses to keep track of specific sources of funding and spending for particular purposes.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

June 30, 2003

RIO has two kinds of funds:

- Proprietary funds – Services for which RIO charges customers a fee are generally reported in proprietary funds. Proprietary funds provide both long- and short-term financial information.
  - We use an internal service fund (one type of proprietary fund) to report activities that provide investment and administrative services to the North Dakota Teachers' Fund for Retirement (TFFR) and the North Dakota State Investment Board (SIB).

- Fiduciary funds – RIO is the trustee, or fiduciary, for TFFR (a pension plan) and SIB (investment trust funds). RIO is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of RIO's fiduciary activities are reported in a statement of net assets and a statement of changes in net assets.

FINANCIAL ANALYSIS

RIO's internal service fund total assets as of June 30, 2003 were $192,598 and were comprised mostly of cash. Total assets increased $46,208 or 31.5% from the prior year primarily due to the timing of cash receipts.

Total current liabilities as of June 30, 2003 were $155,845 and were comprised mostly of accrued payroll and accounts payable. Total current liabilities increased $47,624 or 44.0% from the prior year primarily due to an increase in accounts payable at year-end. Total noncurrent liabilities increased $10,015 or 19.5% due to a larger balance of accrued leave at year-end.

RIO's internal service fund liabilities exceeded its assets at the close of fiscal year 2003 by approximately $25 thousand.

ND Retirement and Investment Office
Net Assets – Internal Service Fund
(In Thousands)

	2003	2002	Total % Change
Assets			
Cash	$ 133	$ 117	13.7%
Receivables	56	23	143.5%
Capital Assets	3	6	(50.0)%
Total Assets	192	146	31.5%
Current Liabilities	156	108	44.0%
Noncurrent Liabilities	61	51	19.5%
Total Liabilities	217	159	36.5%
Net Assets – Invested in capital assets, net of debt	3	6	(50.0)%
Net Assets – Unrestricted	(28)	(19)	(47.4)%
Total Net Assets	($ 25)	($13)	(92.3)%

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

June 30, 2003

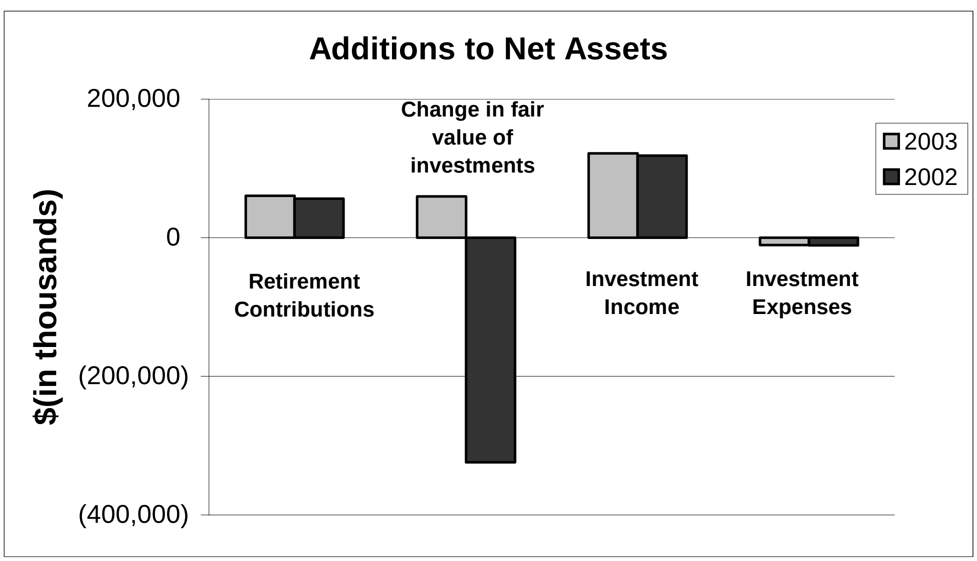
ND Retirement and Investment Office
Changes in Net Assets – Fiduciary Funds
(In Thousands)

	2003	2002	Total % Change
Additions:			
Contributions	$ 60,210	$ 56,415	6.7%
Investment Income	170,639	(216,454)	178.8%
Total Additions	230,849	(160,039)	242.2%
Deductions	74,831	71,292	5.0%
Net inc(dec) from unit transactions	(23,623)	31,040	(176.1%)
Total inc(dec) in net assets	$ 132,395	$(200,291)	166.1%

Statement of Changes in Net Assets – Additions

Contributions to the pension trust fund increased by $3.8 million or 6.7% over the previous fiscal year. The fair value of investments in the fiduciary funds increased by $383.5 million during fiscal year 2003 following a decrease of $324.1 million in fiscal year 2002.

Investment income, including net income from securities lending activities, increased by $3.2 million from last year due to an improvement in market conditions and investment earnings from the previous year. Investment expenses decreased by $367,000 or 3.3% due to fee negotiations with existing investment managers and replacement of investment managers with higher fees.



NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

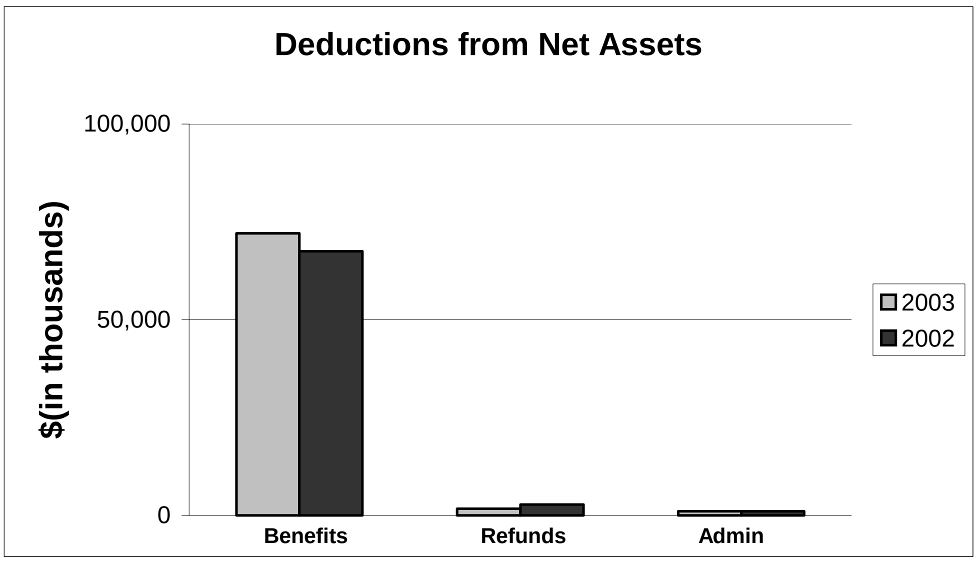
Management's Discussion and Analysis

June 30, 2003

Statement of Changes in Net Assets – Deductions

Benefits paid to TFFR plan participants increased by $4.6 million or 6.8% during the fiscal year ended June 30, 2003. This was due to legislatively mandated benefit increases that took effect July 1, 2002 as well as an increase in the number of retirees in the plan.

Refunds decreased in fiscal year 2003. Total refunds for the year were $1.7 million versus $2.7 million or 36.9% less than the previous fiscal year. Administrative expenses also decreased, down just over $9,500 from fiscal year 2002.



CONCLUSION

After significant decreases in FY 2002, RIO's combined net assets have increased during FY 2003 due to a recovery in the national and international markets that resulted in investment income increases. Management believes, and actuarial studies concur, that the TFFR plan is in a financial position to meet its current obligations. Furthermore, the investment trust funds are performing within their guidelines. We believe the current financial position will continue to improve due to a prudent investment program and strategic planning.

CONTACTING RIO FINANCIAL MANAGEMENT

This financial report is designed to provide our Boards, our membership, our clients and the general public with a general overview of RIO's finances and to demonstrate RIO's accountability for the money we receive. If you have any questions about this report or need additional information, contact the North Dakota Retirement and Investment Office, PO Box 7100, Bismarck, ND 58507-7100.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Statements of Net Assets
Proprietary Fund
As of June 30, 2003 and 2002

	Internal Service Fund 2003	Internal Service Fund 2002
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 133,089	$ 117,341
Interest receivable	19	55
Administrative fees receivable	2,089	1,783
Due from other funds	53,987	21,208
Total current assets	189,184	140,387
Noncurrent assets:		
Capital assets:		
Equipment (net of depreciation)	3,414	6,003
Total assets	$ 192,598	$ 146,390
LIABILITIES:		
Current liabilities:		
Accounts payable	$ 69,792	$ 23,917
Accrued expenses	73,549	72,593
Due to other funds	673	940
Due to other state agencies	11,831	10,771
Total current liabilities	155,845	108,221
Noncurrent liabilities:		
Accrued annual leave	61,347	51,332
Total liabilities	217,192	159,553
NET ASSETS:		
Invested in capital assets, net of related debt	3,414	6,003
Unrestricted	(28,008)	(19,166)
Total net assets	(24,594)	(13,163)
Total net assets and liabilities	$ 192,598	$ 146,390

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

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Statements of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Years Ended June 30, 2003 and 2002

	Internal Service Fund	
	2003	2002
Operating revenues:		
Charges for services	$ 1,433,110	$ 1,239,833
Miscellaneous	19,052	16,653
Total operating revenues	1,452,162	1,256,486
Operating expenses:		
Salaries and wages	835,210	797,268
Operating expenses	626,604	474,548
Depreciation	2,589	2,681
Total operating expenses	1,464,403	1,274,497
Operating income (loss)	(12,241)	(18,011)
Nonoperating revenue:		
Investment income	810	1,291
Change in net assets	(11,431)	(16,720)
Total net assets - beginning of year	(13,163)	3,557
Total net assets - end of year	$ (24,594)	$ (13,163)

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

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Statements of Cash Flows
Proprietary Fund

For the Years Ended June 30, 2003 and 2002

	Internal Service Fund	
	2003	2002
Cash flows from operating activities:		
Cash received from other state agencies	$ 1,487,425	$ 1,282,433
Cash received from external clients	7,026	6,464
Cash received from Surplus Property	-	220
Payments to vendors	(1,479,549)	(1,303,488)
Net cash provided (used) by operating activities	14,902	(14,371)
Cash flow from investing activities:		
Investment Income	846	1,365
Net increase (decrease) in cash and equivalents	15,748	(13,006)
Cash and equivalents - beginning of year	117,341	130,347
Cash and equivalents - end of year	$ 133,089	$ 117,341
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	$ (12,241)	$ (18,011)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	2,589	2,681
Net change in assets and liabilities:		
Administrative fees receivable	(306)	254
Due from other funds	(32,779)	32,476
Accounts payable	45,875	(45,579)
Accrued expenses	10,971	18,535
Due to other funds	(267)	(97)
Due to other state agencies	1,060	(4,630)
Net cash provided (used) by operating activities	$ 14,902	$ (14,371)

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

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Statements of Net Assets
Fiduciary Funds
As of June 30, 2003 and 2002

	Pension Trust		Investment Trust		Total	
	2003	2002	2003	2002	2003	2002
Assets:						
Investments, at fair value						
Equities	$ -	$ -	$ 16,267,550	$ 14,783,451	$ 16,267,550	$ 14,783,451
Equity pool	769,229,604	744,103,649	1,068,542,825	933,781,012	1,837,772,429	1,677,884,661
Fixed income	-	-	27,027,596	8,438,218	27,027,596	8,438,218
Fixed income pool	203,349,406	231,816,092	1,016,502,506	1,084,476,868	1,219,851,912	1,316,292,960
Real estate pool	109,451,910	105,982,182	58,847,673	57,102,687	168,299,583	163,084,869
Private equity	52,189,986	40,322,264	51,592,705	32,216,851	103,782,691	72,539,115
Cash and cash pool	23,855,378	25,684,813	56,391,143	40,992,184	80,246,521	66,676,997
Total investments	1,158,076,284	1,147,909,000	2,295,171,998	2,171,791,271	3,453,248,282	3,319,700,271
Invested securities lending collateral	53,373,514	58,369,414	211,051,305	204,611,676	264,424,819	262,981,090
Receivables:						
Investment income	4,588,915	5,409,970	9,650,406	10,905,105	14,239,321	16,315,075
Contributions	6,302,169	5,858,272	-	-	6,302,169	5,858,272
Total receivables	10,891,084	11,268,242	9,650,406	10,905,105	20,541,490	22,173,347
Due from other funds	-	-	673	940	673	940
Cash and cash equivalents	7,388,155	7,248,921	-	-	7,388,155	7,248,921
Total assets	1,229,729,037	1,224,795,577	2,515,874,382	2,387,308,992	3,745,603,419	3,612,104,569
Liabilities:						
Accounts payable	106	53,990	-	-	106	53,990
Investment expenses payable	824,066	773,640	1,314,538	1,709,324	2,138,604	2,482,964
Securities lending collateral	53,373,514	58,369,414	211,051,305	204,611,676	264,424,819	262,981,090
Accrued expenses	244,481	219,170	-	-	244,481	219,170
Due to other funds	38,392	9,798	15,595	11,410	53,987	21,208
Total liabilities	54,480,559	59,426,012	212,381,438	206,332,410	266,861,997	265,758,422
Net assets:						
Held in trust for pension benefits (see Schedule of Funding Progress on page 39)	1,175,248,478	1,165,369,565	-	-	1,175,248,478	1,165,369,565
Held for external investment pool participants:						
Pension pool	-	-	1,227,444,200	1,172,956,181	1,227,444,200	1,172,956,181
Insurance pool	-	-	1,050,982,600	984,648,996	1,050,982,600	984,648,996
Held for individual investment account	-	-	25,066,144	23,371,405	25,066,144	23,371,405
Total net assets	$ 1,175,248,478	$ 1,165,369,565	$ 2,303,492,944	$ 2,180,976,582	$ 3,478,741,422	$ 3,346,346,147
Each participant unit is valued at $1.00						
Participant units outstanding			2,303,492,944	2,180,976,582	2,303,492,944	2,180,976,582

The accompanying notes are an integral part of this financial statement.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Statements of Changes in Net Assets
Fiduciary Funds
For the Years Ended June 30, 2003 and 2002

	Pension Trust		Investment Trust		Total	
	2003	2002	2003	2002	2003	2002
Additions:						
Contributions:						
Employer contributions	$ 28,850,725	$ 27,243,542	$ -	$ -	$ 28,850,725	$ 27,243,542
Member contributions	28,851,110	27,244,008	-	-	28,851,110	27,244,008
Purchased service credit	2,507,168	1,927,764	-	-	2,507,168	1,927,764
Interest and penalties	1,065	(149)	-	-	1,065	(149)
Total contributions	60,210,068	56,415,165	-	-	60,210,068	56,415,165
Investment income:						
Net increase (decrease) in fair value of investments	(9,926,054)	(139,219,236)	69,374,701	(184,873,418)	59,448,647	(324,092,654)
Interest, dividends and other income	38,287,835	32,895,173	82,733,993	84,644,684	121,021,828	117,539,857
	28,361,781	(106,324,063)	152,108,694	(100,228,734)	180,470,475	(206,552,797)
Less investment expenses	4,078,106	4,307,272	6,517,101	6,655,092	10,595,207	10,962,364
Net investment income	24,283,675	(110,631,335)	145,591,593	(106,883,826)	169,875,268	(217,515,161)
Securities lending activity:						
Securities lending income	920,831	1,399,015	3,656,659	7,026,768	4,577,490	8,425,783
Less securities lending expenses	704,309	1,183,221	3,109,091	6,181,295	3,813,400	7,364,516
Net securities lending income	216,522	215,794	547,568	845,473	764,090	1,061,267
Total additions	84,710,265	(54,000,376)	146,139,161	(106,038,353)	230,849,426	(160,038,729)
Deductions:						
Benefits paid to participants	72,044,977	67,482,482	-	-	72,044,977	67,482,482
Refunds	1,729,764	2,743,408	-	-	1,729,764	2,743,408
Administrative charges	1,056,611	1,066,309	-	-	1,056,611	1,066,309
Total deductions	74,831,352	71,292,199	-	-	74,831,352	71,292,199
Net increase (decrease) in net assets resulting from operations	9,878,913	(125,292,575)	146,139,161	(106,038,353)	156,018,074	(231,330,928)
Unit transactions at net asset value of $1.00 per unit:						
Purchase of units	-	-	143,942,201	173,346,004	143,942,201	173,346,004
Redemption of units	-	-	(167,565,000)	(142,305,909)	(167,565,000)	(142,305,909)
Net increase (decrease) in assets and units resulting from unit transactions	-	-	(23,622,799)	31,040,095	(23,622,799)	31,040,095
Total increase (decrease) in net assets	9,878,913	(125,292,575)	122,516,362	(74,998,258)	132,395,275	(200,290,833)
Net assets:						
Beginning of year	1,165,369,565	1,290,662,140	2,180,976,582	2,255,974,840	3,346,346,147	3,546,636,980
End of Year	$ 1,175,248,478	$ 1,165,369,565	$ 2,303,492,944	$ 2,180,976,582	$ 3,478,741,422	$ 3,346,346,147

The accompanying notes are an integral part of this financial statement.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The North Dakota Retirement and Investment Office (RIO) is charged with providing and coordinating the administrative activities of the Teachers' Fund for Retirement (TFFR) and the North Dakota State Investment Board (SIB).

RIO is an agency of the State of North Dakota operating through the legislative authority of North Dakota Century Code (NDCC) Chapter 54-52.5 and is considered part of the State of North Dakota financial reporting entity and included in the State of North Dakota's Comprehensive Annual Financial Report.

For financial reporting purposes, RIO has included all funds, and has considered all potential component units for which RIO is financially accountable, and other organizations for which the nature and significance of their relationship with RIO are such that exclusion would cause RIO'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 RIO 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 RIO.

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

B) Fund Financial Statement

RIO's only nonfiduciary activity is the administration and management of the agency. RIO is a business-type activity that charges fees on a cost-reimbursement basis and is shown in the separate proprietary fund financial statements.

All other activities of RIO are pension and investment trust funds and are shown in the separate fiduciary fund financial statements.

C) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of RIO 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.

Continued

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Proprietary Fund

An internal service fund is used to account for services provided by RIO to TFFR and SIB on a cost-reimbursement basis. RIO allocates those administrative expenses to each governmental unit or fund whose investments are managed by SIB.

Fiduciary Fund

A pension trust fund and investment trust funds have been established to account for the assets held by RIO in a trustee capacity for TFFR and as an agent for other governmental units or funds which have placed certain investment assets under the management of SIB. The SIB manages two external investment pools and one individual investment account. The two external investment pools consist of a pension pool and insurance pool. SIB manages the investments of the North Dakota Public Employees Retirement System, Job Service of North Dakota, and Bismarck City Employees and Police pension plans in the pension pool. The investments of Workers Compensation, State Fire and Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Health Care Trust, Veterans Post War, Veterans Cemetery, North Dakota Association of Counties Fund, North Dakota Association of Counties Program Savings Fund, Risk Management, PERS Group Insurance, City of Bismarck Deferred Sick Leave, and City of Fargo FargoDome Permanent Fund are managed in the insurance pool.

PERS Retiree Health investments are managed by SIB in an individual investment account. RIO has no statutory authority over, nor responsibility for, these investment trust funds other than the investment responsibility provided for by statute or through contracts with the individual agencies. Those pool participants that are required to participate according to statute are: Public Employees Retirement System, Workers Compensation, State Fire and Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Health Care Trust, Veterans Cemetery, and Risk Management.

RIO follows the pronouncement 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.

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.

Continued

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 internal service fund are charges for services to the pension and investment trust funds. Operating expenses include salaries and wages, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Pension and Investment Trust Funds are accounted for using the accrual basis of accounting. Member contributions are recognized in the period in which they are due. Employer contributions 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 NDCC.

D) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

E) Budgetary Process

RIO operates through a biennial appropriation, which represents appropriations recommended by the Governor and presented to the General Assembly (the Assembly) at the beginning of each legislative session. The Assembly enacts RIO's budget through passage of a specific appropriation bill. The State of North Dakota's budget is prepared principally on a modified accrual basis. The Governor has line item veto power over all legislation, subject to legislative override.

Once passed and signed, the appropriation bill becomes RIO's financial plan for the next two years. Changes to the appropriation are limited to Emergency Commission authorization, initiative, or referendum action. The Emergency Commission can authorize receipt of federal or other moneys not appropriated by the Assembly if the Assembly did not indicate an intent to reject the money. The Emergency Commission may authorize pass-through federal funds from one state agency to another. The Emergency Commission may authorize the transfer of expenditure authority between appropriated line items. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under the NDCC section 54-44.1-11.

Continued

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

During the biennium ending June 30, 2003, there was a supplemental appropriation for a market/equity salary adjustment provided by the legislature.

RIO does not use encumbrance accounting. The legal level of budgetary control is at the agency, appropriation and expenditure line item level. RIO does not formally budget revenues and it does not budget by fund. The statement of revenues, expenditures and changes in fund balances - budget and actual is not prepared because revenues are not budgeted.

F) Capital Assets and Depreciation

Capital asset expenditures greater than $5,000 are capitalized at cost in accordance with Section 54-27-21 of the NDCC. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

	Years
Office equipment	5
Furniture and fixtures	5

G) Investments

NDCC Section 21-10-07 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.

The pension fund belonging to TFFR and investment trust funds attributable to the Bismarck City Employee Pension Plan, the Bismarck City Police Pension Plan, Job Service of North Dakota, and the Public Employees Retirement System (PERS) must be invested exclusively for the benefit of their members. All investments are made in accordance with the respective fund's long-term investment objectives and performance goals.

Continued

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Pooled Investments

Several agencies whose investments are under the supervision of the SIB participate in pooled investments. The agencies transfer money into the investment pools and receive an appropriate percentage ownership of the pooled portfolio based upon fair value. All activities of the investment pools are allocated to the agencies based upon their respective ownership percentages. Each participant unit is valued at $1.00 per unit.

Investment Valuation and Income Recognition

Investments are recorded at fair value determined by reference to published market data for publicly traded securities and through the use of independent valuation services and appraisals for other investments. The net increase in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment sold. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current fiscal year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

Unrealized increase or decrease is computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

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.

Continued

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements – Continued

June 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The State Investment Board has authorized the use of securities lending transactions – loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. 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.

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 at June 30, 2003 was 94 days.

Cash open collateral is invested in a short term investment pool, the Core USA Collateral Section, which had an interest sensitivity of 38 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 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 RIO 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.

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

Continued

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Derivative Securities

SIB'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. SIB'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.

H) Accumulated Leave

Annual leave is a part of permanent employees' compensation as set forth in Section 54-06-14 of the NDCC. Employees earn leave based on tenure of employment. Sick leave is also part of permanent employees' compensation as set forth in Section 54-52-04 of the NDCC. Accrued leave amounted to $66,713 at June 30, 2003. The current portion of accrued leave amounted to $5,366 at June 30, 2003, and is included in accrued expenses of the Internal Service Fund in the statement of net assets. Changes in accrued leave for the year ended June 30, 2003 consisted of the following:

Balance July 1, 2002	$57,341
Additions	9,372
Deductions	-
Balance June 30, 2003	$66,713

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2003

NOTE 2 CASH AND CASH EQUIVALENTS

Internal Service Fund

Cash and cash equivalents are short-term, highly liquid investments having original maturities of three months or less. Cash and cash equivalents of the Internal Service Fund at June 30, 2003 include $130,496 of deposits at the Bank of North Dakota of interest-bearing internal service fund operating cash under the control of the State Treasurer's Office as required by law and $2,593 in a money market account. Cash is categorized to give an indication of credit risk in accordance with GASB Statement No. 3, as previously discussed. Category (a) includes deposits, which are insured or collateralized with securities held by SIB or its agent in SIB's name. Category (b) includes deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the SIB's name. Category (c) includes deposits, which are uncollateralized. The above deposits are a Category (c) risk as defined by GASB Statement No. 3. The deposits at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10. Due to the nature of RIO's accounts, there were no checks outstanding or deposits not yet processed; thus, the carrying amounts are equal to the bank balance.

Pension Trust Fund

Cash and cash equivalents held by the Pension Trust Fund at June 30, 2003 were deposited in the Bank of North Dakota. At June 30, 2003, the carrying amount of TFFR's deposits was $7,388,155, and the bank balance was $7,401,946. The difference results from checks outstanding or deposits not yet processed by the bank. These deposits are held at the Bank of North Dakota, are uncollateralized, a Category (c) risk as defined by GASB Statement No. 3, but are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

Investment Trust Funds

Certificates of deposit and an insurance trust cash pool are recorded as investments and have a cost and carrying value of $102,577,428 at June 30, 2003. These deposits are held at the Bank of North Dakota, are uncollateralized, a Category (c) risk as defined by GASB Statement No. 3, but are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2003

NOTE 3 INVESTMENTS

Risk Categories

Governmental Accounting Standards Board (GASB) statement No. 3 entitled *"Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements"* requires certain financial statement disclosure of deposits and investments such as the disclosure of carrying amounts by type of investment and classification into one of three categories based upon credit risk. Category (a) includes investments insured or registered or securities held by SIB or its agent in the SIB's name. Category (b) includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in SIB's name. Category (c) includes investments uninsured and unregistered with securities held by the counterparty, or by its trust department or agent, but not in SIB's name. RIO's investments in real estate, private equity, short-term investment funds and other nonclassified investments are not assigned a credit risk classification as they do not meet the definition of a security provided by GASB Statement No. 3.

The fair value and credit risk categories of all investment types at June 30, 2003 is as follows:

		Credit Risk Category		
	Fair Value	(a)	(b)	(c)
Equity Securities:				
Not on securities loan	$ 676,399,174	$ 676,106,030	$ -	$ 293,144
On securities loan for non-cash collateral	3,792,915	3,792,915	-	-
US Government & agency issues:				
Not on securities loan	125,676,389	125,676,389	-	-
On securities loan for non-cash collateral	58,062,708	58,062,708	-	-
Bonds and notes:				
Not on securities loan	596,382,639	576,610,106	-	19,772,533
On securities loan for non-cash collateral	3,243,118	3,243,118	-	-
		$ 1,443,491,266	$ -	20,065,677
Real estate	168,299,583			
Private equity	103,782,691			
Mutual funds	1,358,855,228			
Investments held by broker-dealers under securities loans with cash collateral:				
Equity securities	98,776,235			
US Government & agency issues	59,710,954			
Bonds and notes	97,689,220			
Securities lending short-term collateral investment pool	264,424,819			
	$ 3,615,095,673			

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2003

NOTE 4 CAPITAL ASSETS

The following is a summary of Internal Service Fund capital assets:

	7/1/2002	Additions	Retirements	6/30/2003
Office equipment	$28,396	$0	$0	$28,396
Furniture and fixtures	-	-	-	-
	28,396	$0	$0	28,396
Less accumulated depreciation	(22,393)	($2,589)	$0	(24,982)
	$6,003			$3,414

NOTE 5 INTERFUND AND STATE AGENCY TRANSACTIONS

Due To / Due From Other Funds

Amounts due to and due from other funds are as follows as of June 30, 2003:

	Due to Internal Service Fund	Due from Internal Service Fund
Investment Trust Funds:		
PERS	$9,661	$ -
Workers Compensation	2,396	-
State Fire and Tornado	49	-
State Bonding	-	89
Petroleum Tank Release Compensation Fund	-	96
Insurance Regulatory Trust	-	31
Health Care Trust	-	394
Veterans Post War	250	-
Veterans Cemetery	16	-
Risk Management	-	63
PERS Group Insurance	250	-
PERS Retiree Health	785	-
Job Service of North Dakota	2,188	-
Total Investment Trust	15,595	673
Pension Trust Fund:		
TFFR	38,392	-
Total due to / due from internal service fund	$53,987	$ 673

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2003

NOTE 5 INTERFUND AND STATE AGENCY TRANSACTIONS - Continued

Due To Other State Agencies

Amounts due to other state agencies are as follows as of June 30, 2003:

Information Technology Department	$10,555
Attorney General's Office	409
Central Supply	509
Central Duplicating	358
Total due to other state agencies	$11,831

NOTE 6 LEASES

RIO leases office space under an operating lease, which expires on June 30, 2003. RIO also incurs rent expense at other locations on a temporary basis to sponsor retirement education for TFFR members. Rent expense totaled $69,629 for fiscal 2003. RIO entered into a new lease for office space effective July 1, 2003. Minimum payments under this lease for fiscal 2004 and 2005 are $69,278 per year.

NOTE 7 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

General

The following brief description of TFFR is provided for general information purposes only. Participants should refer to NDCC Chapter 15-39.1 for more complete information.

TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, survivor and disability benefits. The costs to administer the TFFR plan are financed out of TFFR assets.

Membership

As of June 30, 2003 and 2002, the number of participating employer units was 273 and 274 consisting of the following:

	2003	2002
Public School Districts	218	219
County Superintendents	15	15
Special Education Units	19	19
Vocational Education Units	4	4
Other	17	17
Total	273	274

Continued

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2003

NOTE 7 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT - Continued

TFFR's membership consisted of the following:

	2003	2002
Retirees and beneficiaries currently receiving benefits	5,177	5,054
Terminated employees - vested	1,276	1,223
Terminated employees - nonvested	233	225
Total	6,686	6,502
Current employees:		
Vested	8,672	8,587
Nonvested	1,244	1,344
Total	9,916	9,931

Investments

Current investment guidelines set by TFFR's board specify the percentage of assets to be invested in various types of investments (equities, fixed income securities, real estate, private equity, and cash). The overall long-term investment objective for TFFR is to match or exceed an expected rate of return of 9.29%, but at a minimum is not less than the actuarially determined percentage required to pay future benefits. Long-term performance goals are set and evaluated by the boards of SIB and TFFR for each type of investment.

Realized Gains and Losses

Realized gains and losses on sales of investments are components of net appreciation in fair value of investments and are computed as described in Note 1. For the year ended June 30, 2003, TFFR had net realized losses of $35,855,847.

Investment Expenses

Investment expenses consist of fees charged by RIO for investment managers and investment-related service fees from The Northern Trust Company, the Bank of North Dakota, and certain other investment advisors. All TFFR expenses are paid out of TFFR assets.

Continued

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2003

NOTE 7 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT - Continued

Member and Employer Contributions

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 7.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 7.75% of the teacher's salary.

A vested member who terminates covered employment may elect a refund of member contributions paid or defer payment until eligible for pension benefits. A nonvested member who terminates covered employment must claim a refund of member contributions paid unless that member submits a valid waiver of this refund to the Board of Trustees of TFFR. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

Pension Benefits

A member is entitled to receive full benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, five or ten-year term certain annuity, or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas. All members may be eligible for legislative increases in monthly benefits.

Continued

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2003

NOTE 7 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT - Continued

Survivor and Disability Benefits

Survivor benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are determined by the member's vesting status prior to death. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated one year of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and assuming the member has a minimum of 20 years of credited service. There is no actuarial reduction for reason of disability retirement.

NOTE 8 PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Permanent employees of RIO participate in PERS, which is also an agency of the State of North Dakota financial reporting entity and is included in the State of North Dakota's Comprehensive Annual Financial Report. PERS is a cost-sharing multiple-employer defined benefit public employee retirement system that provides retirement, disability and death benefits to eligible employees and beneficiaries. PERS is administered in accordance with NDCC Chapter 54-52. PERS issues a publicly available financial report that may be obtained by writing to North Dakota Public Employees Retirement System, 400 East Broadway, Suite 505, Bismarck, North Dakota 58501 or by calling 1-800-803-7377.

The financial statements of PERS are prepared using the accrual basis of accounting. Contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable in accordance with the terms of PERS.

RIO is required to contribute to PERS at an actuarially determined rate for permanent employees. The current contribution rate is 8.12% of annual covered payroll as established by the NDCC. RIO's contributions to PERS for the years ended June 30, 2003, 2002, and 2001, were $58,218, $54,895, and $49,294, equal to the required contributions for each year plus a 1% contribution for retiree health benefits.

NOTE 9 RELATED PARTIES

As stated in Note 1, RIO is an agency of the State of North Dakota; as such, other agencies of the state are related parties.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Required Supplementary Information

June 30, 2003

Schedule of Funding Progress
North Dakota Teachers' Fund for Retirement
(Dollars in Millions)

Actuarial Valuation Date July 1	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (Funded Excess)	Funded Ratio	Annual Covered Payroll	UAAL (Funded Excess) as a Percentage of Annual Covered Payroll
1998	$ 928.0	$1,033.0	$105.0	89.8%	$298.4	35.2%
1999	1,053.1	1,188.4	135.3	88.6	314.6	43.0
2000	1,308.5	1,287.9	(20.6)	101.6	323.0	(6.4)
2001	1,414.7	1,467.7	53.0	96.4	342.2	15.5
2002	1,443.5	1,575.8	132.3	91.6	348.1	38.0
2003	1,438.4	1,690.3	251.9	85.1	367.9	68.5

Schedule of Employer Contributions
North Dakota Teachers' Fund for Retirement

Fiscal Year	Annual Required Contribution	Percentage Contributed
1998	$ 23,326,328	100%
1999	24,257,091	100%
2000	25,527,734	100%
2001	26,289,206	100%
2002	27,243,542	100%
2003	28,850,725	100%

See notes to required supplementary information.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Required Supplementary Information

June 30, 2003

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date:	July 1, 2003
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level payment, open
Remaining Amortization Period:	43.6 years
Asset Valuation Method:	5 year smoothed market
Actuarial Assumptions:	
Investment Rate of Return (*)	8.00%
Projected Salary Increases (*)	4.00% to 13.00%
Cost-of-Living Adjustments	None

(*) Includes inflation at 3.00%.

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NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Combining Statement of Net Assets – Investment Trust Funds
Fiduciary Funds
As of June 30, 2003
(With Comparative Totals for 2002)

	Pension Pool Participants				Insurance Pool Participants				
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	Job Service of North Dakota	Workers Comp	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund
Assets:									
Investments									
Equities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Equity pool	634,743,326	11,585,901	5,909,950	28,734,191	369,910,863	6,590,374	2,073,462	3,463,923	974,445
Fixed income	-	-	-	-	-	-	-	-	-
Fixed income pool	374,256,550	10,270,550	4,224,882	38,372,962	570,375,986	7,990,919	2,521,469	3,762,837	816,129
Real estate pool	57,665,884	649,848	531,941	-	-	-	-	-	-
Private equity	51,068,456	214,566	309,683	-	-	-	-	-	-
Cash and cash pool	7,558,895	226,256	90,125	62,571	33,197,221	1,625,449	513,351	1,288,675	964,342
Total investments	1,125,293,111	22,947,121	11,066,581	67,169,724	973,484,070	16,206,742	5,108,282	8,515,435	2,754,916
Invested securities lending collateral	66,940,289	1,781,350	728,853	6,623,405	130,202,413	1,996,648	627,710	963,464	251,713
Investment income receivable	1,523,646	34,656	18,564	171,899	7,224,588	130,545	30,317	62,921	9,261
Due from other funds	-	-	-	-	-	-	89	96	31
Total assets	1,193,757,046	24,763,127	11,813,998	73,965,028	1,110,911,071	18,333,935	5,766,398	9,541,916	3,015,921
Liabilities:									
Investment expenses payable	711,763	13,671	7,674	36,145	513,707	8,496	2,650	4,452	1,146
Securities lending collateral	66,940,289	1,781,350	728,853	6,623,405	130,202,413	1,996,648	627,710	963,464	251,713
Due to other funds	9,661	-	-	2,188	2,396	49	-	-	-
Total liabilities	67,661,713	1,795,021	736,527	6,661,738	130,718,516	2,005,193	630,360	967,916	252,859
Net assets held in trust for external investment pool participants	$1,126,095,333	$ 22,968,106	$11,077,471	$67,303,290	$ 980,192,555	$ 16,328,742	$5,136,038	$8,574,000	$2,763,062
Each participant unit is valued at $1.00									
Participant units outstanding	1,126,095,333	22,968,106	11,077,471	67,303,290	980,192,555	16,328,742	5,136,038	8,574,000	2,763,062

Insurance Pool Participants									Individual Investment Acct.		
Health Care Trust Fund	Veterans Cemetery	Veterans Post War	Risk Mgmt	ND Ass'n. of Counties Fund	ND Ass'n of Counties Program Savings	PERS Group Insurance	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	PERS Retiree Health Credit Fund	Totals 2003	Totals 2002
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$16,267,550	$ 16,267,550	$ 14,783,451
-	-	1,120,598	767,961	138,362	146,830	-	215,513	2,167,126	-	1,068,542,825	933,781,012
18,369,333	-	-	-	-	-	-	-	-	8,658,263	27,027,596	8,438,218
-	-	-	1,216,170	121,076	129,171	-	361,022	2,082,783	-	1,016,502,506	1,084,476,868
-	-	-	-	-	-	-	-	-	-	58,847,673	57,102,687
-	-	-	-	-	-	-	-	-	-	51,592,705	32,216,851
10,048,408	63,434	2,945	506,444	13,800	14,442	134,233	30,612	49,940	-	56,391,143	40,992,184
28,417,741	63,434	1,123,543	2,490,575	273,238	290,443	134,233	607,147	4,299,849	24,925,813	2,295,171,998	2,171,791,271
-	-	56,294	268,003	32,147	34,167	-	81,519	463,330	-	211,051,305	204,611,676
228,551	-	3,347	48,844	961	687	-	1,032	9,980	150,607	9,650,406	10,905,105
394	-	-	63	-	-	-	-	-	-	673	940
28,646,686	63,434	1,183,184	2,807,485	306,346	325,297	134,233	689,698	4,773,159	25,076,420	2,515,874,382	2,387,308,992
209	1	433	965	402	411	2	571	2,349	9,491	1,314,538	1,709,324
-	-	56,294	268,003	32,147	34,167	-	81,519	463,330	-	211,051,305	204,611,676
-	16	250	-	-	-	250	-	-	785	15,595	11,410
209	17	56,977	268,968	32,549	34,578	252	82,090	465,679	10,276	212,381,438	206,332,410
$28,646,477	$ 63,417	$1,126,207	$ 2,538,517	$ 273,797	$ 290,719	$133,981	$ 607,608	$4,307,480	$25,066,144	$ 2,303,492,944	$ 2,180,976,582
28,646,477	63,417	1,126,207	2,538,517	273,797	290,719	133,981	607,608	4,307,480	25,066,144	2,303,492,944	2,180,976,582

The accompanying notes are an integral part of this financial statement.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Combining Statement of Changes in Net Assets – Investment Trust Funds
Fiduciary Funds
For the Year Ended June 30, 2003
(With Comparative Totals for 2002)

	Pension Pool Participants				Insurance Pool Participants				
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	Job Service of North Dakota	Workers Comp	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund
Investment income:									
Net increase/(decrease) in fair value of investments	$ 22,232,141	$ 721,533	$ 262,050	$ 2,153,287	$ 44,052,887	$ 640,258	$ 181,129	$ 278,199	$ 37,155
Interest, dividends and other income	36,951,759	735,176	354,978	2,077,422	38,713,140	578,844	185,032	296,926	49,452
	59,183,900	1,456,709	617,028	4,230,709	82,766,027	1,219,102	366,161	575,125	86,607
Less investment expenses	3,575,041	65,768	35,988	181,548	2,461,558	39,974	13,044	21,392	4,572
Net investment income	55,608,859	1,390,941	581,040	4,049,161	80,304,469	1,179,128	353,117	553,733	82,035
Securities lending activity:									
Securities lending income	1,215,068	31,299	12,774	113,847	2,196,555	33,077	10,641	16,865	2,719
Securities lending expenses	1,019,455	27,136	10,920	98,459	1,879,352	28,014	9,020	14,265	2,271
Net securities lending income	195,613	4,163	1,854	15,388	317,203	5,063	1,621	2,600	448
Net increase/(decrease) in net assets resulting from operations	55,804,472	1,395,104	582,894	4,064,549	80,621,672	1,184,191	354,738	556,333	82,483
Unit transactions at net asset value of $1 per unit:									
Purchase of units	-	-	-	4,071,000	15,000,000	4,275,000	-	-	3,325,000
Redemption of units	(9,750,000)	-	-	(1,680,000)	(22,000,000)	(2,350,000)	-	(300,000)	(2,925,000)
Net increase (decrease) in net assets and units resulting from unit transactions	(9,750,000)	-	-	2,391,000	(7,000,000)	1,925,000	-	(300,000)	400,000
Total increase (decrease) in net assets	46,054,472	1,395,104	582,894	6,455,549	73,621,672	3,109,191	354,738	256,333	482,483
Net assets:									
Beginning of year	1,080,040,861	21,573,002	10,494,577	60,847,741	906,570,883	13,219,551	4,781,300	8,317,667	2,280,579
End of year	$1,126,095,333	$ 22,968,106	$ 11,077,471	$67,303,290	$980,192,555	$16,328,742	$5,136,038	$ 8,574,000	$2,763,062

Insurance Pool Participants									Individual Investment Acct.		
Health Care Trust Fund	Veterans Cemetery	Veterans Post War	Risk Mgmt	ND Ass'n of Counties Fund	ND Ass'n of Counties Program Savings	PERS Group Insurance	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	PERS Retiree Health Credit Fund	Totals 2003	Totals 2002
$ (2,021,143)	$ -	$ (31,456)	$ 102,735	$ 8,441	$ 8,916	$ -	$ 26,238	$ 438,029	$ 284,302	$ 69,374,701	$ (184,873,418)
1,845,765	846	18,832	107,014	9,280	9,855	58,525	23,875	95,346	621,926	82,733,993	84,644,684
(175,378)	846	(12,624)	209,749	17,721	18,771	58,525	50,113	533,375	906,228	152,108,694	(100,228,734)
47,908	11	2,656	5,623	1,672	1,714	1,013	2,491	8,639	46,489	6,517,101	6,655,092
(223,286)	835	(15,280)	204,126	16,049	17,057	57,512	47,622	524,736	859,739	145,591,593	(106,883,826)
10,534	-	747	5,297	540	574	-	1,390	4,732	-	3,656,659	7,026,768
8,711	-	634	4,613	457	486	-	1,183	4,115	-	3,109,091	6,181,295
1,823	-	113	684	83	88	-	207	617	-	547,568	845,473
(221,463)	835	(15,167)	204,810	16,132	17,145	57,512	47,829	525,353	859,739	146,139,161	(106,038,353)
19,572,291	12,955	-	-	-	-	93,068,828	-	3,782,127	835,000	143,942,201	173,346,004
(34,500,000)	-	(45,000)	(965,000)	-	-	(93,050,000)	-	-	-	(167,565,000)	(142,305,909)
(14,927,709)	12,955	(45,000)	(965,000)	-	-	18,828	-	3,782,127	835,000	(23,622,799)	31,040,095
(15,149,172)	13,790	(60,167)	(760,190)	16,132	17,145	76,340	47,829	4,307,480	1,694,739	122,516,362	(74,998,258)
43,795,649	49,627	1,186,374	3,298,707	257,665	273,574	57,641	559,779	-	23,371,405	2,180,976,582	2,255,974,840
$ 28,646,477	$ 63,417	$1,126,207	$ 2,538,517	$ 273,797	$ 290,719	$ 133,981	$ 607,608	$ 4,307,480	$ 25,066,144	$ 2,303,492,944	$ 2,180,976,582

The accompanying notes are an integral part of this financial statement.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Internal Service Fund – Schedule of Administrative Expenses

For the Years Ended June 30, 2003 and 2002

	2003	2002
Salaries and wages:		
Salaries and wages	$644,363	$608,486
Fringe benefits	190,847	188,782
Total salaries and wages	835,210	797,268
Operating expenses:		
Information services	135,175	181,620
Intergovernmental services	928	3,691
Professional services	240,481	51,253
Rent of building space	69,629	69,734
Mailing services and postage	40,613	28,815
Travel and lodging	30,113	39,186
Printing	32,084	18,198
Office supplies	16,456	5,643
Professional development	21,504	15,712
Outside services	13,250	23,178
Small office equipment expense	13,222	1,383
Miscellaneous fees	3,445	6,361
Resource and reference materials	1,386	1,475
Service contracts - office equipment	2,506	5,100
Repairs - office equipment	2,362	781
Insurance	1,650	1,633
Non-capitalized equipment purchases	1,800	20,785
Total operating expenses	626,604	474,548
Depreciation	2,589	2,681
Less - nonappropriated items:		
Professional fees	240,481	51,253
Depreciation	2,589	2,681
Accrual adjustments to employee benefits	9,372	13,200
Total nonappropriated items	252,442	67,134
Total appropriated administrative expenditures	$ 1,211,961	$ 1,207,363

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Pension Trust Fund – Schedule of Administrative Expenses

For the Years Ended June 30, 2003 and 2002

	2003	2002
Salaries and wages:		
Salaries and wages	$432,813	$421,734
Fringe benefits	126,607	126,261
Total salaries and wages	559,420	547,995
Operating expenses:		
Information services	126,749	174,171
Intergovernmental services	650	2,768
Professional services	169,332	167,997
Rent of building space	49,120	52,643
Mailing services and postage	37,158	26,334
Travel and lodging	26,514	27,951
Printing	28,899	16,033
Office supplies	11,973	3,901
Professional development	19,019	10,522
Outside services	10,885	10,898
Small office equipment expense	8,293	1,125
Miscellaneous fees	1,774	3,885
Resource and reference materials	821	824
Service contracts - office equipment	1,409	4,107
Repairs - office equipment	1,952	526
Insurance	1,155	1,225
Non-capitalized equipment purchases	1,800	13,992
Total operating expenses	497,503	518,902
Less: charges for services reduced by income	(312)	(588)
Total administrative expenditures	$ 1,056,611	$ 1,066,309

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Statement of Appropriations – Budget Basis

Internal Service Fund

July 1, 2001 to June 30, 2003 Biennium

	Approved 2001-2003 Appropriation	2001-2003 Appropriation Adjustment	Adjusted 2001-2003 Appropriation	Fiscal 2002 Expenses	Fiscal 2003 Expenses	Unexpended Appropriations
All Fund Types:						
Salaries and wages	$ 1,664,041	$ 20,714	$ 1,684,755	$ 784,068	$ 825,838	$ 74,849
Operating expenses	1,021,492	-	1,021,492	402,510	384,323	234,659
Contingency	82,000	-	82,000	-	-	82,000
Total administrative expenses	2,767,533	20,714	2,788,247	1,186,578	1,210,161	391,508
Equipment	22,600	-	22,600	20,785	1,800	15
Total	$ 2,790,133	$ 20,714	$ 2,810,847	$ 1,207,363	$ 1,211,961	$ 391,523

NOTE: *Only those expenses for which there are appropriations are included in this statement.*

Reconciliation of Administrative Expenses to Appropriated Expenditures

	2003	2002
Administrative expenses as reflected in the financial statements	$1,464,403	$1,274,497
Less:		
Professional fees	(240,481)	(51,253)
Depreciation expense	(2,589)	(2,681)
Changes in annual leave and FICA payments	(9,372)	(13,200)
Total appropriated expenses	$1,211,961	$1,207,363

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Pension Trust Fund - Schedule of Investment Expenses

For the Years Ended June 30, 2003 and 2002

	2003	2002
Investment managers' fees:		
Domestic large cap equity managers	$ 860,042	$ 1,003,122
Domestic small cap equity managers	853,100	1,074,205
International equity managers	1,054,338	894,003
Emerging markets equity managers	335,501	351,712
Domestic fixed income managers	197,094	196,215
High yield fixed income managers	143,174	158,329
International fixed income managers	221,513	250,646
Real estate managers	1,008,818	1,041,832
Private equity managers	2,735,422	1,835,151
Cash & equivalents managers	30,926	54,057
Total investment managers' fees	7,439,929	6,859,272
Other investment service fees:		
Custodian fees	282,493	316,826
Investment consultant fees	67,964	65,331
Securities lending fees	704,309	1,183,221
State Investment Board admin fees	129,823	122,902
Total investment service fees	1,184,589	1,688,280
Total investment expenses	$ 8,624,518	$ 8,547,552

Note: Totals will not tie to financial statements as certain commingled investment account managers net the investment management fees with income when reporting to the custodian bank. These amounts are not broken out on the financial statements.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Pension Trust Fund - Schedule of Consultant Expenses

For the Years Ended June 30, 2003 and 2002

	2003	2002
Actuary fees:		
Gabriel, Roeder, Smith & Co.	$ 94,082	$ 115,079
Consulting fees:		
Brady Martz & Associates, P.C.	26,125	30,125
MSI Systems Integrators	44,336	18,500
Total consulting fees:	70,461	48,625
Disability consulting fees:		
Dr. G.M. Lunn	475	425
Legal fees:		
ND Attorney General	3,989	3,731
Calhoun Law Group, P.C.	325	137
Total legal fees	4,314	3,868
Total consultant expenses	$ 169,332	$ 167,997

Investment Section

ND Retirement and Investment Office

Teachers' Fund for Retirement
State Investment Board

Steve Cochrane, CFA
Executive Director

Fay Kopp
Deputy Executive Director

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
ND Toll Free 800-952-2970
Relay ND 800-366-6888
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www.discovernd.com/rio

November 1, 2003

Members of the
North Dakota State Investment Board
North Dakota Teachers' Fund for Retirement Board

Dear Board Members:

It is a pleasure to provide the following summary of the North Dakota Pension and Insurance pools' investment portfolios and market environment for the fiscal year ended June 30, 2003.

Introduction

For the fiscal year ended June 30, 2003, the $2.4 billion North Dakota Pension investment pool portfolio experienced a total return of 4.40%. The Teachers' Fund for Retirement, a participant in the Pension pool, grew by 2.28% for the year. The Insurance investment pool, valued at $1.05 billion on June 30, 2003, returned 8.87% during the same time frame. The investment return calculations were prepared using a monthly time-weighted rate of return methodology in accordance with Association of Investment Management and Research (AIMR) Performance Presentation Standards.

The Pension and Insurance investment pools are pooled investment funds. The Pension pool was created in 1989 in an effort to realize cost savings through pooling of pension assets. The Insurance pool was created in 1993 for similar reasons. A list of the participants and their ownership in each pool is provided in this section of the report. The pooled funds' strategies are a proportional reflection of the investment objectives of each of the participating funds. The returns experienced by the individual funds were consistent with their respective investment policies and related asset allocations. Investment program details for the participating plans, including investment objectives and a listing of their 28 external investment managers are presented in the Investment Section.

Our investment program's cost effectiveness as measured by expense ratio is 57.8 basis points and includes investment office administrative expenses, consultant fees, money manager fees and master custodian fees. Allocation of monthly income and expenses to the participants in the pools is based on a time-weighted beginning balance. A "time factor" and "time-weighted amount" are calculated for each plan based on individual plan-related activities. The time-weighted amounts are added up for all plan-related activities to compose the time-weighted beginning balance used to allocate the activity of the pool. Five-year annualized risk for the period ended June 30, 2003, as measured by standard deviation has been 13.51% for the Pension Trust and 8.19% for the Insurance Trust. Risk exposure for each participating fund is also limited in accordance with the guidelines presented in the Investment Section.

Economic Overview

The Federal Reserve continued a trend of reducing the federal funds rate, ending the fiscal year at 1.00%, a 47-year low. The low interest rates and a growing money supply provided the liquidity that made it cheaper for businesses and consumers to borrow and refinance debt. In addition to monetary and fiscal stimulus, the weaker US dollar stimulated overseas demand for US goods. The unemployment rate remained high relative to the most recent cycle, ending up at roughly 6.4% in June. However, the level of unemployment has been low relative to the last 40 years. GDP grew during the fiscal year. In fact, the economy has grown every quarter since the fourth quarter of 2001.

Domestic Equity Overview

The domestic equity markets ended the fiscal year with mixed results. The S&P 1500, a broad equity market indicator, finished the year with two positive quarters and two negative quarters. The index's fiscal year return was just above zero, coming in at 0.04%. The outlook for corporate earnings remained murky throughout the year. Offsetting earnings uncertainty, productivity gains and lower interest rates coupled with a Federal tax cut helped increase consumer sentiment from last year. For the fiscal year ending June 30, 2003, large cap stocks outpaced small cap stocks and growth investors tended to do better than their value counterparts.

International Equity Overview

The US dollar continued to weaken against other foreign currencies during the fiscal year ending June 30, 2003. The MSCI EAFE index fell, ending the year with a return of –6.5% for US dollar-based investors. This was far better than the local return for the EAFE, –14.6%, over the same time period. This result indicates that US investors' return benefited by more than 8% due simply to the weakening dollar. Japan and the Pacific Basin struggled during the year as the MSCI indices were down for the year. Japan's return was –14.6% while the broader Pacific Basin return was –9.6%. Europe fared decently despite employment difficulties in Germany and export challenges from a strengthening Euro. The MSCI Europe Index finished –5.2% for the fiscal year. The only positive area in the international equity market for the year was in emerging markets. Surprisingly, the Emerging Markets Free Index outperformed the EAFE during each of the last four quarters for a yearly return of 6.96%.

Domestic Fixed-Income Overview

The investment grade US bond market, as measured by the Lehman Aggregate Bond index, generated a 10.4% return for the fiscal year ending June 30, 2003. During the year, the Fed Funds target was lowered to 1.0%. This benchmark rate had been cut thirteen times since January 2001, when the Funds rate stood 550 basis points higher at 6.5%. Fears of deflation pushed the yield on the 10-year Treasury to a new multi-decade low on June 13. Investors in longer-term bonds capitalized on the fall in interest rates as the Lehman Government Credit Long index rose over 20% for the year. Tightening credit spreads benefited corporate bond investors as measured by the Lehman Credit index; it was up 15.6% for the year. The high yield market did even better with the Lehman High Yield index up 22.8% over the same timeframe.

International Fixed-Income Overview

The international bond market had a tremendous year with the Citi Non-US World Government Bond index finishing up 17.9% as of June 30, 2003. The European bond markets and the strength of the Euro weighed in heavily as the Citi Euro Government Bond index was up almost 30% for the year. The JP Morgan Emerging Markets Bond index continued the sharp rally that began in late 2002 by posting an astounding 35.4% return for the year. Institutional and retail investors continued to flood into the asset class, recognizing a combination of narrowing global credit spreads and improving emerging market fundamentals.

Real Estate Overview

Although overall economic conditions were improving during the fiscal year, real estate markets remained sluggish. The NCREIF Total Property index was up 7.64% for the year ending June 30, 2003, with income returns offsetting modest declines in property valuations. Fundamentals were poor with high vacancy rates and falling rents in most markets. Sellers took advantage of their income-producing properties with solid tenants and lease terms, as buyers sought income. Some investors saw core real estate as a substitute for the decline in yields on bonds. The office sector was hit the hardest from the economic downturn over the past few years, primarily due to zero job growth. Apartments were also negatively affected by the poor job market even though low interest rates reduced debt service cost for buyers.

Private Equity Overview

Due to the nature of private equity performance measurement, relative comparisons of fund performance with benchmarks are inherently ambiguous. Rather than recognizing any particular index as being representative of opportunity in the year's markets, it is worth noting that the Pension Trust's private equity allocation fell 10.1% for the period.

Summary

Fiscal year 2003 has gone down in the books as another anquishing period for institutional investors. While the challenges were many and the opportunities few, we were glad to post positive results for our investment pools, consistent with the goal of preserving capital. Asset allocation once again played a key role in determining and explaining investment results while diversification proved its worth in controlling risk.

Sincerely,

STEVE COCHRANE, CFA
Executive Director/CIO

INVESTMENT PERFORMANCE SUMMARY
JUNE 30, 2003

			Rates of Return (net of fees)						
	Market Value	**% Of Pool**	**For Fiscal Year Ended 6/30**					**Annualized**	
PENSION POOL PARTICIPANTS			2003	2002	2001	2000	1999	3 Years	5 Years
Teachers' Fund for Retirement	$1,162,665,199	48.6%	2.28%	-8.88%	-7.00%	11.63%	11.06%	-4.66%	1.45%
Public Employees Retirement System	1,126,816,757	47.1%	5.46%	-6.83%	-3.95%	9.34%	10.63%	-1.91%	2.68%
Bismarck City Employee Pension Fund	22,981,777	1.0%	6.14%	-6.37%	-1.99%	8.04%	9.38%	-0.87%	2.85%
Bismarck City Police Pension Fund	11,085,145	0.5%	5.32%	-7.25%	-3.18%	8.74%	8.89%	-1.84%	2.29%
Job Service of North Dakota	67,341,623	2.8%	5.70%	-7.00%	-3.05%	6.85%	9.45%	-1.59%	2.19%
Subtotal Pension Pool Participants	2,390,890,501	100.0%							
INSURANCE POOL PARTICIPANTS									
Workers Compensation Fund	980,708,658	93.3%	8.96%	-1.68%	1.38%	12.22%	7.42%	2.79%	5.54%
State Fire and Tornado Fund	16,337,287	1.6%	7.25%	-2.24%	0.38%	11.65%	8.46%	1.72%	4.97%
State Bonding Fund	5,138,599	0.5%	7.52%	-2.74%	0.43%	11.60%	8.49%	1.65%	4.92%
Petroleum Tank Release Fund	8,578,356	0.8%	7.05%	-2.41%	-0.81%	13.13%	7.88%	1.19%	4.81%
Insurance Regulatory Trust Fund	2,764,177	0.3%	6.74%	-1.92%	0.60%	11.71%	7.79%	1.74%	4.87%
Health Care Trust Fund	28,646,292	2.7%	-0.95%	-2.24%	*	*	*	*	*
State Risk Management Fund	2,539,419	0.2%	8.86%	-2.56%	0.33%	2.58%	4.18%	2.10%	2.61%
Veterans Cemetery Trust Fund	63,434	0.0%	1.57%	2.41%	5.85%	6.05%	4.96%	3.26%	4.15%
Veterans Post War Trust Fund	1,126,890	0.1%	-0.46%	-16.82%	-9.82%	2.94%	18.34%	-9.28%	-1.88%
ND Assoc. of Counties (NDACo) Fund	274,199	0.0%	6.76%	-4.69%	-2.37%	12.79%	*	-0.22%	*
NDACo Program Savings Fund	291,130	0.0%	6.75%	-4.57%	-1.97%	12.36%	*	-0.05%	*
City of Bismarck Deferred Sick Leave	608,179	0.1%	8.77%	-1.16%	1.85%	*	*	3.07%	*
PERS Group Insurance	134,233	0.0%	1.57%	2.41%	5.85%	*	*	3.26%	*
City of Fargo FargoDome Permanent Fund	4,309,829	0.4%	*	*	*	*	*	*	*
Subtotal Insurance Pool Participants	1,051,520,682	100.0%							
INDIVIDUAL INVESTMENT ACCOUNT									
Retiree Health Insurance Credit Fund	25,076,420	100.0%	3.39%	-7.33%	-7.65%	9.16%	12.40%	-4.00%	1.66%
TOTAL	$3,467,487,603								
BENCHMARKS									
S&P 500			0.24%	-17.99%	-14.83%	7.24%	22.76%	-11.20%	-1.62%
Lehman Brothers Aggregate			10.39%	8.63%	11.22%	4.57%	3.15%	10.07%	7.54%
90 Day T-Bills			1.52%	2.63%	5.88%	5.53%	4.87%	3.33%	4.07%
Callan Public Plan Sponsors Database (Median)			3.74%	-5.32%	-3.62%	10.04%	10.82%	-1.81%	2.91%

* These funds do not have the specified years of history under SIB management.

Note: Asset allocation largely drives investment performance. Each fund has a unique allocation that takes into consideration return objectives, risk tolerance, liquidity constraints, and unique circumstances. Such considerations must be taken into account when comparing investment results.

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
PENSION POOL PARTICIPANTS
FOR PERIODS ENDED JUNE 30, 2003

	Style	Date Initiated	Market Value	Annualized Rates of Return 1 Year	3 Years	5 Years
DOMESTIC LARGE CAP EQUITY:						
AllianceBernstein Capital Management	Structured Growth	06/1998	$ 52,086,458	-1.19%	-20.17%	-5.33%
Los Angeles Capital Management	Enhanced Russell 1000	08/2000	109,097,984	1.33%	*	*
LSV Asset Management	Structured Value	06/1998	111,916,360	-1.62%	9.52%	4.40%
Northern Trust Global Investments	Enhanced S&P 500	08/2000	103,052,108	0.55%	*	*
State Street Global Advisors	S&P 500 Index	06/1987	127,588,998	0.33%	-11.12%	-1.56%
Strong Capital Management, Inc.	Enhanced S&P 500	08/2000	105,521,274	3.55%	*	*
Westridge Capital Management, Inc.	Enhanced S&P 500	08/2000	117,381,257	0.93%	*	*
TOTAL DOMESTIC LARGE CAP EQUITY			726,644,439	0.74%	-9.47%	-2.13%
Standard & Poor's 500 Index				0.25%	-11.20%	-1.61%
DOMESTIC SMALL CAP EQUITY:						
SEI Investments Management Co.	Mgr of Managers	06/2001	250,093,529	1.50%	*	*
TOTAL DOMESTIC SMALL CAP EQUITY			250,093,529	1.50%	-2.58%	0.21%
Russell 2000 Index				-1.64%	-3.30%	0.97%
INTERNATIONAL EQUITY:						
Bank of Ireland Asset Management	Concentrated Core	03/2002	34,342,223	-9.53%	*	*
Capital Guardian Trust Company	Core	03/1992	172,449,398	-10.87%	-14.36%	1.04%
Lazard Asset Management	Small Cap Value	03/2002	37,871,529	-1.59%	*	*
State Street Global Advisors	Core	03/1987	71,826,900	-9.69%	-12.98%	-3.85%
Wellington Trust Company, NA	Small Cap Growth	03/2002	39,736,060	6.88%	*	*
TOTAL INTERNATIONAL EQUITY			356,226,110	-7.71%	-12.18%	-0.28%
MSCI EAFE 50% Hedged Index				-11.24%	-14.65%	-4.18%
EMERGING MARKETS EQUITY:						
Capital Guardian Trust Company	Core	08/1996	119,217,858	7.82%	-10.03%	2.24%
MSCI Emerging Markets Free Index				6.96%	-7.02%	2.52%
DOMESTIC FIXED INCOME:						
Bank of North Dakota	LB G/C Index	01/1988	75,312,303	12.67%	11.12%	7.86%
Bank of North Dakota - CDs	Cert. of Deposit	02/1994	23,585,811	5.81%	5.84%	5.84%
WestLB Asset Management	Active Duration	02/1986	45,540,468	10.20%	9.66%	7.11%
Evergreen Timberland Investment Mgmt	Timberland	06/2001	94,703,202	13.17%	*	*
Strong Capital Management, Inc.	Baa Average Quality	11/1998	47,491,579	15.10%	10.63%	*
Trust Company of the West	Convertibles	06/1999	50,178,820	10.84%	-8.64%	*
Western Asset Management Co.	Core Bonds	02/1986	46,158,414	13.64%	12.12%	8.81%
TOTAL DOMESTIC FIXED INCOME			382,970,597	11.92%	7.22%	7.32%
Lehman Brothers Aggregate Index				10.40%	10.08%	7.54%
HIGH YIELD FIXED INCOME:						
Western Asset Management Co.	High Yield	11/1996	140,335,843	20.28%	2.75%	4.38%
Lehman Brothers High Yield Index				22.76%	5.43%	2.93%
INTERNATIONAL FIXED INCOME:						
UBS Global Asset Management	Core Non-U.S.	03/1989	55,857,444	18.63%	8.88%	6.32%
Brandywine Asset Management	Core Non-U.S.	05/2003	55,515,760	*	*	*
TOTAL INTERNATIONAL FIXED INCOME			111,373,204	18.27%	8.77%	6.25%
Salomon Brothers Non-US Gov't Bond Index				17.90%	8.10%	6.29%

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
PENSION POOL PARTICIPANTS (CONTINUED)
FOR PERIODS ENDED JUNE 30, 2003

	Style	Date Initiated	Market Value	Annualized Rates of Return 1 Year	3 Years	5 Years
REAL ESTATE:						
Heitman/JMB Institutional Advisory Corp.	Core Commingled	12/1987	75,478	-18.66%	-5.77%	0.42%
INVESCO Realty Advisors	Direct Equity	08/1997	88,173,580	8.15%	8.28%	7.85%
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	10/1987	80,195,588	8.04%	8.05%	8.48%
TOTAL REAL ESTATE			168,444,646	7.97%	7.83%	9.08%
NCREIF Classic Index				7.64%	8.21%	9.79%
PRIVATE EQUITY						
Adams Street Partners (I.V.C.F. II)	Diversified	03/1989	275,887	-7.42%	-23.11%	10.99%
Adams Street Partners (I.V.C.F. III)	Diversified	01/1993	1,394,815	-16.94%	3.60%	55.10%
Adams Street Partners (1998 Fund)	Diversified	01/1998	3,580,924	-14.72%	-11.05%	2.80%
Adams Street Partners (1999 Fund)	Diversified	01/1999	4,559,386	-16.31%	-14.26%	*
Adams Street Partners (2000 Fund)	Diversified	10/1999	7,353,258	-13.99%	-9.08%	*
Adams Street Partners (2001 Fund)	Diversified	12/2000	2,536,978	-6.50%	*	*
Adams Street Partners (2002 Fund)	Diversified	03/2002	1,536,480	9.09%	*	*
Adams Street Partners (2003 Fund)	Diversified	04/2003	173,100	*	*	*
Adams Street Partners (1999 Non-U.S. Fund)	Diversified	01/1999	2,493,149	13.11%	3.11%	*
Adams Street Partners (2000 Non-U.S. Fund)	Diversified	01/2000	2,402,315	9.49%	-0.74%	*
Adams Street Partners (2001 Non-U.S. Fund)	Diversified	02/2001	1,575,927	-0.42%	*	*
Adams Street Partners (2002 Non-U.S. Fund)	Diversified	05/2002	1,967,052	6.03%	*	*
Adams Street Partners (2003 Non-U.S. Fund)	Diversified	04/2003	152,540	*	*	*
Adams Street Partners (B.V.C.F. IV)	Diversified	05/1999	12,431,144	-14.64%	-18.62%	*
Coral Partners, Inc. (V.P. II)	Direct	06/1990	424,745	10.55%	-35.92%	-14.67%
Coral Partners, Inc. (Fund V)	Direct	03/1998	21,927,496	-22.52%	-20.60%	-9.27%
Coral Partners, Inc. (Supplemental Fund V)	Direct	08/2001	1,259,679	-28.36%	*	*
Coral Partners, Inc. (Fund VI)	Direct	07/2002	3,105,281	*	*	*
Hearthstone Homebuilding Investors, LLC	Home Building	10/1999	7,976,925	28.99%	13.57%	*
Invest America (Lewis and Clark)	Direct	02/2002	1,640,666	-12.50%	*	*
Matlin Patterson Global Opportunities Fund	Distressed Debt	07/2002	25,015,034	*	*	*
TOTAL PRIVATE EQUITY			103,782,781	-10.09%	-12.98%	1.10%
CASH EQUIVALENTS:						
The Northern Trust Company	STIF/STEP	07/1994	31,801,494	1.99%	3.52%	4.42%
90 Day T-Bills				1.53%	3.33%	4.08%
TOTAL PENSION POOL			$ 2,390,890,501	4.40%	-3.02%	2.41%
Policy Target				3.41%	-4.21%	1.77%

* This manager/category has less than the indicated years under management due to addition of asset class or replacement of investment managers during this time period.

The investment return calculations were prepared using a monthly time-weighted rate of return methodology in accordance with AIMR's Performance Presentation Standards. Returns are shown before the effect of investment management fees, except for real estate and alternative investments, which are shown net of fees.

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
INSURANCE POOL PARTICIPANTS
FOR PERIODS ENDED JUNE 30, 2003

	Style	Date Initiated	Market Value	Annualized Rates of Return 1 Year	3 Years	5 Years
DOMESTIC LARGE CAP EQUITY:						
AllianceBernstein Capital Management	Structured Growth	06/1998	$ 18,916,547	-1.58%	-20.95%	-5.76%
LSV Asset Management	Structured Value	06/1998	18,237,136	-1.81%	9.31%	4.20%
State Street Global Advisors	S&P 500 Index	10/1996	87,650,050	0.28%	-11.19%	-1.61%
TOTAL DOMESTIC LARGE CAP EQUITY			124,803,733	-0.33%	-9.15%	-1.69%
Standard & Poor's 500 Index				0.25%	-11.20%	-1.61%
DOMESTIC SMALL CAP EQUITY:						
SEI Investments Management Co.	Mgr of Managers	06/2001	62,929,344	0.91%	*	*
TOTAL DOMESTIC SMALL CAP EQUITY			62,929,344	0.91%	-4.63%	1.19%
Russell 2000 Index				-1.64%	-3.30%	0.97%
INTERNATIONAL EQUITY:						
Capital Guardian Trust Company	Core	04/1997	65,842,377	-9.78%	-15.39%	0.52%
Lazard Asset Management	Small Cap Value	11/2002	8,425,606	*	*	*
The Vanguard Group	Small Cap Growth	06/2003	7,816,110	*	*	*
TOTAL INTERNATIONAL EQUITY			82,084,093	-8.64%	-15.04%	0.77%
MSCI EAFE 50% Hedged Index **				-11.24%	-15.51%	-5.33%
CONVERTIBLE BONDS:						
Trust Company of the West	Sector Rotation	07/1990	118,773,587	10.68%	-9.09%	4.35%
First Boston Convertible Index				15.46%	-3.77%	5.29%
DOMESTIC FIXED INCOME:						
Bank of North Dakota - CDs	Cert. of Deposit	12/1996	31,105,414	4.42%	5.21%	5.28%
Bank of North Dakota	LB G/C Index	07/1989	162,009,894	13.34%	10.94%	7.83%
Strong Capital Management, Inc.	Baa Average Quality	04/2002	127,417,790	18.32%	*	*
Western Asset Management Co.	Core Bond	07/1990	293,943,531	12.98%	11.46%	8.34%
TOTAL DOMESTIC FIXED INCOME			614,476,629	13.96%	11.19%	8.11%
Lehman Brothers Government/Credit Index				13.15%	10.82%	7.83%
CASH EQUIVALENTS:						
Bank of North Dakota	Enhanced MMDA	07/1989	48,453,296	1.58%	3.27%	4.15%
90 Day T-Bills				1.53%	3.33%	4.08%
TOTAL INSURANCE POOL			$ 1,051,520,682	8.87%	2.87%	5.66%
Policy Target				8.73%	3.31%	5.35%

* This manager/category has less than the indicated years under management due to addition of asset class or replacement of investment managers during this time period.
** Prior to September 2000, the benchmark for international equity was the MSCI EAFE Index (unhedged).

The investment return calculations were prepared using a monthly time-weighted rate of return methodology in accordance with AIMR's Performance Presentation Standards. Returns are shown before the effect of investment management fees.

LARGEST HOLDINGS (By Market Value) AT JUNE 30, 2003

PENSION POOL PARTICIPANTS

Shares	Stocks	Market Value
47,400	Bank of America Corporation	$ 3,746,022
92,400	Pfizer Incorporated	3,155,460
72,800	Verizon Communications	2,871,960
104,400	Microsoft Corporation	2,673,684
52,900	Altria Group Incorporated	2,403,776
30,800	Bear Stearns Companies Incorporated	2,230,536
150,500	Sprint Corporation	2,167,200
50,200	Citigroup Incorporated	2,148,560
63,600	Occidental Pete Corporation	2,133,780
29,100	ChevronTexaco Corporation	2,101,020

Par	Bonds	Market Value
5,300,000	U.S. Treasury Notes Dated 02-15-2000 6.5% Due 02-15-2010	$ 6,431,391
5,090,000	GNMA TBA Pool 6.00% 30 Year	5,331,775
2,700,000	U.S. Treasury Bonds Dated 04-29-1999 8.00% Due 11-15-2021	3,912,732
3,200,000	U.S. Treasury Notes Dated 11-15-1994 7.875% Due 11-15-2004	3,492,928
2,000,000	U.S. Treasury Bond 7.875% 2-15-2021	2,856,100
2,270,000	FNMA TBA Pool 7.00% 30 Year	2,390,605
2,000,000	Federal Home Loan Banks 6.375% Due 08-15-2006	2,262,260
3,200,000	Federal National Mortgage Association Bonds 6.375% 8-15-07	2,258,194
1,975,000	U.S. Treasury Notes Dated 02-15-1998 5.5% Due 02-15-2008	2,250,532
1,540,000	U.S. Treasury Bonds Inflation Index Linked 3.875% 04-15-2029	2,192,220

INSURANCE POOL PARTICIPANTS

Shares	Stocks	Market Value
70,000	Cendant Corporation Upper Decs	$ 3,166,800
1,250,363	Vodafone Group	2,444,976
32,640	Sanofi-Synthelabo	1,911,600
41,000	Royal Dutch Petroleum	1,903,079
41,365	Astrazeneca	1,676,830
38,900	Phoenix Companies Incorporated	1,365,390
35,950	TXU Corporation Incorporated	1,241,713
35,200	Household International Incorporated	1,229,184
24,100	BNP Paribas	1,224,636
30,293	Novartis AG	1,198,704

Par	Bonds	Market Value
17,650,000	GNMA TBA Pool 7.5% 30 Year	$ 18,753,125
16,600,000	FNMA TBA Pool 7.00% 30 Year	17,481,958
11,880,000	U.S. Treasury Inflation Indexed Bonds 3.625% Due 04-15-2028	16,420,912
13,900,000	FNMA 15 Year Single Family Mortgage 6.00%	14,508,125
12,700,000	GNMA I 30 Year Single Family Mortgage 6.00%	13,287,375
11,610,000	GNMA TBA Pool 6.00% 30 Year	12,161,475
10,600,000	FNMA 15 Year Single Family Mortgage 5.00%	10,947,786
5,800,000	U.S. Treasury Bonds 9.00% Due 11-15-2018	8,954,388
28,670,000	U.S. Treasury Bond Stripped Principle Payment 11-15-2027	8,463,384
5,330,000	U.S. Treasury Bonds Inflation Index Linked 3.875% 04-15-2029	7,587,358

The individual investment account, PERS Retiree Health Credit Fund, is invested in various commingled funds, and so has no individual stock or bond holdings. A complete list of all holdings is available upon request.

SCHEDULE OF INVESTMENT FEES & COMMISSIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Assets under management	Fees	Basis points
Investment managers' fees:			
Domestic large cap equity managers	$ 851,448,172	$ 1,922,006	23
Domestic small cap equity managers	313,022,873	2,151,741	69
International equity managers	438,310,203	1,977,984	45
Emerging markets equity managers	119,217,858	644,587	54
Convertibles managers	118,773,587	466,670	39
Domestic fixed income managers	997,447,226	2,038,589	20
High yield fixed income managers	140,335,843	249,265	18
International fixed income managers	111,373,204	463,671	42
Real estate managers	168,444,646	1,579,036	94
Private equity managers	103,782,781	5,465,852	527
Cash & equivalents managers	80,254,790	48,678	06
Balanced account managers	25,076,420	47,599	19
Total investment managers' fees	$ 3,467,487,603	$ 17,055,678	49
Other investment service fees:			
Custodian fees		$ 887,516	3
Investment consultant fees		227,461	1
Securities lending fees		3,813,400	11
Administrative fees		395,553	1
Total investment service fees		$ 5,323,930	16

Note: Totals will not tie to financial statements as certain commingled investment account managers net the investment management fees with income when reporting to the custodian bank. These amounts are not broken out on the financial statements.

Brokers	Number of shares traded	Total commissions	Commissions per share
Jefferies & Company	2,751,041	$ 84,248	$ 0.030
Investment Technology Group Inc.	2,554,423	30,277	0.012
Salomon Brothers New York	2,141,585	19,132	0.009
Merrill Lynch Pierce Fenner & Smith	1,687,256	58,053	0.034
Heflin & Company, LLC	1,343,372	38,667	0.029
BNY ESI Securities Company	1,305,550	65,278	0.050
Dresdner Kleinwort Wasserstein Securities	1,162,341	11,447	0.010
UBS AG London Equities	1,079,937	22,737	0.021
CSFB (Europe) Limited London	994,080	14,648	0.015
Goldman Sachs International London	991,279	11,785	0.012
Other 198 Brokers *	17,538,772	375,492	0.021
Gross commissions	33,549,636	731,764	$ 0.022
Less commissions recaptured		(85,106)	
Net commissions paid		$ 646,658	$ 0.019

* A complete listing of investment brokers utilized is available upon request.
Note: This schedule includes only brokerage costs for agency trades of common stock.

TEACHERS' FUND FOR RETIREMENT

■ Teachers' Fund for Retirement Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The North Dakota Teachers' Fund for Retirement (TFFR) is a pension benefit plan that was established in 1913 to provide retirement income to all public school and certain state teachers and administrators in the state of North Dakota. The plan is administered by a seven member Board of Trustees comprised of five members appointed by the Governor of North Dakota and two elected officials, the State Treasurer and the State Superintendent of Public Instruction.

The plan is a multi-employer defined benefit pension plan that provides retirement benefits, disability retirement benefits, and survivor benefits, as the case may be, in accordance with Chapter 15-39.1 of the North Dakota Century Code (NDCC). Monthly retirement benefits are based on the formula: Number of Years of Service X 2.0% X One-thirty-sixth of the Sum of Three Highest Annual Salaries. Adjustments to the basic formula are made depending on the retirement option selected.

Funding is provided by monthly employee contributions of 7.75% of payroll and matching employer contributions. On an annual basis, benefit payouts exceed contributions. The asset/liability study completed in June 2000 indicates that a 2% cash equivalents allocation is expected to provide sufficient liquidity for the next ten years.

The TFFR Board has an actuarial valuation performed annually. The current actuarial assumed rate of return on assets is 8.0%. Key plan and financial statistics as of the most recent valuation are recorded in the Asset/Liability Model presented in June 2000 by Watson Wyatt Worldwide and on file at the North Dakota Retirement and Investment Office.

Responsibilities and Discretion of the State Investment Board (SIB)

The SIB is charged by law under NDCC 21-10 with the responsibility of establishing investment guidelines and investing the assets of the Fund. The assets are to be invested in the manner provided in NDCC 21-10-07, the prudent institutional investor rule. 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. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the plan have been established by the TFFR board upon consideration of the board's strategic objectives and a comprehensive review of current and projected financial requirements.

Objective #1: Accumulate sufficient wealth through a diversified portfolio of investments and employer and employee contributions to pay all current and future benefit and expense obligations when due.

Objective #2: Build a funding cushion to provide for future benefit improvements by emphasizing higher return/higher risk assets in the fund's asset allocation.

Objective #3: Improve, or at least maintain, the funded ratio without requiring future increases in employee or employer contribution rates.

Standards of Investment Performance

The plan's investment objectives and characteristics give rise to an asset allocation that is considered to have greater than a 50% probability of achieving the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that at least matches that of the policy portfolio, which is comprised of 30% S&P 500 Stock

Index, 10% Russell 2000, 20% MSCI EAFE, 5% Emerging Markets (MSCI Emerging Markets Free Index), 5% Brinson Venture Capital Performance Indicator, 7% Lehman Aggregate Bond Index, 7% High Yield (Lehman Brothers High Yield Bond Index), 5% Citigroup Non-US Government Bond Index, 2% 90-day T-bills, 9% NCREIF Index.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 9.29% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 11.17%.

Policy and Guidelines

The asset allocation of the TFFR fund is established by the TFFR Board, with input from consultants and RIO staff. Asset allocation is based upon the asset/liability study completed by Watson Wyatt Worldwide and Wyatt Investment Consulting in June 2000. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes over the next 20 years.

In recognition of the plan's objectives, projected financial status, and capital market expectations, the following asset allocation options were deemed appropriate for the Fund:

Domestic Equities – Large Cap	30%
Domestic Equities – Small Cap	10%
International Equities	20%
Emerging Markets Equities	5%
Venture Capital/Alt. Invsts.	5%
Domestic Fixed Income	7%
High Yield Bonds	7%
International Fixed Income	5%
Cash Equivalents	2%
Real Estate	9%

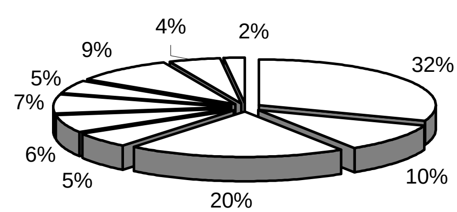
Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

Teachers' Fund for Retirement Actual Asset Allocation – June 30, 2003

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 354,892,342	32%	
Domestic Small Cap Equity	121,352,789	10%	
International Equity	232,031,093	20%	
Emerging Markets Equity	62,026,343	5%	
Domestic Fixed Income	74,769,922	6%	
High Yield Fixed Income	78,650,619	7%	
International Fixed Income	53,342,149	5%	
Real Estate	109,552,859	9%	
Private Equity	52,190,012	4%	
Cash Equivalents	23,857,071	2%	
TOTAL FUND	$ 1,162,665,199	100%	2.28%



PUBLIC EMPLOYEES RETIREMENT SYSTEM

■ Public Employees Retirement System (PERS) Investment Objectives and Policy Guidelines

Investment Goals

The investment goals of the Fund have been established by the North Dakota Public Employees Retirement Board based upon consideration of the Board's strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term and have been established after full consideration of all factors set out in the Statement of Investment Goals, Objectives and Policies.

Goal #1: Accumulate sufficient wealth through a diversified portfolio of investments which must enable the State of North Dakota to pay all current and future retirement benefits and expense obligations of the Fund.

Goal #2: Obtain investment returns in excess of that needed to allow for future retirement benefit increases to provide career employees with a retirement income, which when augmented by Social Security, must approximate 90% of final average salary.

Goal #3: To obtain investment returns in excess of that needed to allow for the disability retirement benefit increase which will approximate 35-45% of final average salary.

Goal #4: 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 benefit.

Delegation of Authority

Management responsibility for the investment program not assigned to the North Dakota State Investment Board (SIB) in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1)(a).
2. Investment diversification, investment quality, qualification of advisory services, and amounts to be invested by advisory services pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:
   a. Futures and options may be used to hedge, but not for speculation.
   b. Derivatives use will be monitored to ensure that risks are not taken by the money managers.
   c. All assets must be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
3. Guidelines for the selection and redemption of investments pursuant to NDCC 21-10-02.1(1)(d).
4. Criteria for making decisions with respect to hiring, keeping, and terminating money managers. This also includes selecting performance measurements, consultants, report formats, and frequency of meetings with money managers.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the SIB. All participants in the investment process must seek to act responsibly as custodians of the public trust.

Investment Objective

Investments of PERS must seek to generate sufficient return to meet the goals outlined in this policy so that the State of North Dakota is not obligated to increase the current statutory contribution rate. The objectives established in this section are in accordance with the fiduciary requirement as set forth in federal and state law.

It is in the best interest of PERS and its beneficiaries that objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

A. The long-term investment objective of the Fund is to achieve a minimum total real rate of return of 5.4% in excess of the annual rate of inflation. However the absolute total rate of return must be no less than 9.9% net of fees.

B. The portfolio mix must be in accordance with the asset allocation adopted and as specified herein.

Asset Allocation

In recognition of the plan's objectives, benefit projections, and capital market expectations, the following is the asset allocation for PERS:

Domestic Equities-Large Cap	30%
Domestic Equities-Small Cap	10%
International Equities	10%
Emerging Markets Equities	5%
Domestic Fixed Income	24%
High Yield Fixed Income	5%
International Fixed Income	5%
Real Estate	5%
Private Equity	5%
Cash	1%
Expected Return	10.5%
Standard Deviation of Returns	11.5%

Maintenance of allocations to this target must be done in accordance with the SIB's rebalancing policy.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diver-sification, restrictions, and performance objectives of the funds participating in the pools.

Restrictions

A. Futures and options may be used to hedge, but not for speculation.
B. No transaction shall be made which threatens the tax-exempt status of the Fund.
C. No letter stock shall be purchased.
D. No short sales or margin purchases shall be made.
E. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be sub-stantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

   For the purpose of this document, Social Investing is defined as "*The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries.*"

F. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

   For the purpose of this document, economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

   Also for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

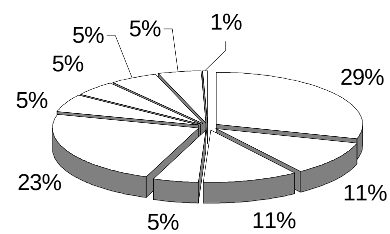
   1. The cost does not exceed the fair market value at the time of investment.
   2. The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
   3. Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
   4. The safeguards and diversity that a prudent investor would adhere to are present.

G. REITs may not be used in the Real Estate asset allocation.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

- **Public Employees Retirement Fund**
  Actual Asset Allocation – June 30, 2003

Asset Allocation	**Market Value**	**Percent of Total**	**One Year Return**
Domestic Large Cap Equity	$ 339,151,251	29%	
Domestic Small Cap Equity	120,503,874	11%	
International Equity	119,334,768	11%	
Emerging Markets Equity	56,606,292	5%	
Domestic Fixed Income	260,032,137	23%	
High Yield Fixed Income	60,350,553	5%	
International Fixed Income	54,499,681	5%	
Real Estate	57,709,998	5%	
Private Equity	51,068,484	5%	
Cash Equivalents	7,559,719	1%	
TOTAL FUND	$ 1,126,816,757	100%	5.46%



BISMARCK CITY EMPLOYEE PENSION PLAN

■ Bismarck City Employee Pension Plan Investment Objectives and Policy Guidelines

Introduction

The Bismarck, North Dakota City Employee Pension Plan (BCEPP) administrates the pension benefit plan established for the city of Bismarck public employees. The plan is administered by the BCEPP Board of Trustees. The plan is a defined benefit pension plan maintained to provide retirement benefits, disability benefits, and/or death benefits as may be the case, to the participants in accordance with Chapter 9-07 of the city of Bismarck Code of Ordinance (1986 revised). The plan is administered in accordance with IRS and Treasury Regulations.

The plan and benefits provided are funded by contributions from the members and members' employer. The plan was established to provide benefits to members eligible to receive them in accordance with the provisions of the plan.

Investment Goal

The goal of the BCEPP is to provide income through various investments and members and members' employer contributions, sufficient to pay benefits accrued and to provide for future benefit enhancements.

Purpose of This Statement

The purpose of this statement is to set forth the investment goals and objectives for the BCEPP. The goals and objectives are to be used by the BCEPP Board of Trustees, North Dakota State Investment Board (SIB), and money managers for the investment of the BCEPP's assets.

Prudent Investor Rule and Exclusive Benefit Provision

The BCEPP's assets must be invested in compliance with the prudent investor rule. 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. The retirement funds belonging to the BCEPP must be invested exclusively for the benefit of their members and beneficiaries in accordance with the Fund's investment goals and objectives.

Responsibility of the Bismarck City Employee Pension Plan Board of Trustees

- The BCEPP Board of Trustees has the responsibility for establishing the investment goals and objectives which are the guide to the investment of BCEPP's assets. The BCEPP Board of Trustees determines the investment policies by considering the implications of a wide range of financial assumptions and investment risk.
- The BCEPP Board of Trustees shall review these investment goals, objectives and policies at least annually.
- The BCEPP Board of Trustees has the responsibility to approve exemptions to these investment goals and objectives.
- The BCEPP Board of Trustees has the responsibility for the development of an Asset Allocation Plan.
- The BCEPP Board of Trustees shall receive and review reports from the SIB's Director of Investments quarterly.

Responsibilities of the North Dakota SIB

- Final authority for hiring, retaining and releasing the money managers, as recommended by the Director of Investments, shall rest with the SIB.
- The SIB is responsible to the BCEPP Board of Trustees for carrying out the BCEPP Board of Trustees' investment goals, objectives and policies.
- The SIB is responsible to the BCEPP Board of Trustees for carrying out the BCEPP Board of Trustees' Asset Allocation Plan.
- The SIB must maintain a separate accounting for the BCEPP fund under their authority.
- The SIB will provide the BCEPP Board of Trustees with quarterly investment reports.

Statement of Total Fund Investment Philosophy/Objectives

The following investment objectives are established as of the date adopted and are in keeping with the fiduciary requirements as set forth in federal and state law and as expected by the members. It is in the best interest of BCEPP and beneficiaries that objectives be established for the total fund and performance standards set for each money manager. It is clearly understood these objectives and standards are to be viewed over the long term and have been established after full consideration of all factors set out in the Statement of Investment Goals, Objectives and Policies. These performance objectives are as follows:

- Total Fund Objectives

1. The long-term objective of the Fund is to achieve a minimum rate of return of 4.5% in excess of the annual rate of inflation. However, the return shall be no less than the 7.25% return the actuary has determined is required to pay future benefits.

2. Achieve a long-term performance, consistent within acceptable risk parameters, which ranks above the thirty-fifth (35th) percentile of a database composed of other managed funds as measured by the SIB's investment measurement consultant.

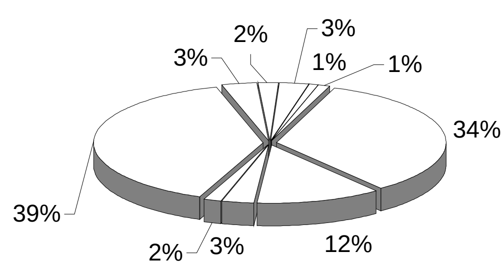
- The portfolio mix shall be in accordance with the asset allocation adopted and periodically revised by the NDSIB as approved by the BCEPP Board of Trustees.

<u>Asset Allocation</u>

Domestic Large Cap Equity	34.3%
Domestic Small Cap Equity	10.7%
International Equity	3.0%
Emerging Markets Equity	1.5%
Domestic Fixed Income	40.0%
High Yield Fixed Income	3.5%
International Fixed Income	2.0%
Real Estate	3.0%
Venture Capital	1.0%
Cash Equivalents	1.0%

■ Bismarck City Employee Pension Plan Actual Asset Allocation – June 30, 2003

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 7,791,357	34%	
Domestic Small Cap Equity	2,713,907	12%	
International Equity	724,387	3%	
Emerging Markets Equity	366,096	2%	
Domestic Fixed Income	9,070,172	39%	
High Yield Fixed Income	790,176	3%	
International Fixed Income	433,291	2%	
Real Estate	649,848	3%	
Private Equity	214,581	1%	
Cash Equivalents	227,962	1%	
TOTAL FUND	$ 22,981,777	100%	6.14%



BISMARCK CITY POLICE PENSION PLAN

■ Bismarck City Police Pension Plan Investment Objectives and Policy Guidelines

Introduction

The Bismarck, North Dakota City Police Pension Plan (BCPPP) administrates the pension benefit plan established for the city of Bismarck police. The plan is administered by the BCPPP Board of Trustees. The plan is a defined benefit pension plan maintained to provide retirement benefits, disability benefits, and/or death benefits as may be the case, to the participants in accordance with Chapter 9-08 of the city of Bismarck Code of Ordinance (1986 revised). The plan is administered in accordance with IRS and Treasury Regulations.

The plan and benefits provided are funded by contributions from the members and members' employer. The plan was established to provide benefits to members eligible to receive them in accordance with the provisions of the plan.

Investment Goal

The goal of the BCPPP is to provide income through various investments and members and members' employer contributions, sufficient to pay benefits accrued and to provide for future benefit enhancements.

Purpose of This Statement

The purpose of this statement is to set forth the investment goals and objectives for the BCPPP. The goals and objectives are to be used by the BCPPP Board of Trustees, North Dakota State Investment Board (SIB), and money managers for the investment of the BCPPP's assets.

Prudent Investor Rule and Exclusive Benefit Provision

The BCPPP's assets must be invested in compliance with the prudent investor rule. 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. The retirement funds belonging to the BCPPP must be invested exclusively for the benefit of their members and beneficiaries in accordance with the Fund's investment goals and objectives.

Responsibility of the Bismarck City Police Pension Plan Board of Trustees

- The BCPPP Board of Trustees has the responsibility for establishing the investment goals and objectives which are the guide to the investment of BCPPP's assets. The BCPPP Board of Trustees determines the investment policies by considering the implications of a wide range of financial assumptions and investment risk.
- The BCPPP Board of Trustees shall review these investment goals, objectives and policies at least annually.
- The BCPPP Board of Trustees has the responsibility to approve exemptions to these investment goals and objectives.
- The BCPPP Board of Trustees has the responsibility for the development of an Asset Allocation Plan.
- The BCPPP board of Trustees shall receive and review reports from the SIB's Director of Investments quarterly.

Responsibilities of the North Dakota State Investment Board

- Final authority for hiring, retaining and releasing the money managers, as recommended by the Director of Investments, shall rest with the SIB.
- The SIB is responsible to the BCPPP Board of Trustees for carrying out the BCPPP Board of Trustees' investment goals, objectives and policies.
- The SIB is responsible to the BCPPP Board of Trustees for carrying out the BCPPP Board of Trustees' Asset Allocation Plan.
- The SIB must maintain a separate accounting for the BCPPP funds under their authority.
- The SIB will provide the BCPPP Board of Trustees with quarterly investment reports.

Statement of Total Fund Investment Philosophy/Objectives

The following investment objectives are established as of the date adopted and are in keeping with the fiduciary requirements as set forth in federal and state law and as expected by the members. It is in the best interest of BCPPP and beneficiaries that objectives be established for the total fund and performance standards set for each money manager. It is clearly understood these objectives and standards are to be viewed over the long term and have been established after full consideration of all factors set out in the Statement of Investment Goals, Objectives and

Policies. These performance objectives are as follows:

- Total Fund Objectives

1. The long-term objective of the Fund is to achieve a minimum rate of return of 4.5% in excess of the annual rate of inflation. However, the return shall be no less than the 7.25% return the actuary has determined is required to pay future benefits.

2. Achieve a long-term performance, consistent within acceptable risk parameters, which ranks above the thirty-fifth (35th) percentile of a database composed of other managed funds as measured by the SIB's investment measurement consultant.

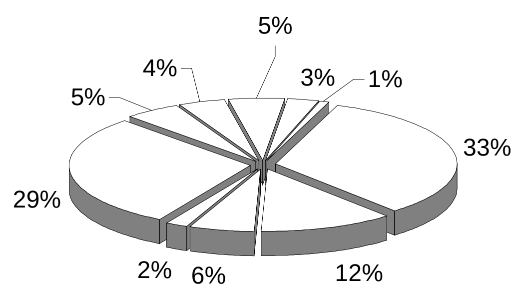
- The portfolio mix shall be in accordance with the asset allocation adopted and periodically revised by the NDSIB as approved by the BCPPP Board of Trustees.

<u>Asset Allocation</u>

Domestic Large Cap Equity	34.3%
Domestic Small Cap Equity	10.7%
International Equity	5.5%
Emerging Markets Equity	2.0%
Domestic Fixed Income	30.0%
High Yield Fixed Income	5.0%
International Fixed Income	4.5%
Real Estate	5.0%
Venture Capital	3.0%

■ Bismarck City Police Pension Plan Actual Asset Allocation – June 30, 2003

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 3,752,447	33%	
Domestic Small Cap Equity	1,297,331	12%	
International Equity	645,871	6%	
Emerging Markets Equity	219,127	2%	
Domestic Fixed Income	3,223,736	29%	
High Yield Fixed Income	544,495	5%	
International Fixed Income	469,340	4%	
Real Estate	531,941	5%	
Private Equity	309,704	3%	
Cash Equivalents	91,153	1%	
TOTAL FUND	$ 11,085,145	100%	5.32%



JOB SERVICE OF NORTH DAKOTA

■ Job Service of North Dakota Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The Retirement Plan for the Employees of Job Service North Dakota (Plan) is a defined benefit retirement plan for the eligible employees hired before October 1, 1980. There have been no new entrants to the plan since October 1, 1980. The plan provides retirement benefits, disability benefits and survivor benefits consistent with the written Plan document.

The most recent Plan actuarial valuation, July 1, 2001, shows 85 active participants, 5 inactive vested participants and 76 pensioners and beneficiaries. There are also 129 pensioners receiving payments from annuities purchased with the Travelers Insurance Company. Until October 1, 1993, annuities were purchased from the Travelers for retirees, since that date retiree benefits are paid from Plan assets. Annual cost of living adjustments for all Plan pensioners including annuitants with the Travelers are paid from Plan assets. The Executive Director of Job Service North Dakota is the Plan Administrator and administers the Plan in accord with Chapter 52-11 of the North Dakota Century Code.

Currently the Plan is fully funded and does not have an employer normal cost. Job Service North Dakota as the employer contributes 4% of the active participants salary as a contribution 'on behalf of the employee' and the active participants pay 3% of their salary into Plan assets.

The Plan has an actuarial valuation performed annually. The current actuarial assumed rate of return on assets is 8%.

Responsibilities and Discretion of the State Investment Board (SIB)

The Plan has entered into a contract for investment services with the SIB. The assets are to be invested in the manner provided in NDCC 21-10-07, the prudent institutional investor rule. 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. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

At the discretion of the SIB, the Plan's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Plan have been established by the Plan's Administrator upon consideration of its strategic objectives and a comprehensive review of current and projected financial requirements.

Objective #1: To maintain a level of surplus sufficient to eliminate the need for future contributions;

Objective #2: To achieve a rate of return which exceeds the rate of inflation, as measured by the Consumer Price index (CPI), by 3.0 percent per year (based on current actuarial assumptions of 8% return and 5% inflation), over a complete market cycle; and

Objective #3: As a secondary objective, to maximize the Plan's surplus.

Standards of Investment Performance

The Plan's assets shall be invested in asset classes as indicated in Section 5 of this investment policy statement. For evaluation purposes, the following performance targets will apply to each appropriate asset class:

Domestic Large Cap Equity-S&P 500 Stock Index; Domestic Small Cap Equity-Russell 2000 Stock Index; International Equity-MSCI 50% Hedged EAFE Stock Index; Domestic Fixed Income-Lehman Bros. Aggregate Bond Index; International Fixed Income-Citigroup Non-US Government Bond Index.

Policy and Guidelines

The Plan Administrator establishes the asset allocation of the Fund, with input from consultants and SIB staff. Asset allocation is based upon the asset/liability study completed by Buck Consultants in May 2002. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes over the next 20 years. In recognition of the Plan's objectives, projected financial status, and capital market expectations, the following asset allocation options were deemed appropriate for the Fund:

Domestic Large Cap Equity --31%
Domestic Small Cap Equity --6%
International Equity --5%
Domestic Fixed Income --54%
International Fixed Income --4%

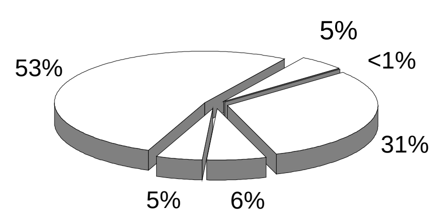
Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

■ **Job Service of North Dakota**
Actual Asset Allocation – June 30, 2003

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 21,057,042	31%	
Domestic Small Cap Equity	4,225,628	6%	
International Equity	3,489,991	5%	
Domestic Fixed Income	35,874,630	53%	
International Fixed Income	2,628,743	5%	
Cash Equivalents	65,589	0%	
TOTAL FUND	$ 67,341,623	100%	5.70%



WORKERS COMPENSATION FUND

■ Workers Compensation Fund Investment Objectives and Policy Guidelines

Introduction

The North Dakota Workers Compensation Bureau (NDWCB) is an exclusive state workers' compensation fund, which exists for the mutual benefit of North Dakota employers and employees. The assets of the Bureau are utilized to pay benefits to injured workers or their survivors.

Section 65-04-01 of the North Dakota Century Code requires the NDWCB to establish premium rates for funding sufficiently high to provide for:

1. The payment of the expenses of administration of the Bureau,
2. The payment of compensation according to the provisions and schedules contained in this title, and
3. The maintenance by the Fund of adequate reserves and surplus to the end that it may be kept at all times in an entirely solvent condition.

Purpose of This Statement

The purpose of this statement is to set forth the investment goals and objectives for the NCWCB. The goals and objectives are to be used by the North Dakota State Investment Board (SIB) for the investment of the NDWCB assets.

Delegation of Responsibilities

Responsibilities of the NDWCB and its Board of Directors:

- The NDWCB has the responsibility for establishing the investment goals and objectives which are the guide to the investment of NDWCB's assets.
- The NDWCB shall review these investment goals and objectives at least annually.
- The NDWCB shall develop the asset allocation plan for NDWCB's assets.
- The NDWCB shall utilize the assistance of experienced independent investment professionals in developing the asset allocation plan.

Responsibilities of the North Dakota State Investment (SIB)

- Final authority for hiring, retaining, and releasing the investment managers shall rest with the SIB.
- The SIB is responsible to the NDWCB for carrying out the NDWCB's Investment Goals and Objectives.
- The SIB must maintain a separate accounting for the NDWCB under its authority.

Asset Allocation Policy

The asset allocation policy developed herein is based on an evaluation of the NDWCB's ability and willingness to assume investment risk in light of NDWCB's financial goals and objectives. In recognition of these goals and objectives, coupled with a liability-sensitive asset allocation study conducted by Callan Associates in November 1998, the following asset allocation is deemed appropriate for the NDWCB. The portfolio mix shall be in accordance with the following asset allocation and periodically reviewed by the NDWCB.

Asset Class	Target Allocation
Domestic Equity	
Large Cap Equity	12%
Small Cap Equity	6%
Convertibles	12%
International Equity	8%
Fixed Income	59%
Cash Equivalents	3%
Total	100%

The operating and liquidity needs of the Bureau are generally to be met by the cash equivalents allocation.

Funds in excess of those required for operating and liquidity needs will be invested in large capitalization equity, small capitalization equity, international equity, convertible and fixed income securities. The objective of these assets is to obtain the maximum total return on investments consistent with safety of principal on funds in excess of those required for operating and liquidity needs.

Total Fund Investment Goals and Objectives

The investment goal of the NDWCB is to supplement premiums, through various investments, to accomplish its statutory obligations. It is expected that the assets earn at least a 4.0% real rate of return during periods longer than one market cycle.

The following investment objectives are established as of the date adopted and are in keeping with the fiduciary requirements as set forth in federal and state law and as expected by the members. The NDWCB expects to receive results from the SIB that are consistent with the policies included herein. These objectives and guidelines will provide a basis for evaluating the effectiveness of the investment program over time. It is clearly understood these objectives and standards are to be viewed over the long term and have been established after full consideration of all factors set out in the Statement of Investment Policy.

Restricted Transactions

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understand that:

a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
d. No transaction shall be made which threatens the tax exempt status of the Fund.
e. No funds shall be borrowed.
f. No short sales or margin purchases shall be made.
g. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

   For the purpose of this document, social investing is defined as "The investment or commitment of insurance trust money for the purpose of obtaining an effect other than a maximized return consistent with Fund objectives."

h. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

   For the purpose of this document, economically targeted investment is defined as "an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy."

   Also for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

a. The cost does not exceed the fair market value at the time of investment.
b. The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
c. Sufficient liquidity is maintained in the Fund to permit distributions as required.
d. The safeguards and diversity that a prudent investor would adhere to are present.

Exemptions to Restrictions

The SIB may request exemptions from the investment guidelines, in writing, to the NDWCB for its consideration for specific transactions.

Total Fund Performance Objectives

The performance objectives for the Total Fund are as follows:

- For time horizons of less than one market cycle (approx. 1-3 years) and one market cycle (approx. 3-5 years), rank in upper half of a broad universe of managers, and exceed the return of the reference index benchmark, net of fees.

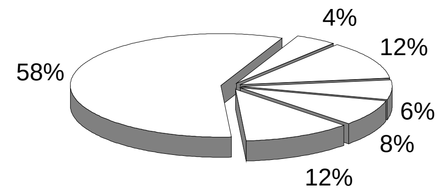
  A broad universe of managers is measured by a universe of managers composed of 12% large cap equity; 6% small cap equity; 12% convertible; 8% international equity; 59% fixed income; and 3% cash equivalents.

  The reference index benchmark is composed of 12% S&P 500; 6% Russell 2000; 12% First Boston Convertible; 8% MSCI EAFE; 59% Lehman Aggregate; 3% 90-day Treasury bills.

- For time horizons of over one market cycle (over 5 years), provide a 4.0% premium over the rate of inflation (as measured by the Consumer Price Index), annualized.

■ Workers Compensation Fund
Actual Asset Allocation – June 30, 2003

Asset Allocation		Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	117,738,319	12%	
Domestic Small Cap Equity		59,862,569	6%	
International Equity		78,603,894	8%	
Convertible Bonds		114,684,449	12%	
Fixed Income		576,622,206	58%	
Cash Equivalents		33,197,221	4%	
TOTAL FUND	$	980,708,658	100%	8.96%



STATE FIRE AND TORNADO FUND

■ State Fire and Tornado Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The State Fire and Tornado Fund (the Fund) was established in 1919 to insure the various state industries and political subdivisions against direct physical loss to public buildings, fixtures, and permanent contents due to the perils named in 26.1-22-02 of the North Dakota Century Code (NDCC). All state buildings and universities must be covered by the Fund. School districts and counties may participate at their option.

Funding is primarily provided by annual premiums charged to policyholders in accordance with NDCC 26.1-22. Premiums are expected to total approximately $3.5 million annually, with the bulk of these premiums received at the beginning of each fiscal year.

Effective August 1993, the state's boiler inspection program was placed under the direction of the Insurance Department. The costs of this program are appropriated from the Fund. Fees collected for boiler inspections and licensing will be the primary source of funding for the program. The 1995 Legislature added anhydrous ammonia storage facilities to the Fund's inspection responsibilities.

A minimum balance of $12.0 million must be maintained at all times. If reserves drop below this statutory minimum, additional premiums, as specified under NDCC 26.1-22, would be assessed. This situation must be avoided.

The Fund retains liability for the first $1 million on each and every loss. Any loss over this amount, up to a maximum of $100 million, is covered by reinsurance through a commercial reinsurance carrier. Reinsurance coverage is re-bid by the Insurance Department every two years.

Claims paid from the Fund are highly unpredictable. Weather damage accounts for the majority of claims. Fires generally result in the most extensive damage.

Generally, there is a 30-day lead time to prepare for a claim payment. Large claim payments have a longer lead time and are spread out in multiple payments whenever possible. Total claim payments and transfers over the last four fiscal years have averaged $4.3 million annually.

Operating expenses are paid from the Fund as incurred. These include Fund administration, boiler inspection program, anhydrous ammonia storage facility inspections, State Fire Marshall's Office, and State Firemen's Association. For planning purposes over the 2001-2003 biennium, these appropriations were assumed to be $415,573 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2001-2003 biennium for appropriateness.

Responsibilities and Discretion of the State Investment Board (SIB)

The SIB is charged by law under NDCC 21-10 with the responsibility of establishing investment policy and investing the assets of the Fund. The assets are to be invested in the manner provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed to provide stability for insurance reserves. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth will be sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity will be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments shall be used to achieve this objective.

Objective #4: The risk of violating the statutory minimum balance requirement of $12,000,000 is to be minimized. This will be achieved by an asset allocation consistent with this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 15% S&P 500 domestic stock index, 5% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 10% First Boston convertible securities index, 50% Lehman Government/Corporate domestic bond index, and 10% 90-day Treasury bills.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the Insurance Department. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	15%
Small Cap Domestic Equity	5%
Convertible Bonds	10%
International Equity	10%
Fixed Income	50%
Cash Equivalents	10%

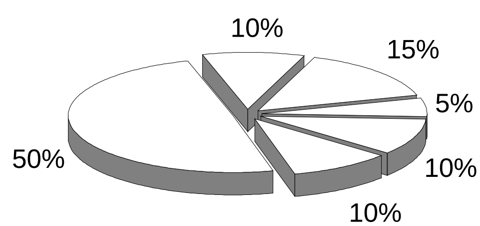
Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. No derivative instruments or strategies which make use of derivates which would cause the portfolio to be in any way leveraged will be used.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
d. No funds shall be borrowed.
e. No short sales or margin purchases shall be made.

■ State Fire and Tornado Fund
Actual Asset Allocation – June 30, 2003

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 2,467,731	15%	
Domestic Small Cap Equity	830,874	5%	
International Equity	1,673,415	10%	
Convertible Bonds	1,635,668	10%	
Fixed Income	8,104,150	50%	
Cash Equivalents	1,625,449	10%	
TOTAL FUND	$ 16,337,287	100%	7.25%



STATE BONDING FUND

■ State Bonding Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The State Bonding Fund (the Fund) was established for bonding public employees and public officials in accordance with Chapter 26.1-21 of the North Dakota Century Code (NDCC). Some fees to the Fund are collected annually in the form of claims repayments. However, the primary funding source for the Fund is investment return.

A minimum balance of $2.5 million must be maintained at all times. If reserves drop below this statuary minimum, premiums will be assessed against all bond holders in accordance with NDCC 26.1-21-09. Such premiums will continue to be charged until the Fund balance reaches $3.0 million. This situation must be avoided.

Claims paid from the Fund are on an as-needed basis and are highly unpredictable. A judgment against the guilty party is required prior to the Fund making a claim payment. Generally, there is a 60-90 day lead time to prepare for a claim payment. Claims have averaged $129,247 annually over the last four fiscal years.

Appropriations from the Fund are exclusively for administrative costs. For planning purposes during the 2001-2003 biennium, these appropriations are assumed to be $33,716 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2001-2003 biennium for appropriateness.

Responsibilities and Discretion of the State Investment Board (SIB)

The SIB is charged by law under NDCC 21-10 with the responsibility of establishing investment policy and investing the assets of the Fund. The assets are to be invested in the manner provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish appropriate asset class pools designed to provide specific quality and diversification guidelines, restrictions, and performance objectives consistent with the goals of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, but also recognize the shorter-term liquidity needs. Operating and statutory considerations shape the policies and priorities outlined below.

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth is sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity will be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments shall be used to achieve this objective.

Objective #4: The risk of violating the statutory minimum balance requirement of $2,500,000 is to be minimized. This will be achieved by an asset allocation consistent with this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 15% S&P 500 domestic stock index, 5% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 10% First Boston convertible securities index, 50% Lehman Government/Corporate domestic bond index, and 10% 90-day Treasury bills.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation of the State Bonding Fund is established by the SIB, with input from the Insurance Department. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	15%
Small Cap Domestic Equity	5%
Convertible Bonds	10%
International Equity	10%
Fixed Income	50%
Cash Equivalents	10%

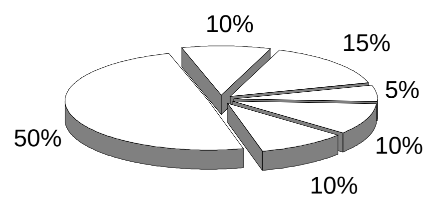
Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
d. No funds shall be borrowed.
e. No short sales or margin purchases shall be made.

State Bonding Fund
Actual Asset Allocation – June 30, 2003

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 776,187	15%	
Domestic Small Cap Equity	261,361	5%	
International Equity	526,243	10%	
Convertible Bonds	514,543	10%	
Fixed Income	2,546,914	50%	
Cash Equivalents	513,351	10%	
TOTAL FUND	$ 5,138,599	100%	7.52%



PETROLEUM TANK RELEASE COMPENSATION FUND

■ Petroleum Tank Release Compensation Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The Petroleum Tank Release Compensation Fund (the Fund) was established in 1989 in response to the Environmental Protection Agency's (EPA) requirement that all underground storage tank owners have proof of financial responsibility. Operation of the Fund is in accordance with the 1991 Session Laws, Chapter 299. The Fund's "sunset clause" date of June 30, 1999, has been extended and the time horizon for this Fund is uncertain at this time.

Funding is provided by annual premiums collected for above ground and subterranean petroleum storage tanks. Registration of tanks with the Fund is mandatory, although certain types of tanks are excluded. Premiums are estimated to total $313,479 annually during the current biennium.

A minimum balance of $2 million must be maintained in the Fund in order to assure EPA approval. In the event reserves drop below this minimum, EPA would evaluate the Fund's ability to pay claims and would in all likelihood disapprove the Fund as a financial responsibility mechanism for North Dakota petroleum tank owners.

The Fund provides up to $1 million of coverage for on-site cleanup and third party liability caused by petroleum contamination. There is a $5,000 deductible with a 90/10 owner copayment. The maximum payment from the Fund for a claim is $980,000. Claims have averaged $316,075 annually over the last four fiscal years.

Operating expenses are paid from the Fund as incurred. For planning purposes over the 2001-2003 biennium, these appropriations were assumed to be $40,000 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2001-2003 biennium for appropriateness.

Responsibilities and Discretion of the State Investment Board (SIB)

The SIB is charged by Chapter 285 of the 1993 Session Laws with establishing investment policy and investing the assets of the Fund. The assets are to be invested in the manner provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish appropriate asset class pools designed to provide specific quality and diversification guidelines, restrictions, and performance objectives consistent with the goals of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

Investment Objectives

The investment objectives of the Fund reflect the need to augment premium income to provide for claim payments and stability of insurance reserves. Operating considerations shape the Fund's policies and priorities as follows:

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth is sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity will be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments shall be used to achieve this objective.

Objective #4: The risk of violating the EPA mandated minimum balance requirement of $2,000,000 is to be minimized. This will be achieved by an asset allocation consistent with this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 10% S&P 500 domestic stock index, 10% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 10% First Boston convertible securities index, 45% Lehman Government/Corporate domestic bond index, and 15% 90-day Treasury bills.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the Insurance Department. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	10%
Small Cap Domestic Equity	10%
Convertible Bonds	10%
International Equity	10%
Fixed Income	45%
Cash Equivalents	15%

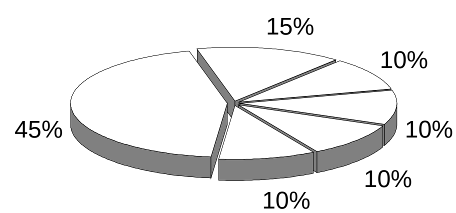
Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
d. No funds shall be borrowed.
e. No short sales or margin purchases shall be made.

■ Petroleum Tank Release Compensation Fund Actual Asset Allocation – June 30, 2003

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 863,259	10%	
Domestic Small Cap Equity	871,971	10%	
International Equity	877,851	10%	
Convertible Bonds	858,344	10%	
Fixed Income	3,818,256	45%	
Cash Equivalents	1,288,675	15%	
TOTAL FUND	$ 8,578,356	100%	7.05%



INSURANCE REGULATORY TRUST FUND

■ Insurance Regulatory Trust Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The Insurance Regulatory Trust Fund (the Fund) was established for use by the Insurance Department to defray the expenses incurred in discharging its duties as described in NDCC 26.1.

Funding is provided primarily through the collection of fees and fines as specified in NDCC 26.1-01-07.1. Fees and other collections are expected to total approximately $3.3 million annually, with the bulk of this income received in the second half of each fiscal year. Earnings from investments are also considered a funding source.

There is no statutory minimum balance for this Fund. However, the Insurance Department relies entirely on the Fund to meet all operating expenses. Therefore, sufficient liquidity and risk control must be maintained at all times to ensure the solvency of the Insurance Department.

In accordance with NDCC 26.1-01-07.1, any cash balance in the Fund after all current biennium expenditures are met must be carried forward for the succeeding biennium. However, when the balance at the end of the biennium exceeds $1.0 million, any excess will be transferred to the general fund in the state treasury. Such transfers are generally made at the end of September or during the first two weeks of October.

Operating expenses are paid from the Fund as incurred. For planning purposes over the 2001-2003 biennium, these appropriations were assumed to be $2.7 million annually.

The Fund's asset allocation will need to be reviewed at the end of the 2001-2003 biennium for appropriateness.

Responsibilities and Discretion of the State Investment Board (SIB)

The SIB is charged by law under NDCC 21-10 with the responsibility of establishing investment policy and investing the assets of the Fund. The assets are to be invested in the manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish appropriate asset class pools designed to provide specific quality and diversification guidelines, restrictions, and performance objectives consistent with the goals of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

Investment Objectives

The investment objectives of the Fund reflect moderate risk tolerance and short-term liquidity needs. The increasing need to augment fee income as growth in expenses outpaces traditional funding sources is also recognized.

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of the Fund. Capital growth is sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity will be maintained to meet known or anticipated financial obligations. Cash equivalent investments shall be used to achieve this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 10% S&P 500 domestic stock index, 5% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 10% First Boston convertible securities index, 30% Lehman Government/Corporate domestic bond index, and 35% 90-day Treasury bills.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the Insurance Department. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	10%
Small Cap Domestic Equity	5%
Convertible Bonds	10%
International Equity	10%
Fixed Income	30%
Cash Equivalents	35%

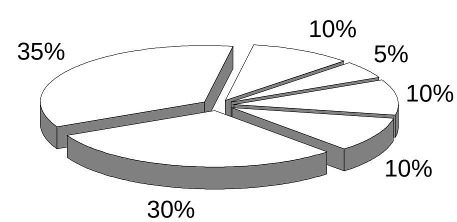
Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
d. No funds shall be borrowed.
e. No short sales or margin purchases shall be made.

Insurance Regulatory Trust Fund
Actual Asset Allocation – June 30, 2003

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 277,253	10%	
Domestic Small Cap Equity	139,905	5%	
International Equity	282,518	10%	
Convertible Bonds	276,562	10%	
Fixed Income	823,597	30%	
Cash Equivalents	964,342	35%	
TOTAL FUND	$ 2,764,177	100%	6.74%



NORTH DAKOTA HEALTH CARE TRUST FUND

■ North Dakota Health Care Trust Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

Through the passage of House Bill 1196, the 2001 North Dakota Legislature created a special fund, in the State Treasury, known as the North Dakota Health Care Trust Fund (the Fund). The Fund consists of revenue received from government nursing facilities for remittance to the Fund under Section 50-24.4-30. Section 13 of House Bill 1196 provides that the State Investment Board (SIB) shall invest moneys in the Fund in accordance with Chapter 21-10, and the income earned must be deposited in the Fund. All moneys deposited in the Fund are available to the Department of Human Services for payment as authorized by legislative appropriations and for transfer to the long-term care facility loan fund as authorized by legislative appropriation.

Responsibilities and Discretion of the SIB

The SIB is charged by law under NDCC 21-10 with the responsibility of establishing investment policy and investing the assets of the Fund. The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

Investment Objectives

The investment objectives are to obtain a reasonable rate of return on the Fund while maintaining sufficient liquidity to meet known or anticipated financial obligations. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

Objective #2: Investment income is needed to provide stability for the Fund. This will be achieved through investment in certificates of deposit and cash equivalents.

Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the North Dakota Department of Human Services. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Cash Equivalents & CD's	100%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

1. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
2. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
3. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
4. No funds shall be borrowed.
5. No short sales or margin purchases shall be made.

■ North Dakota Health Care Trust Fund Actual Asset Allocation – June 30, 2003

Asset Allocation	Market Value	Percent of Total	One Year Return
Cash Equivalents & CD's	28,646,292	100%	
TOTAL FUND	$ 28,646,292	100%	-0.95%

STATE RISK MANAGEMENT FUND

■ State Risk Management Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

To address the State's loss of sovereign immunity, the 1995 North Dakota Legislature created a new chapter of the North Dakota Century Code (NDCC), 32-12.2. That Chapter established the Risk Management Fund (the Fund) to administer claims against the State and state employees for personal injury, death, or property damage caused by the State or a state employee acting within the scope of the employee's employment. The Fund is directed by the Office of Management and Budget (OMB).

Each entity of the State is required to participate in the Fund. Contributions to the Fund are determined by the Director of OMB based on an actuarial review of the financial status of the Fund. This results in a fluctuation of contributions made to the Fund from one biennium to another.

The amount of money damages the Fund may pay is limited for state court actions to a total of $250,000 per person and $1,000,000 per occurrence. These liability caps may not be recognized in Federal Court actions or in actions filed in other states. The Fund's excess carrier provides coverage up to $10,000,000 for those exposures not covered by the Tort Claims Act.

In addition to the excess coverage, the Fund purchases medical malpractice liability coverage. The average cost of these premiums totals approximately $925,000 per year.

Significant claims paid from the Fund are usually somewhat predictable and take a period of time to resolve. A person bringing a claim or lawsuit against the State or a state employee must give notice to the OMB Director within 180 days after the alleged injury is discovered or reasonably should have been discovered. If the claim is one for death, the notice must be provided within one year after the alleged injury resulting in the death. Total incurred (paid claims and claim expense payments plus reserves) since the inception of the Fund (April 22, 1995) is $4,647,591, an average of $663,942 a year.

The Risk Management Division's operating expenses including loss control activities are paid from the Fund as incurred. Those expenses have averaged $283,371 per year since the Fund's inception.

The Fund's asset allocation will need to be reviewed at the end of the 2003-2005 biennium for appropriateness.

Responsibilities of the State Investment Board (SIB)

The SIB is charged by law under NDCC 21-10 with the responsibility of establishing investment policy and investing the assets of the Fund. The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed to provide stability for insurance reserves. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth will be sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 15% Russell 1000 domestic stock index, 5% Russell 2000 domestic small cap index, 10% First Boston convertible securities index, 50% Lehman Government/corporate domestic bond index, and 20% 90-day Treasury bills.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the OMB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	15%
Small Cap Domestic Equity	5%
Convertible Bonds	10%
Fixed Income	50%
Cash Equivalents	20%

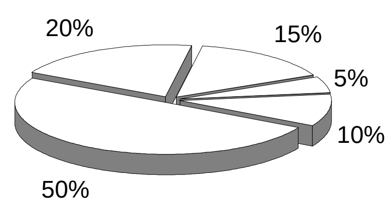
Rebalancing of the Fund to this allocation will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
d. No funds shall be borrowed.
e. No short sales or margin purchases shall be made.

■ State Risk Management Fund
Actual Asset Allocation – June 30, 2003

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 384,633	15%	
Domestic Small Cap Equity	129,536	5%	
Convertible Bonds	254,998	10%	
Fixed Income	1,263,808	50%	
Cash Equivalents	506,444	20%	
TOTAL FUND	$ 2,539,419	100%	8.86%



VETERANS CEMETERY TRUST FUND

■ Veterans Cemetery Trust Fund Investment Objectives and Policy Guidelines

Introduction

On August 1, 1997, the State Investment Board (SIB) became responsible for the administrative oversight of the Veterans Cemetery Trust Fund (the Fund), a pool meant to benefit the resting ground of North Dakota veterans. The funding of the pool is derived through the sale of commemorative license plates and private donations.

Responsibilities of the State Investment Board (SIB)

The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money mangers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

Investment Objectives

Investment income is needed to provide for the payment of future expenses of the Veterans Cemetery while protecting the principal. This will be achieved through investment in cash equivalents.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as the 90-day Treasury bill.
b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation is established by The ND Adjutant General's Office with input from the Retirement and Investment Office staff. Asset allocation is based upon the appraisal of projected liquidity. In recognition of this factor, the following allocation is deemed appropriate for the fund:

Cash Equivalents	100%

This cash will be held in an enhanced money market account at the Bank of North Dakota.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.

b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.

c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.

d. No funds shall be borrowed.

e. No short sales or margin purchases shall be made.

■ Veterans Cemetery Trust Fund Actual Asset Allocation – June 30, 2003

Asset Allocation	Market Value	Percent of Total	One Year Return
Cash Equivalents	$63,434	100%	1.57%

VETERANS POST WAR TRUST FUND

■ Veterans Post War Trust Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The Veterans Post War Trust Fund (the Fund) was established for the benefit of and service to veterans as defined in North Dakota Century Code (NDCC) 37-01-40 or their dependents as determined and appropriated by the Legislative Assembly. The funding source for the Fund is investment income.

A minimum balance of $4,104,848.55 must be maintained at all times. This amount is the principal that must be retained in the Fund. Expenditures from the Fund are met through investment income.

The North Dakota Legislature has periodically appropriated investment income to the North Dakota Veteran's Home and North Dakota Department of Veterans Affairs (state agencies). These special fund appropriations are used to offset State General Fund obligations.

The State Treasurer requires a detailed quarterly cash flow from each of the state agencies receiving funds during the 2001-03 biennium. A detailed annual cash flow analysis projecting monthly expenditures is necessary for the State Treasurer to maintain liquid funds to meet agency transfer requests. Deviation from this cash flow analysis may reduce investment income to the Fund.

Responsibilities and Discretion of the State Treasurer

The State Treasurer is charged by law under NDCC 37-14-14 with the responsibility of investing the assets of the Fund. The assets are to be invested in the manner provided in NDCC 15-03-04, the prudent investor rule.

The State Treasurer will invest assets in investment instruments that provide the best investment income return with minimal or no risk to the Fund. The maturity terms will be dependent on the agency's appropriation and cash flow analysis provided to the State Treasurer.

At the discretion of the State Treasurer, the Fund's assets may be invested with investment firms. The State Treasurer is responsible for establishing criteria and procedures in making decisions with respect to hiring, maintaining and terminating investment firms.

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, as well as recognize the shorter-term liquidity needs. Operating and statutory consideration shape the policies and priorities outlined below:

- Growth of income is needed due to lack of a funding source. This will be achieved through a diversified portfolio of high quality fixed income and money market assets.
- Liquidity and preservation of the principal are limiting elements in achieving a favorable return on invested assets. Sufficient cash equivalents will be maintained to meet known financial obligations mandated by the Legislature and/or Veterans Administrative Committee.
- Maximize investment interest to exceed the obligations of the Fund (with minimal or no risk to the Fund).

Standards of Investment Performance

The current investment policy addresses the unique liquidity needs of the Fund during the 1999-2001 biennium. In recognition of these needs, the Fund's investment performance must be carefully evaluated over the next 1 – 2 fiscal years.

The Fund's investment objectives and liquidity constraints require an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- The Fund cannot expend investment income unless it has been earned from a previous or current period.
- The Fund must average investment income to exceed the legislative appropriation for a given biennium.

Policy and Guidelines

The asset allocation of the Fund is established by the State Treasurer, with input from the Veterans Administrative Committee and the Retirement and Investment Office. Asset allocation is based upon the appraisal of current (biennium ending June 30, 2001) liquidity and income needs and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of the Fund's objectives, needs, and market expectations, the following is deemed appropriate for the Fund:

- Fixed income (treasury notes, agency bonds, other bonds)
- Equity investments
- Certificates of Deposit
- Cash equivalents

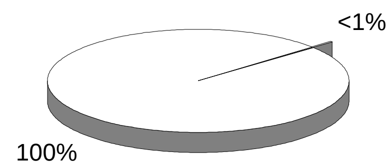
It is understood that:

- The prudent investor rule will apply.
- Investment rates will be secured net of any investment fees.
- The State Treasurer will seek investment instruments which provide minimal or no risk to the Fund or its principal.
- Monies in the Fund will be invested according to a detailed quarterly cash flow analysis prepared by the Veterans agencies receiving funds.
- Certificates of Deposit will not be purchased from savings and loan institutions on a local or national basis.
- Certificates of Deposit will not be purchased from financial institutions in which the capital to asset ratio is less than 6%.
- The State Treasurer may invest in long-term investment instruments in order to maximize return to the Fund and provide greater interest income.
- A maximum of 25% of the total Fund will be invested in large cap domestic equity securities with the State Investment Board.

Due to possible changes in biennial appropriations and/or changes in investment asset allocations, the Investment Policy will be reviewed by July 1 of odd-numbered years, with revisions being made when appropriate.

■ Veterans Post War Trust Fund
Actual Asset Allocation – June 30, 2003

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 1,123,945	100%	
Cash Equivalents	2,945	0%	
TOTAL FUND	$ 1,126,890	100%	-0.46%



NORTH DAKOTA ASSOCIATION OF COUNTIES

■ ND Association of Counties (NDACo) Fund and NDACo Program Savings Fund Investment Objectives and Policy Guidelines

Introduction

The North Dakota Association of Counties (NDACo) was established to aid in the administration of county government by providing a medium for exchange of information, ideas, and experience of county officials; promote training; facilitate cooperation with all levels of government; and be a legislative advocate for counties. NDACo and the benefits provided thereunder are funded by dues from member counties and special programs and projects of NDACo.

Responsibilities and Discretion of the State Investment Board (SIB)

The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Funds' assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

Investment Objectives

Funds in excess of those required for operating and claims payment needs will be invested to obtain the maximum total return on investments consistent with safety of principal on funds in excess of those required for operating and claims payment needs. The investment fund(s) may be comprised of fixed income securities and equity securities. Individual investments may be either actively or passively managed.

Standards of Investment Performance

The Funds' investment objectives and liquidity constraints give rise to asset allocations that are considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Funds should produce rates of return that meet or exceed the portfolio policy index defined as 20% S&P 500 domestic stock index, 10% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 10% First Boston convertible securities index, 45% Lehman Brothers Government/Corporate domestic bond index, and 5% 90-day Treasury bills.
b. The annual standard deviation of total returns for the Funds should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation is established by the SIB, with input from NDACo. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the funds.

Large Cap Domestic Equity	20%
Small Cap Domestic Equity	10%
Convertible Bonds	10%
International Equity	10%
Fixed Income	45%
Cash Equivalents	5%

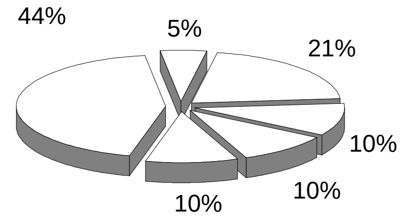
Rebalancing of the Funds to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Funds' assets will be invested, it is understood that:

a. No derivative instruments or strategies which make use of derivatives which would cause the portfolios to be in any way leveraged will be used.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
d. No funds shall be borrowed.
e. No short sales or margin purchases shall be made.

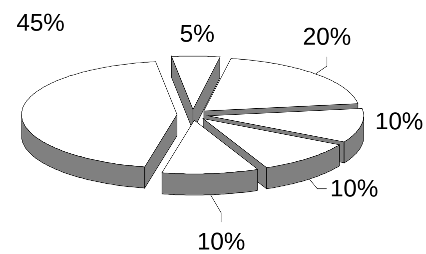
■ ND Association of Counties (NDACo) Fund
Actual Asset Allocation – June 30, 2003

Asset Allocation		Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	55,160	21%	
Domestic Small Cap Equity		27,897	10%	
International Equity		28,061	10%	
Convertible Bonds		27,428	10%	
Fixed Income		121,853	44%	
Cash Equivalents		13,800	5%	
TOTAL FUND	$	274,199	100%	6.76%



■ NDACo Program Savings Fund
Actual Asset Allocation – June 30, 2003

Asset Allocation		Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	58,490	20%	
Domestic Small Cap Equity		29,604	10%	
International Equity		29,754	10%	
Convertible Bonds		29,086	10%	
Fixed Income		129,754	45%	
Cash Equivalents		14,442	5%	
TOTAL FUND	$	291,130	100%	6.75%



CITY OF BISMARCK DEFERRED SICK LEAVE ACCOUNT

■ City of Bismarck Deferred Sick Leave Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The City of Bismarck Deferred Sick Leave Account (the Fund) represents money set aside to cover the City's unfunded liability of employees' accrued sick leave. People who terminate employment with the City shall be compensated for unused sick leave from this Fund. In time, it is expected that the Fund will become depleted.

Responsibilities and Discretion of the State Investment Board (SIB)

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish appropriate asset class pools designed to provide specific quality and diversification guidelines, restrictions, and performance objectives consistent with the goals of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

Investment Objectives

The investment objectives of the Fund reflect moderate risk tolerance and short-term liquidity needs. The self-liquidating feature of the Fund is also recognized.

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of the Fund. Capital growth is sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity will be maintained to meet known or anticipated financial obligations. Cash equivalent investments shall be used to achieve this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 10% S&P 500 domestic stock index, 5% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 10% First Boston convertible securities index, 60% Lehman Government/Corporate domestic bond index, and 5% 90-day Treasury Bills.

b. The annual standard deviation of total returns for the Fund should be consistent with that of the policy portfolio.

Policy and Guidelines

The asset allocation of the Fund is established by the City of Bismarck. Asset allocation is based upon the appraisal of projected liquidity requirements and sick leave payment demand, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	10%
Small Cap Domestic Equity	5%
Convertible Bonds	10%
International Equity	10%
Fixed Income	60%
Cash Equivalents	5%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.

b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.

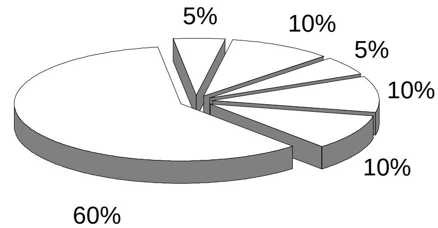
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

d. No funds shall be borrowed.

e. No short sales or margin purchases shall be made.

■ City of Bismarck Deferred Sick Leave Actual Asset Allocation – June 30, 2003

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 61,306	10%	
Domestic Small Cap Equity	30,958	5%	
International Equity	62,357	10%	
Convertible Bonds	60,969	10%	
Fixed Income	361,977	60%	
Cash Equivalents	30,612	5%	
TOTAL FUND	$ 608,179	100%	8.77%



NDPERS GROUP INSURANCE ACCOUNT

■ NDPERS Group Insurance Account Investment Objectives and Policy Guidelines

Introduction

The NDPERS Group Insurance Account (the Fund) was established to hold insurance premiums collected from employers until paid to the insurance carrier.

Responsibilities and Discretion of the State Investment Board (SIB)

The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

Investment Objectives

Premiums are collected throughout the month at PERS and will be forwarded to the Fund investment account on the 1st and 15th of each month. The premiums transferred into the investment account will be transferred back to PERS on approximately the 22nd of each month so they may be remitted to the insurance carrier.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as the 90-day Treasury bill.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation is established by NDPERS. Asset allocation is based upon the appraisal of projected liquidity. In recognition of this factor, the following allocation is deemed appropriate for the Fund:

Cash Equivalents	100%

This cash will be held in an enhanced money market account at the Bank of North Dakota.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
d. No funds shall be borrowed.
e. No short sales or margin purchases shall be made.

■ NDPERS Group Insurance Account Actual Asset Allocation – June 30, 2003

Asset Allocation	Market Value	Percent of Total	One Year Return
Cash Equivalents	$134,233	100%	1.57%

CITY OF FARGO FARGODOME PERMANENT FUND

■ City of Fargo FargoDome Permanent Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The City of Fargo has set aside excess sales tax collections intended for the administration of the FargoDome in the FargoDome Permanent Fund (Fund). The initial amount in the fund is approximately $2.8 million with additional deposits of $1 million per year until 2009. No withdrawals are expected to be made until after 2009 when the sales tax revenue is discontinued.

Responsibilities of the State Investment Board (SIB)

The SIB is charged by law under NDCC 21-10 with the responsibility of establishing investment policy and investing the assets of the Fund. The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

Investment Objectives

The investment objectives are to obtain a reasonable rate of return on the Fund while maintaining sufficient liquidity to meet known or anticipated financial obligations. Operating considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of the Fund. Capital growth is sought through investment in equities and/or equity substitutes.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 23% Russell 1000 domestic stock index, 17% Russell 2000 domestic small cap index, 10% First Boston Convertible Securities index, 49% Lehman Government/Corporate domestic bond index, and 1% 90-day Treasury bills.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation of the Fund is established by the City of Fargo Finance Committee, with input from RIO staff. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Large Cap Domestic Equity	23 %
Small Cap Domestic Equity	17 %
Convertible Bonds	10 %
Fixed Income	49 %
Cash Equivalents	1 %

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.

b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.

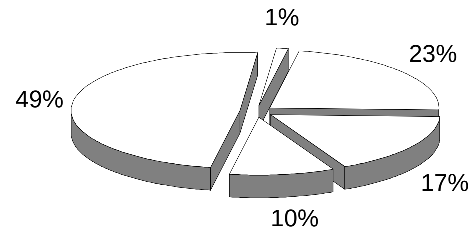
c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.

d. No funds shall be borrowed.

e. No short sales or margin purchases shall be made.

■ City of Fargo FargoDome Permanent Fund Actual Asset Allocation – June 30, 2003

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 997,450	23%	
Domestic Small Cap Equity	744,669	17%	
Convertible Bonds	431,540	10%	
Fixed Income	2,086,230	49%	
Cash Equivalents	49,940	1%	
TOTAL FUND	$ 4,309,829	100%	N/A



RETIREE HEALTH INSURANCE CREDIT FUND

■ Retiree Health Insurance Credit Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The Retiree Health Insurance Credit Fund (the Plan) was established in 1989 for the purpose of prefunding and providing hospital benefits coverage and medical benefits coverage in accordance with Chapter 54-52.1 of the North Dakota Century Code.

The Plan is a defined benefit program that provides for a partial payment of a retiree's medical insurance premium. Eligible members are those Public Employees Retirement System (PERS), Judges, Air Guard, and Highway Patrol retirees who are participating in the Uniform Group Health Insurance program.

Funding is provided by a monthly employer contribution of 1% of payroll. On a monthly basis, benefit payments are netted out against contributions and the balance forwarded to the Trust's custodian for investment. Benefit payouts are expected to increase at the rate of 5% per year for the next ten years, while contributions are expected to grow at 5%. Net positive cash flow into the Fund is expected for the next 20 years. The actuary assumes a 7.5% rate of return on assets.

Responsibilities and Discretion of the State Investment Board (SIB)

Under NDCC 21-10-06, the SIB may provide investment services for non-statutory funds on a contract basis. NDCC 21-10-07 requires that the assets of the Plan be invested in accordance with the prudent investor rule.

At the discretion of the SIB, the Plan's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selection of performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as it is prudent to do.

Investment Objectives

The investment objectives of the Plan reflect the long time horizon, funding constraint, small asset base, and need for capital growth. Operating considerations shape the Plan's policies and priorities as follows:

Objective #1: Obtain a favorable return on invested assets through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Provide for growth of capital by emphasizing equity exposure in the Plan's asset allocation.

Objective #3: Minimize investment costs and risk of under-performing the stock and bond markets through investment in index funds.

Objective #4: Maintain as closely as possible an asset allocation of 35% large cap domestic equities, 15% small cap domestic equities, 15% international equities and 35% domestic fixed income.

Standards of Investment Performance

The Plan's investment objectives and characteristics give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Plan should produce a rate of return that at least matches that of the policy portfolio, which is comprised of 35% S&P 500 Stock Index, 15% Russell Special Small Cap Index, 15% MSCI EAFE Index, and 35% Lehman Brothers Aggregate Bond Index.

b. The annual standard deviation of total returns for the Plan should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation of the Plan is established by the PERS Board, with input from money managers and the RIO staff. Asset allocation is based upon the appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of the Plan's objectives, needs, and capital market expectations, the following asset allocation is deemed appropriate for the Plan:

Large Cap Domestic Equities	35%
Small Cap Domestic Equities	15%
International Equities	15%
Domestic Fixed Income	35%

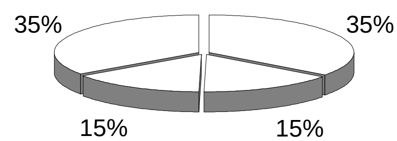
Rebalancing of the Plan to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Plan's assets will be invested, it is understood that:

a. The prudent investor rule will apply.
b. Futures and options may be used to hedge, but not for speculation.
c. The investment performance target of the equity allocation is the S&P 500 Stock Index return.
d. The investment performance target of the fixed income allocation is the Lehman Aggregate Bond Index return.
e. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

■ Retiree Health Insurance Credit Fund Actual Asset Allocation – June 30, 2003

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 8,821,088	35%	
Domestic Small Cap Equity	3,783,712	15%	
International Equity	3,744,249	15%	
Fixed Income	8,727,371	35%	
TOTAL FUND	$25,076,420	100%	3.39%



Actuarial Section

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries
5605 N. MacArthur Blvd. • Suite 870 • Irving, Texas 75038-2631 • 469-524-0000 • fax 469-524-0003

October 17, 2003

Board of Trustees
North Dakota Teachers' Fund for Retirement
1930 Burnt Boat Rd.
P. O. Box 7100
Bismarck, ND 58507-7100

Dear Members of the Board:

Subject: Actuarial Valuation as of July 1, 2003

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the North Dakota Teachers' Fund for Retirement (TFFR) as of July 1, 2003.

All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion the results presented also comply with the North Dakota Century Code, and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries. Both are Enrolled Actuaries and Members of the American Academy of Actuaries and both are experienced in performing valuations for large public retirement systems.

Actuarial Valuation

The primary purposes of the valuation report are to determine the adequacy of the current employer contribution rate, to describe the current financial condition of TFFR, and to analyze changes in TFFR's condition. In addition, the report provides information required by TFFR in connection with Governmental Accounting Standards Board Statement No. 25 (GASB No. 25), and it provides various summaries of the data.

Valuations are prepared annually, as of July 1 of each year, the first day of TFFR's plan and fiscal year.

Financing Objectives

The member and employer contribution rates are established by statute, and both are currently set at 7.75%. The rates are intended to be sufficient to pay TFFR's normal cost and to amortize TFFR's unfunded actuarial accrued liability (UAAL) in level payments over a period of 20 years from the valuation date. The funding period is set by the Board of Trustees, and is considered reasonable by the actuary.

Board of Trustees
October 17, 2003
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Progress Toward Realization of Financing Objectives

As of July 1, 2003, the employer contribution rate needed in order to meet these goals is 8.94%. This is greater than the 7.75% rate currently required by law. The margin between the rate mandated by law and the rate necessary to fund the UAAL in 20 years is -1.19 percentage points. This margin decreased from 1.66 percentage points last year, mainly because of recognized investment experience losses.

If the 7.75% contribution rate remains in place, and all actuarial assumptions are exactly realized, including an 8.00% investment return on the actuarial value of assets, then the UAAL will be completely amortized in 43.6 years from July 1, 2003.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) decreased from last year. The funded ratio at July 1, 2002 was 91.6%, while it is 85.1% as of July 1, 2003. This decrease is also due to the recognized investment experience losses.

However, this picture of TFFR may be overly optimistic. All of the standard actuarial measurements, including the funded ratio and the margin, are functions of the actuarial value of assets, which recognizes investment gains and losses – the positive or negative difference between the actual net investment return on market value and the assumed 8.00% investment return – over a period of five years, at the rate of 20% per year. Therefore, 60% of the investment losses in FY 2002 and 80% of the investment losses in FY 2003 are not yet reflected in the actuarial measurements. As these losses are recognized over the next four valuations, we expect the negative margin to increase and the funded ratio to continue to decrease, in the absence of changes in the benefit/contribution structure of TFFR and in the absence of other experience gains or losses.

The funded ratio would have been 69.5%, rather than 85.1%, if the market value of assets had been used rather than the actuarial value of assets. Based on the market value of assets, the statutory 7.75% contribution rate will never amortize the UAAL.

Reporting Consequences

Under GASB 25 the plan must determine an Annual Required Contribution (ARC). This must be sufficient to cover the normal cost and to amortize the UAAL over a period not longer than 30 years. (A 40-year period could be used through the July 1, 2005 actuarial valuation.) The amortization may be determined either as a level dollar amount or as a series of contributions that increase with assumed payroll increases.

The Board previously decided to designate the 20-year benchmark contribution rate, or the 7.75% statutory rate, if greater, as the ARC for TFFR. In the past, the 7.75% rate has always been larger than the 20-year benchmark rate. This year this is not true, so TFFR will be required to report in its Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2004 that actual contributions received were less than the ARC.

There are no other accounting consequences for the state or the other school districts that sponsor TFFR, since it is a "cost-sharing, multiple-employer" retirement system. Next year's CAFR will show a table in the format of the second table on page 39 of this report, but it will show that in FY 2004, the contributions received were 87% of the ARC (7.75% ÷ 8.94%).

GABRIEL, ROEDER, SMITH & COMPANY

Board of Trustees
October 17, 2003
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Benefit Provisions

The actuarial valuation reflects the benefit and contribution provisions set forth in the North Dakota Century Code. There were no changes made to these provisions since the previous actuarial valuation.

Assumptions and Methods

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. These assumptions and methods were last changed in 2000, following an analysis of the plan experience for the preceding five years. We believe the assumptions are internally consistent and are reasonably based on the actual experience of TFFR.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. The actuarial calculations are intended to provide information for rational decision making.

Data

Member data for retired, active, and inactive participants was supplied as of July 1, 2003, by the staff of the Retirement and Investment Office (RIO). We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data. Asset information was also supplied by the RIO staff and by the plan's auditors.

We prepared the Schedule of Funding Progress and the Schedule of Employer Contributions found in the Financial Section, while the RIO staff prepared all of the other schedules and exhibits in this section. These other schedules and exhibits were generally based on information supplied in this and prior actuarial valuation reports. Our firm has prepared the annual actuarial valuations each year, beginning with the one prepared as of July 1, 1991. The previous actuary for TFFR prepared information related to prior actuarial valuations.

Sincerely,

J. Christian Conradi

J. Christian Conradi, ASA, MAAA, EA
Senior Consultant

W. Michael Carter

W. Michael Carter, FSA, MAAA, EA
Senior Consultant

GABRIEL, ROEDER, SMITH & COMPANY

SUMMARY OF ACTUARIAL VALUATION RESULTS

Item	2003	2002
Membership		
• Number of		
- Active Members	9,916	9,931
- Retirees and Beneficiaries	5,177	5,054
- Inactive, Vested	1,276	1,223
- Inactive, Nonvested	233	225
- Total	16,602	16,433
• Payroll	$367.9 million	$348.1 million
Statutory contribution rate		
• Employer	7.75%	7.75%
• Member	7.75%	7.75%
Assets		
• Market value	$1,175.2 million	$1,165.4 million
• Actuarial value	1,438.4 million	1,443.5 million
• Return on market value	2.1 %	(8.6)%
• Return on actuarial value	0.6 %	3.0 %
• Ratio - actuarial value to market value	122.4 %	123.9 %
• External cash flow %	(1.2)%	(1.3)%
Actuarial Information		
• Normal cost %	10.29%	10.29%
• Unfunded actuarial accrued liability (UAAL)	$251.9 million	$132.3 million
• Funded ratio	85.1%	91.6%
• Funding period	43.6 years	10.0 years
Benchmark Contribution		
• 20-year funding rate	8.94%	6.09%
• Margin	(1.19)%	1.66%
Gains/(Losses)		
• Asset experience	$(106.4) million	$(70.0) million
• Liability experience	(26.0) million	(25.2) million
• Benefit changes	0.0 million	0.0 million
• Assumption/method changes	N/A	N/A
• Total	$(132.4) million	$(95.2) million

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

ASSET VALUATION METHOD

The actuarial value of assets is based on the market value of assets with a five-year phase-in of actual investment return in excess of (less than) expected investment income. Expected investment income is determined using the assumed investment return rate and the market value of assets (adjusted for receipts and disbursements during the year). The actual investment return for this purpose is determined net of all investment and administrative expenses.

ACTUARIAL COST METHOD

The funding period required to amortize the unfunded actuarial accrued liability (UAAL) is determined using the Entry Age Normal actuarial cost method. This method assigns the plan's total actuarial present value of future benefits to various periods. The actuarial accrued liability is assigned to years prior to the valuation, and the normal cost is assigned to the year following the valuation. The remaining costs are assigned to future years.

The normal cost is determined for a hypothetical group of new entrants, based on actual new entrants in the June 30, 1999 valuation. The actuarial accrued liability is the difference between the total present value of future benefits and the actuarial present value of future normal costs. The unfunded actuarial accrued liability (UAAL) is the excess of the actuarial accrued liability over the actuarial value of assets.

ACTUARIAL ASSUMPTIONS

1. Investment Return Rate — 8.00% per annum, compounded annually, composed of an assumed 3.00% inflation rate and a 5.00% real rate of return. (Adopted July 1, 1990; allocation between inflation and real rate of return modified July 1, 2000.)

2. Mortality Rates

   a. Non-Disabled—1994 Uninsured Pensioner Mortality Table set back two years for males and three years for females. (Adopted July 1, 2000.)

   b. Disabled—Pension Benefit Guaranty Corporation Disabled Life Mortality Tables Va and VIa. (Adopted July 1, 1990.)

Deaths per 100 Lives

	Male Participants		Female Participants	
Age	Non-Disabled	Disabled	Non-Disabled	Disabled
20	.0495	4.83	.0281	2.63
25	.0633	4.83	.0311	2.63
30	.0811	3.62	.0324	2.37
35	.0912	2.78	.0427	2.14
40	.1010	2.82	.0593	2.09
45	.1454	3.22	.0888	2.24
50	.2260	3.83	.1196	2.57
55	.3854	4.82	.1864	2.95
60	.6774	6.03	.3139	3.31
65	1.2335	6.78	.6271	3.70
70	2.1354	7.39	1.1574	4.11

Summary of Actuarial Methods and Assumptions (continued)

3. Retirement Rates — The following rates of retirement are assumed for members eligible to retire. (Adopted July 1, 2000.)

Retirements Per 100 Members

Age	Unreduced Retirement Ultimate Rate Male	Unreduced Retirement Ultimate Rate Female	Unreduced Retirement Initial Eligibility Male	Unreduced Retirement Initial Eligibility Female	Reduced Retirement* Male	Reduced Retirement* Female
50	17.0%	10.0%	40.0%	35.0%	0.0%	0.0%
51	17.5%	10.0%	40.0%	35.0%	0.0%	0.0%
52	18.0%	10.0%	40.0%	35.0%	0.0%	0.0%
53	18.5%	10.0%	40.0%	35.0%	0.0%	0.0%
54	19.0%	10.0%	40.0%	35.0%	0.0%	0.0%
55	19.5%	10.0%	50.0%	55.0%	1.0%	1.5%
56	20.0%	15.0%	50.0%	55.0%	1.0%	1.5%
57	20.5%	15.0%	50.0%	55.0%	1.0%	1.5%
58	21.0%	15.0%	50.0%	55.0%	1.0%	1.5%
59	21.5%	17.5%	50.0%	55.0%	1.0%	1.5%
60	25.0%	20.0%	75.0%	75.0%	2.0%	1.5%
61	50.0%	25.0%	50.0%	75.0%	8.0%	2.0%
62	75.0%	40.0%	75.0%	75.0%	15.0%	25.0%
63	60.0%	40.0%	60.0%	75.0%	8.0%	10.0%
64	60.0%	50.0%	60.0%	75.0%	8.0%	10.0%
65	60.0%	60.0%	60.0%	60.0%	- -	- -
66	40.0%	40.0%	40.0%	40.0%	- -	- -
67	40.0%	40.0%	40.0%	40.0%	- -	- -
68	40.0%	40.0%	40.0%	40.0%	- -	- -
69	40.0%	40.0%	40.0%	40.0%	- -	- -
70	100.0%	100.0%	100.0%	100.0%	- -	- -

* Rates are doubled for members who are closer to eligibility for the rule of 85, based on service at retirement, than they are to age 65.

4. Disability Rates — As shown below for selected ages. (Adopted July 1, 2000.)

Age	Disabilities Per 100 Members
20	0.016
25	0.016
30	0.016
35	0.016
40	0.048
45	0.080
50	0.128
55	0.224
60	0.432
65	0.000

Summary of Actuarial Methods and Assumptions (continued)

5. Termination Rates

The following withdrawal rates are used based on age and service. (For causes other than death, disability, or retirement)
(Adopted July 1, 1995.)

Males

	Years of Service										
Age	0	1	2	3	4	5	6	7	8	9	10+
25	0.1420	0.1379	0.1366	0.1339	0.1220	0.1067	0.0896	0.0878	0.0860	0.0842	0.0598
30	0.1416	0.1376	0.1363	0.1336	0.1210	0.1053	0.0907	0.0889	0.0871	0.0853	0.0470
35	0.1359	0.1321	0.1308	0.1282	0.1141	0.0988	0.0867	0.0849	0.0832	0.0815	0.0343
40	0.1317	0.1280	0.1267	0.1243	0.1074	0.0928	0.0824	0.0808	0.0791	0.0775	0.0252
45	0.1282	0.1246	0.1234	0.1210	0.1002	0.0868	0.0777	0.0761	0.0746	0.0730	0.0196
50	0.1246	0.1211	0.1199	0.1176	0.0916	0.0809	0.0725	0.0710	0.0696	0.0681	0.0188
55	0.1444	0.1403	0.1390	0.1362	0.0974	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
60	0.1588	0.1544	0.1529	0.1499	0.1071	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
65	0.1747	0.1698	0.1681	0.1648	0.1178	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Females

	Years of Service										
Age	0	1	2	3	4	5	6	7	8	9	10+
25	0.1654	0.1607	0.1592	0.1560	0.1307	0.1119	0.0952	0.0806	0.0790	0.0774	0.0352
30	0.1373	0.1334	0.1321	0.1295	0.1107	0.0964	0.0836	0.0738	0.0723	0.0708	0.0312
35	0.1143	0.1110	0.1100	0.1078	0.0926	0.0820	0.0732	0.0672	0.0658	0.0645	0.0275
40	0.0978	0.0951	0.0941	0.0923	0.0779	0.0695	0.0637	0.0607	0.0595	0.0583	0.0242
45	0.0910	0.0885	0.0876	0.0859	0.0686	0.0593	0.0553	0.0545	0.0535	0.0524	0.0220
50	0.0967	0.0940	0.0931	0.0912	0.0670	0.0519	0.0480	0.0484	0.0475	0.0465	0.0227
55	0.1455	0.1414	0.1400	0.1373	0.0742	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
60	0.1885	0.1831	0.1814	0.1778	0.0907	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
65	0.2498	0.2428	0.2404	0.2357	0.1167	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Summary of Actuarial Methods and Assumptions (continued)

6. Salary Increase Rates — Inflation rate of 3.00% plus productivity rate of 1.00%, plus step-rate/promotional increase as shown below. (Adopted July 1, 2000.)

Years of Service	Annual Step-Rate/ Promotional Component	Annual Total Salary Increase
0	9.00%	13.00%
1	4.00%	8.00%
2	3.50%	7.50%
3	3.00%	7.00%
4	2.75%	6.75%
5	2.50%	6.50%
6	2.25%	6.25%
7	2.25%	6.25%
8	2.00%	6.00%
9	1.75%	5.75%
10	1.50%	5.50%
11	1.25%	5.25%
12	1.00%	5.00%
13	0.75%	4.75%
14	0.50%	4.50%
15 or more	0.00%	4.00%

7. Percent Married — For valuation purposes, 75% of members are assumed to be married. Male members are assumed to be three years older than their spouses, and female members are assumed to be three years younger than their spouses. (Adopted July 1, 1992.)

8. Percent Electing a Deferred Termination Benefit — Terminating members are assumed to elect the most valuable benefit at the time of termination. Termination benefits are assumed to commence at the first age at which unreduced benefits are available. (Adopted July 1, 1990.)

9. Provision for Expense — The assumed investment return rate represents the anticipated net rate of return after payment of all administrative expenses and investment expenses. (Adopted July 1, 1992.)

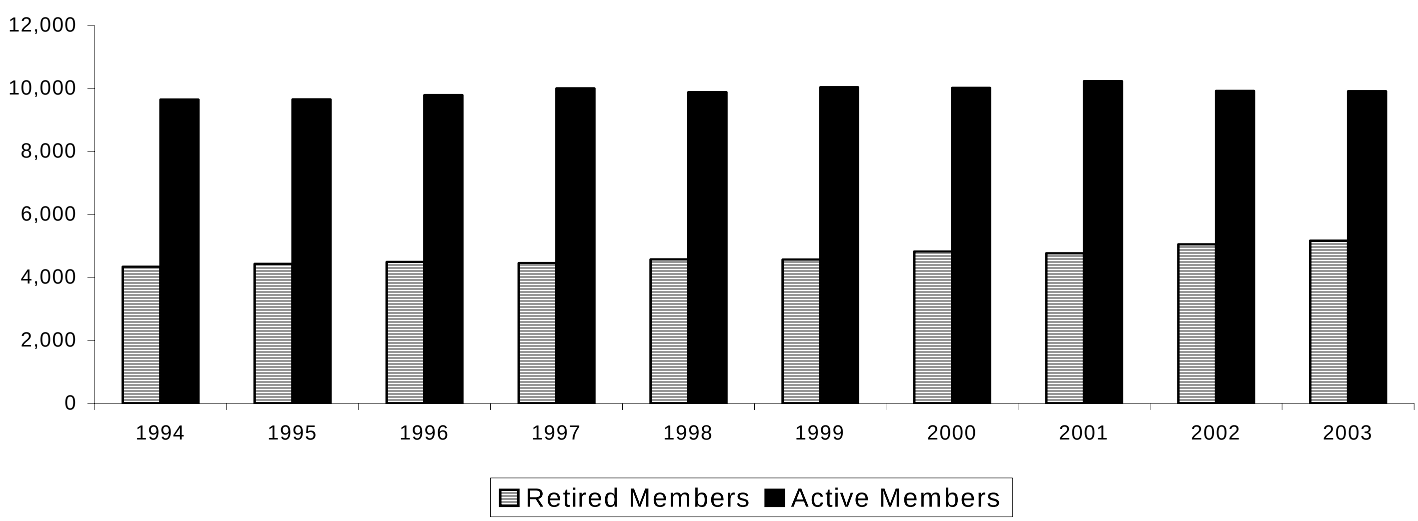
SCHEDULE OF ACTIVE MEMBERS

	Active Members		Covered Payroll		Average Salary			
Year Ending June 30	Number	Percent Increase	Amount in $ Millions	Percent Increase	$ Amount	Percent Increase	Average Age	Average Service
1994	9,653	(1.6)	262.4	0.8	27,187	2.4	42.4	13.3
1995	9,663	0.1	268.7	2.4	27,803	2.3	42.6	13.4
1996	9,797	1.4	281.2	4.7	28,708	3.3	42.9	13.6
1997	10,010	2.2	294.1	4.6	29,382	2.3	43.4	14.0
1998	9,896	(1.1)	298.4	1.5	30,156	2.6	43.5	14.0
1999	10,046	1.5	314.6	5.4	31,318	3.9	44.0	14.4
2000	10,025	(0.2)	323.0	2.7	32,223	2.9	43.9	14.1
2001	10,239	2.1	342.2	5.9	33,421	3.7	44.4	14.4
2002	9,931	(3.0)	348.1	1.7	35,052	4.9	44.5	14.4
2003	9,916	(0.2)	367.9	5.7	37,105	5.9	44.8	14.6

SCHEDULE OF RETIREES AND BENEFICIARIES

Year Ended June 30	Number Added During Year	Number Removed During Year	Number Receiving End of Year	Average Monthly Benefit	Annual Pension Benefits (in millions)	Percent Increase In Annual Benefits
1994	320	151	4,348	$ 663	$34.1	23.1%
1995	253	168	4,433	690	36.1	5.6
1996	238	168	4,503	719	38.5	6.9
1997	138	179	4,462	729	39.5	2.6
1998	321	198	4,585	810	43.7	10.6
1999	170	187	4,568	833	46.1	5.5
2000	425	166	4,827	970	53.6	16.3
2001	162	212	4,777	995	57.7	7.6
2002	505	228	5,054	1,152	67.5	17.0
2003	312	189	5,177	1,203	72.0	6.7

ACTIVE MEMBERS VS RETIRED MEMBERS
10-YEAR SUMMARY



ANALYSIS OF CHANGE IN 20-YEAR FUNDING COST

	20-Year Funding Cost as a Percentage of Payroll	
	2003	2002
Prior valuation	6.09 %	3.99 %
Increases/(decreases) due to:		
Open amortization	(0.08)%	(0.04)%
Growth in covered payroll	(0.18)%	(0.02)%
Employer contributions received at 7.75% rather than 6.09%	(0.26)%	(0.39)%
Liability experience	0.67 %	0.67 %
Investment experience	2.70 %	1.88 %
Assumption changes	0.00 %	0.00 %
Change in actuarial methods	0.00 %	0.00 %
Legislative changes	0.00 %	0.00 %
Total	2.85 %	2.10 %
Current valuation	8.94 %	6.09 %
Statutory employer contribution rate	7.75 %	7.75 %
Margin available	(1.19)%	1.66 %

ANALYSIS OF CHANGE IN UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)

	Unfunded Actuarial Accrued Liability ($ in millions)	
	2003	2002
Prior valuation	$ 132.3	$ 53.0
Increases/(decreases) due to:		
Amortization payments	$ (12.8)	$ (15.9)
Investment experience	106.4	70.0
Assumption changes	-	-
Liability experience	26.0	25.2
Change in actuarial methods	-	-
Legislative changes	-	-
Total	$ 119.6	$ 79.3
Current valuation	$ 251.9	$ 132.3

SOLVENCY TEST

	Actuarial Accrued Liability (AAL) (in millions)				Portion of AAL Covered by Valuation Assets		
Valuation as of July 1	Active Member Contributions	Retirees and Beneficiaries	Active/Inactive Members (Employer Financed)	Actuarial Value of Assets (in millions)	Active Member Contributions	Retirees and Beneficiaries	Active/Inactive Members (Employer Financed)
1994	$237.4	$296.6	$230.2	$ 606.8	100.0%	100.0%	31.6%
1995	253.9	312.7	233.2	661.2	100.0	100.0	40.6
1996	280.0	332.6	239.0	733.3	100.0	100.0	50.5
1997	310.0	344.9	322.2	823.4	100.0	100.0	52.3
1998	324.7	387.2	321.1	928.0	100.0	100.0	67.3
1999	361.0	426.5	400.8	1,053.1	100.0	100.0	66.3
2000	372.3	504.2	411.3	1,308.5	100.0	100.0	100.0
2001	413.9	551.6	502.2	1,414.7	100.0	100.0	89.4
2002	421.5	643.9	510.3	1,443.5	100.0	100.0	74.1
2003	451.4	689.4	549.5	1,438.4	100.0	100.0	54.2

SUMMARY OF BENEFIT PROVISIONS

1. Effective Date: July 1, 1971.

2. Plan Year: Twelve-month period ending June 30th.

3. Administration: The Teachers' Fund for Retirement (TFFR) is administered by a Board of Trustees. A separate State Investment Board is responsible for the investment of the trust assets, although the TFFR Board establishes the asset allocation policy. The Retirement and Investment Office is the administrative agency for TFFR.

4. Type of Plan: TFFR is a qualified governmental defined benefit retirement plan. For Governmental Accounting Standards Board purposes, it is a cost-sharing multiple employer PERS.

5. Eligibility: All certified teachers of any public school in North Dakota participate in TFFR. This includes teachers, supervisors, principals, administrators, etc. Non-certified employees such as teacher's aides, janitors, secretaries, drivers, etc. are not allowed to participate in TFFR. Eligible employees become members at their date of employment.

6. Employee Assessments: All active members contribute 7.75% of their salary per year. The employer may "pick up" the member's assessments under the provisions of Internal Revenue Code Section 414(h).

7. Salary: The member's total earnings are used for salary purposes, including overtime, etc., and including nontaxable wages under a Section 125 plan, but excluding certain extraordinary compensation, such as fringe benefits or unused sick and vacation leave.

8. Employer Contributions: The district or other employer which employs a member contributes 7.75% of the member's salary.

9. Service: Employees receive credit for service while a member. A member may also purchase credit for certain periods, such as time spent teaching at a public school in another state, by paying the actuarially determined cost of the additional service. Special rules and limits govern the purchase of additional service.

10. Final Average Compensation (FAC): The average of the member's highest three plan year salaries. Monthly benefits are based on one-twelfth of this amount.

11. Normal Retirement

    a. Eligibility: A member may retire upon Normal Retirement on or after age 65 with credit for 3 years of service, or if earlier, when the sum of the member's age and service is at least 85.

    b. Monthly Benefit: 2.00% of FAC (monthly) times years of service.

    c. Payment Form: Benefits are paid as a monthly life annuity, with a guarantee that if the payments made do not exceed the member's assessments plus interest, determined as of the date of retirement, the balance will be paid in a lump-sum to the member's beneficiary. Optional forms of payment are available; see below.

Summary of Benefit Provisions (continued)

12. Early Retirement

    a. Eligibility: A member may retire early after reaching age 55 with credit for three years of service.

    b. Monthly Benefit: 2.00% of FAC (monthly) times years of service, multiplied by a factor which reduces the benefit 6% for each year from the earlier of (i) age 65, or (ii) the age at which current service plus age equals 85.

    c. Payment Form: Same as for Normal Retirement above.

13. Disability Retirement

    a. Eligibility: A member is eligible provided he/she has credit for at least one year of service.

    b. Monthly Benefit: 2.00% of FAC (monthly) times years of service with a minimum 20 years of service.

    c. Payment Form: The disability benefit commences immediately upon the member's retirement. Benefits cease upon recovery or reemployment. Disability benefits are payable as a monthly life annuity with a guarantee that, at the member's death, the sum of the member's assessments plus interest as of the date of retirement that is in excess of the sum of payments already received will be paid in a lump-sum to the member's beneficiary. All alternative forms of payment are also permitted in the case of disability retirement. Disability benefits are converted to normal retirement benefits when the member reaches normal retirement age or age 65, whichever is earlier.

14. Deferred Termination Benefit

    a. Eligibility: A member with at least three years of service who does not withdraw his/her contributions from the fund is eligible for a deferred termination benefit.

    b. Monthly Benefit: 2.00% of FAC (monthly) times years of service. Both FAC and service are determined at the time the member leaves active employment. Benefits may commence unreduced at age 65 or when the rule of 85 is met (age plus service equals 85). Reduced benefits may commence at or after age 55 if the member is not eligible for an unreduced benefit.

    c. Payment Form: The form of payment is the same as for Normal Retirement above.

    d. Death Benefit: A member who dies after leaving active service but before retiring is entitled to receive a benefit as described below in 16b.

15. Withdrawal (Refund) Benefit

    a. Eligibility: All members leaving covered employment with less than three years of service are eligible. Optionally, vested members (those with three or more years of service) may withdraw their assessments plus interest in lieu of the deferred benefits otherwise due.

    b. Benefit: The member who withdraws receives a lump-sum payment of his/her employee assessments, plus the interest credited on these contributions. Interest is credited at 6%.

Summary of Benefit Provisions (continued)

16. Death Benefit

    a. Eligibility: Death must have occurred while an active or an inactive, non-retired member.

    b. Benefit: Upon the death of a nonvested member, a refund of the member's assessments and interest is paid. Upon the death of a vested member, the beneficiary may elect (i) the refund benefit above, (ii) payment for 60 months of the normal retirement benefit, based on FAC and service determined at the date of death, or (iii) a life annuity of the normal retirement benefit, determined under Option One below, based on FAC and service as of the date of death, but without applying any reduction for the member's age at death. Members not eligible for normal retirement benefits under Option One use the Fund's disability reduction tables.

17. Optional Forms of Payment: There are optional forms of payment available on an actuarially equivalent basis, as follows:

    a. Option 1 - A life annuity payable while either the participant or his beneficiary is alive, "popping-up" to the original life annuity if the beneficiary predeceases the member.

    b. Option 2 - A life annuity payable to the member while both the member and beneficiary are alive, reducing to 50% of this amount if the member predeceases the beneficiary, and "popping-up" to the original life annuity if the beneficiary predeceases the member.

    c. Option 3a - A life annuity payable to the member, with a guarantee that, should the member die prior to receiving 60 payments (five years), the payments will be continued to a beneficiary for the balance of the five-year period. (This option has been replaced by Option 3b. It is not available to employees who retire on or after August 1, 2003. Retirees who elected this option prior to that date are unaffected.)

    d. Option 3b - A life annuity payable to the member, with a guarantee that, should the member die prior to receiving 240 payments (twenty years), the payments will be continued to a beneficiary for the balance of the twenty-year period. (This option replaced Option 3a effective August 1, 2003.)

    e. Option 4 - A life annuity payable to the member, with a guarantee that, should the member die prior to receiving 120 payments (10 years), the payments will be continued to a beneficiary for the balance of the ten-year period.

    f. Option 5 - A nonlevel annuity payable to the member, designed to provide a level total income when combined with the member's Social Security benefit.

    In addition, members may elect a partial lump-sum option (PLSO) at retirement. Under this option, a member receives an immediate lump-sum equal to 12 times the monthly life annuity benefit and a reduced annuity. The reduction is determined actuarially. The member can then elect to receive the annuity benefit in one of the other optional forms, except that members who receive a PLSO may not elect Option 5 – the level income option. The PLSO is not available to disabled retirees or retirees who are not eligible for an unreduced retirement benefit.

    Actuarial equivalence is based on tables adopted by the Board of Trustees.

18. Cost-of-living Increase: From time to time, TFFR has been amended to grant certain post-retirement benefit increases. However, TFFR has no automatic cost-of-living increase features.

SUMMARY OF PLAN CHANGES

1991 Legislative Session:

1. Benefit multiplier increased from 1.275% to 1.39% for all future retirees.

2. Provide a post-retirement benefit increase for all annuitants receiving a monthly benefit on June 30, 1991. The monthly increase is the greater of a 10% increase or a level increase based on years of service and retirement date:

   a. $3 per year of service for retirements before 1980.
   b. $2 per year of service for retirements between 1980 and 1983.
   c. $1 per year of service for retirements from 1984 through June 30, 1991.

   Minimum increase is $5 per month. Maximum increase is $75 per month.

1993 Legislative Session:

1. Benefit multiplier increased from 1.39% to 1.55% for all future retirees.

2. Provide a post-retirement benefit increase for all annuitants receiving a monthly benefit on June 30, 1993. The monthly increase is the greater of a 10% increase or a level increase based on years of service and retirement date:

   a. $3 per year of service for retirements before 1980.
   b. $2.50 per year of service for retirements between 1980 and 1983.
   c. $1 per year of service for retirements from 1984 through June 30, 1993.

   Minimum increase is $5 per month. Maximum increase is $100 per month.

3. Minimum retirement benefit increased to $10 times years of service up to 25, plus $15 times years of service greater than 25. (Previously was $6 up to 25 years of service plus $7.50 over 25 years of service.)

4. Disability benefit changed to 1.55% of FAC times years of service using a minimum of 20 years of service.

1995 Legislative Session:

There were no material changes made during the 1995 legislative session.

1997 Legislative Session:

1. Benefit multiplier increased from 1.55% to 1.75% for all future retirees.

2. Member assessment rate and employer contribution rate increased from 6.75% to 7.75%.

3. A $30.00/month benefit improvement was granted to all retirees and beneficiaries.

Summary of Plan Changes (continued)

<u>1999 Legislative Session:</u>

1. Active members will now be fully vested after three years (rather than five years) of service.

2. Early retirement benefits will be reduced 6% per year from the earlier of (i) age 65, or (ii) the date as of which age plus service equals 85 (rather than from age 65 in all cases).

3. An ad hoc COLA was provided for all retirees and beneficiaries. This increase is equal to an additional $2 per month for each year of service plus $1 per month for each year since the member's retirement.

4. The formula multiplier was increased from 1.75% to 1.88% effective July 1, 1999.

<u>2001 Legislative Session:</u>

1. An ad hoc COLA was provided for all retirees and beneficiaries. The ad hoc COLA increase is equal to an additional $2.00 per month for each year of service plus $1.00 per month for each year since the member's retirement. Retirees and beneficiaries will also receive two additional increases equal to 0.75% times the monthly benefit, payable July 1, 2001 and July 1, 2002. The two 0.75% increases are conditional. If the actuarial margin is a shortfall, i.e., is negative, by 60 basis points or more, or if the margin has been negative by 30 or more basis points for two years, the Board could elect to suspend the increase.

2. The formula multiplier was increased from 1.88% to 2.00% effective July 1, 2001.

<u>2003 Legislative Session:</u>

1. Partial lump-sum option adopted, equal to twelve times the monthly life annuity benefit. Not available if level-income option is elected. Not available for reduced retirement or disability retirement.

2. Five-year certain and life option replaced with 20-year certain and life. This does not impact retirees who retired under the five-year certain and life option.

3. Employer service purchase authorized.

Statistical Section

SCHEDULE OF REVENUES BY SOURCE AND EXPENSES BY TYPE

Revenues by Source

Fiscal Year	Member Contributions	Employer Contributions	Employer Contributions as a Percentage of Annual Covered Payroll	Investment and Other Income	Purchased Service Credit	Total
1994	$ 17,813,117	$ 17,812,491	6.75%	$ 7,927,009	$ 480,452	$ 44,033,069
1995	18,326,881	18,326,881	6.75	88,427,044	560,945	125,641,751
1996	18,988,538	18,988,538	6.75	114,825,104	575,800	153,377,980
1997	19,693,130	19,693,130	6.75	156,487,387	771,027	196,644,674
1998	23,326,328	23,326,328	7.75	132,187,852	759,105	179,599,613
1999	24,257,091	24,257,131	7.75	129,906,989	636,015	179,057,226
2000	25,528,245	25,527,734	7.75	146,483,648	2,509,576	200,049,203
2001	26,289,672	26,289,206	7.75	(107,137,559)	1,942,467	(52,616,214)
2002	27,244,008	27,243,542	7.75	(110,415,690)	1,927,764	(54,000,376)
2003	28,851,110	28,850,725	7.75	24,501,262	2,507,168	84,710,265

Expenses by Type

Fiscal Year	Benefits Paid to Participants	Refunds	Administrative Charges	Total
1994	$ 34,093,075	$ 2,293,299	$ 719,777	$ 37,106,151
1995	36,001,717	2,186,791	788,743	38,977,251
1996	38,546,098	2,644,413	858,258	42,048,769
1997	39,522,935	2,590,766	832,223	42,945,924
1998	43,706,492	2,671,933	789,830	47,168,255
1999	46,120,317	2,877,423	944,654	49,942,394
2000	53,583,271	2,788,019	1,015,549	57,386,839
2001	57,740,914	3,127,841	1,099,331	61,968,086
2002	67,482,482	2,743,408	1,066,309	71,292,199
2003	72,044,977	1,729,764	1,056,611	74,831,352

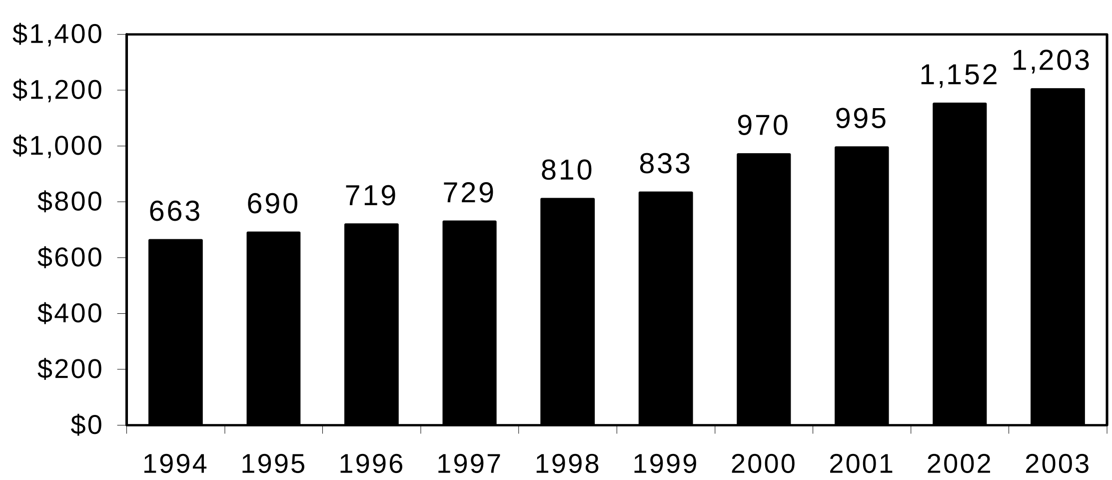
SCHEDULE OF BENEFIT EXPENSES BY TYPE

	Annuity Payments				Refunds *			
Year	Service Retirements	Disability Retirements	Beneficiaries	Total Annuity Payments	Separation	Death	Total Refunds	Total Benefit Expenses
1994	$ 31,544,019	$ 177,974	$ 2,371,082	$ 34,093,075			$ 2,293,299	$ 36,386,374
1995	33,339,811	208,957	2,452,949	36,001,717			2,186,791	38,188,508
1996	35,638,025	296,857	2,611,216	38,546,098			2,644,413	41,190,511
1997	36,436,197	328,214	2,758,524	39,522,935	$ 2,581,545	$ 9,221	2,590,766	42,113,701
1998	40,428,510	427,861	2,850,121	43,706,492	2,581,489	90,444	2,671,933	46,378,425
1999	42,529,225	487,987	3,103,105	46,120,317	2,877,178	245	2,877,423	48,997,740
2000	49,624,550	559,211	3,399,510	53,583,271	2,945,162	182,679	3,127,841	56,711,112
2001	52,946,453	781,619	4,012,842	57,740,914	2,435,789	307,619	2,743,408	60,484,322
2002	62,037,432	841,690	4,603,360	67,482,482	2,522,300	221,108	2,743,408	70,225,890
2003	66,307,771	885,718	4,851,489	72,044,977	1,660,035	69,729	1,729,764	73,774,741

* Detail not available for refunds for 1994-1996.

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Fiscal Year		Years of Service							
		< 10	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	> 34	TOTAL
1994	Number of Retirees	61	390	429	487	971	922	1,088	4,348
	Average Monthly Benefit	195	234	318	456	567	850	1,011	663
	Average Years of Service	6	13	18	22	27	32	39	28
1995	Number of Retirees	77	393	435	502	980	955	1,091	4,433
	Average Monthly Benefit	188	206	322	473	605	895	1,046	690
	Average Years of Service	6	13	17	22	27	32	39	28
1996	Number of Retirees	85	393	437	516	991	982	1,099	4,503
	Average Monthly Benefit	197	208	328	498	627	933	1,094	719
	Average Years of Service	6	12	17	22	27	32	39	28
1997	Number of Retirees	99	391	436	511	984	976	1,065	4,462
	Average Monthly Benefit	223	209	332	505	645	954	1,113	729
	Average Years of Service	6	12	17	22	27	32	39	28
1998	Number of Retirees	108	397	429	518	1,002	1,046	1,085	4,585
	Average Monthly Benefit	190	258	375	559	722	1,075	1,207	810
	Average Years of Service	6	12	17	22	27	32	39	28
1999	Number of Retirees	124	396	423	528	973	1,056	1,068	4,568
	Average Monthly Benefit	199	252	385	585	747	1,108	1,235	833
	Average Years of Service	6	12	17	22	27	32	39	28
2000	Number of Retirees	137	403	438	554	1,030	1,156	1,109	4,827
	Average Monthly Benefit	223	325	455	683	897	1,279	1,417	970
	Average Years of Service	6	12	18	22	27	32	39	28
2001	Number of Retirees	146	404	416	545	1,012	1,174	1,080	4,777
	Average Monthly Benefit	235	401	455	696	942	1,311	1,442	995
	Average Years of Service	6	12	17	22	27	32	39	28
2002	Number of Retirees	171	412	417	567	1,066	1,332	1,089	5,054
	Average Monthly Benefit	318	354	519	804	1,080	1,513	1,651	1,152
	Average Years of Service	6	12	17	22	27	32	39	28
2003	Number of Retirees	187	420	409	585	1,076	1,409	1,091	5,177
	Average Monthly Benefit	259	391	533	826	1,140	1,592	1,716	1,203
	Average Years of Service	6	12	17	22	27	32	39	28



SCHEDULE OF RETIREES BY BENEFIT AMOUNT

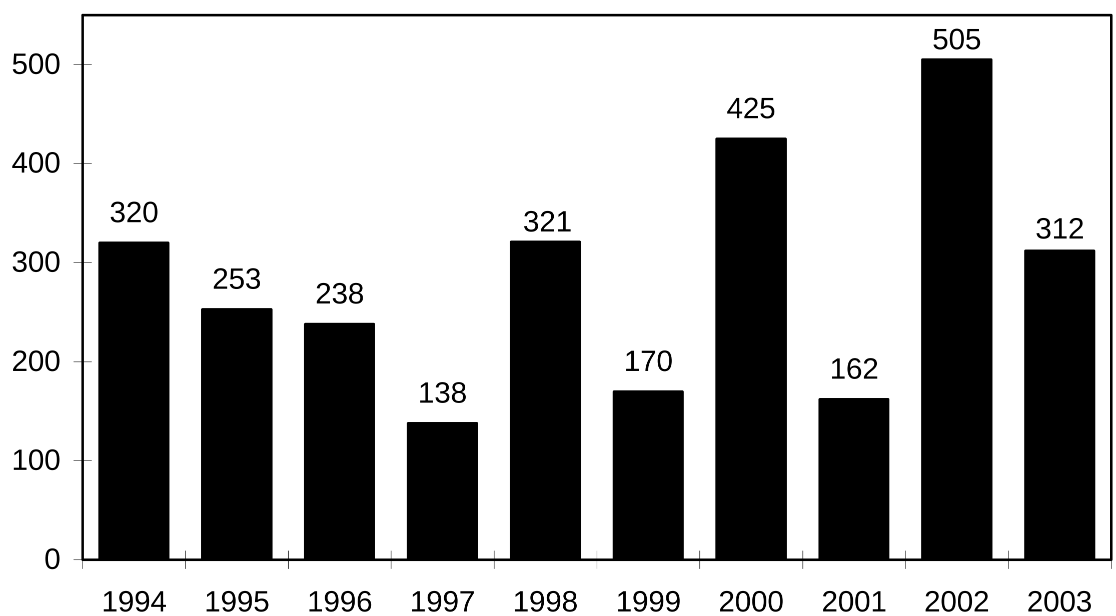
Monthly Benefit Amount	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Under $100	33	25	29	27	44	43	64	57	55	46
100 to 199	101	94	125	119	174	166	247	241	237	227
200 to 299	185	180	293	298	411	421	452	459	465	468
300 to 399	288	301	353	371	493	508	568	586	613	615
400 to 499	317	327	407	435	651	693	727	775	807	854
500 to 599	354	378	520	562	356	378	350	367	374	389
600 to 699	381	410	317	332	245	258	236	250	257	265
700 to 799	282	305	221	232	232	234	241	238	236	242
800 to 899	211	217	228	235	235	231	221	214	202	189
900 to 999	228	241	262	262	247	245	217	205	187	177
1,000 to 1,199	513	503	470	459	410	394	365	357	338	320
1,200 to 1,399	450	431	417	405	357	349	289	279	256	221
1,400 to 1,599	432	423	349	343	237	230	189	185	159	131
1,600 to 1,799	358	327	229	225	166	160	110	109	101	81
1,800 to 1,999	297	261	173	164	100	94	67	63	57	47
2,000 & Over	747	631	384	358	210	181	119	118	89	76
TOTAL	5,177	5,054	4,777	4,827	4,568	4,585	4,462	4,503	4,433	4,348

SCHEDULE OF RETIREES BY BENEFIT TYPE

Type of Benefit/ Form of Payment	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Service:										
Straight Life	2,531	2,566	2,566	2,674	2,661	2,760	2,787	2,858	2,897	2,938
100% J&S	1,128	1,030	872	862	719	675	591	591	548	494
50% J&S	333	328	301	303	281	286	270	268	259	250
5 Years C&L	34	32	31	33	31	31	30	28	26	24
10 Years C&L	149	149	140	141	130	129	122	119	116	105
Level	458	422	354	335	279	256	211	196	165	122
Subtotal	4,633	4,527	4,264	4,348	4,101	4,137	4,011	4,060	4,011	3,933
Disability:										
Straight Life	57	55	50	44	41	38	33	33	20	17
100% J&S	11	10	10	10	7	5	5	3	4	6
50% J&S	9	8	7	5	4	3	3	3	4	4
5 Years C&L	2	2	2	2	1	1	1	1	1	1
10 Years C&L	1	1	1	1	1	2	0	0	1	0
Subtotal	80	76	70	62	54	49	42	40	30	28
Beneficiaries:										
Straight Life	442	439	431	407	404	394	403	396	383	377
5 Years C&L	6	2	2	1	1	1	0	1	3	4
10 Years C&L	16	10	10	9	8	4	6	6	6	6
Subtotal	464	451	443	417	413	399	409	403	392	387
TOTAL	5,177	5,054	4,777	4,827	4,568	4,585	4,462	4,503	4,433	4,348

SCHEDULE OF NEW RETIREES BY TYPE

Year Ended June 30	Retirement	Disability	Beneficiary	Total
1994	286	5	29	320
1995	222	5	26	253
1996	191	16	31	238
1997	99	10	29	138
1998	291	9	21	321
1999	133	7	30	170
2000	391	11	23	425
2001	115	9	38	162
2002	456	10	39	505
2003	266	6	40	312



SCHEDULE OF RETIREES RESIDING IN NORTH DAKOTA BY COUNTY

County	Number	Average Benefit	County	Number	Average Benefit	County	Number	Average Benefit
Adams	20	$ 1,212	Griggs	24	$ 806	Richland	90	$ 1,023
Barnes	123	1,127	Hettinger	20	1,508	Rolette	44	941
Benson	25	1,108	Kidder	19	917	Sargent	28	1,048
Billings	2	1,464	LaMoure	48	1,151	Sheridan	13	952
Bottineau	71	1,100	Logan	21	961	Sioux	3	751
Bowman	29	1,182	McHenry	51	1,066	Slope	5	818
Burke	19	1,153	McIntosh	29	1,424	Stark	139	1,333
Burleigh	546	1,326	McKenzie	32	1,035	Steele	14	827
Cass	554	1,445	McLean	84	1,098	Stutsman	148	1,157
Cavalier	53	1,200	Mercer	45	1,259	Towner	20	933
Dickey	51	888	Morton	164	1,387	Traill	70	1,181
Divide	21	1,382	Mountrail	42	972	Walsh	97	1,280
Dunn	22	766	Nelson	49	1,187	Ward	378	1,310
Eddy	26	1,053	Oliver	11	1,188	Wells	51	1,126
Emmons	27	887	Pembina	56	1,001	Williams	149	1,236
Foster	21	1,195	Pierce	34	1,370	Out-of-State	972	987
Golden Valley	18	902	Ramsey	116	1,191			
Grand Forks	400	1,469	Ransom	44	1,131	GRAND TOTALS:	5,177	$ 1,203
Grant	21	822	Renville	18	1,016			

SCHEDULE OF PARTICIPATING EMPLOYERS AT JUNE 30, 2003

School Districts
Adams
Alexander
Anamoose
Apple Creek Elementary
Ashley
Bakker Elementary
Baldwin Elementary
Beach
Belcourt
Belfield
Bell Elementary
Berthold
Beulah
Billings County School
Bisbee/Egland
Bismarck
Border Central
Bottineau
Bowbells
Bowline Butte Elementary
Bowman
Burke Central
Carrington
Cavalier
Center
Central Cass
Central Elementary
Central Valley
Dakota Prairie
Devils Lake
Dickinson
Divide
Dodge Elementary
Drake
Drayton
Dunseith
Earl Elementary
East Burleigh Co-Op
Edgeley
Edinburg
Edmore
Eight Mile
Elgin/New Leipzig
Ellendale
Emerado Elementary
Enderlin
Eureka Elementary
Fairmount
Fargo
Fessenden-Bowdon
Finley-Sharon
Flasher
Fordville
Fort Ransom Elementary
Fort Totten
Fort Yates
Gackle-Streeter
Garrison
Glen Ullin
Glenburn
Golden Valley
Goodrich
Grafton
Grand Forks
Grenora
Griggs County Central
Halliday
Hankinson
Harvey
Hatton
Hazelton – Moffit
Hazen
Hebron
Hettinger
Hillsboro
Hope
Horse Creek Elementary
Jamestown
Kenmare
Kensal
Killdeer
Kindred
Kulm
Lakota
LaMoure
Langdon
Lankin Elementary
Lansford Elementary
Larimore
Leeds
Lidgerwood
Linton
Lisbon
Litchville
Little Heart Elementary
Lone Tree Elementary
Maddock
Mandan
Mandaree
Manning Elementary
Mantador Elementary
Manvel Elementary
Maple Valley
Mapleton Elementary
Marion
Marmarth Elementary
Max
Mayville – Portland CG
McClusky
McKenzie County School District
Medina
Menoken Elementary
Midkota
Midway
Milnor
Minnewauken
Minot
Minto
Mohall
Montefiore
Montpelier
Mott-Regent
Mt. Pleasant
Munich
Napoleon
Nash Elementary
Naughton Rural
Neche
Nedrose
Nesson
New Elementary
New England
New Rockford
New Salem
New Town
Newburg United
North Central of Barnes
North Central of Towner
North Sargent
North Shore
Northern Cass
Northwood
Oakes
Oberon Elementary
Oriska
Page
Park River
Parshall
Pembina
Pettibone
Pingree – Buchanan
Plaza

SCHEDULE OF PARTICIPATING EMPLOYERS (Continued)

School Districts (cont.)
Pleasant Valley Elementary
Powers Lake
Regan Elementary
Rhame
Richardton
Richland
Robinson
Rolette
Roosevelt
Rugby
Sargent Central
Sawyer
Scranton
Selfridge
Sheets Elementary
Sheldon
Sherwood
Sheyenne
Sims Elementary
Solen – Cannonball
South Heart
South Prairie Elementary
Southern
Spiritwood Elementary
St. John's School
St. Thomas
Stanley
Stanton
Starkweather
Steele – Dawson
Sterling Elementary
Strasburg
Surrey
Sweet Briar Elementary
Sykeston
Tappen
TGU
Thompson
Tioga
Turtle Lake – Mercer
Tuttle
Twin Buttes Elementary
Underwood
Union Elementary
United
Valley
Valley City
Velva
Verona
Wahpeton
Walhalla
Warwick
Washburn
West Fargo
Westhope
White Shield
Wildrose
Williston
Willow City
Wimbledon – Courtenay
Wing
Wishek
Wolford
Wyndmere
Yellowstone
Zeeland
Total School Districts 218

County Superintendents
Billings County
Bottineau County
Bowman County
Grant County
LaMoure County
Logan County
McHenry County
McKenzie County
Morton County
Nelson County
Richland County
Rolette County
Slope County
Ward County
Williams County
Total County Supts. 15

Special Education Units
Burleigh County Special Ed.
Dickey Lamoure Special Ed.
East Central Special Ed.
GST Educational
Lake Region Special Ed.
Lonetree Special Ed.
Northern Plains Special Ed.
Oliver – Mercer Special Ed.
Peace Garden Special Ed.
Pembina Special Ed.
Rural Cass County Special Ed.
Sheyenne Valley Special Ed.
Souris Valley Special Ed.
South Central Prairie Special Ed.
South Valley Special Ed.
Southwest Special Ed.
Upper Valley Special Ed.
West River Special Ed.
Wil-Mac Special Ed.
Total Special Ed Units 19

Vocational Centers
North Valley Voc. Center
Richland County Voc. Center
Southeast Voc. Center
Sheyenne Valley Area Voc. Ctr.
Total Vocational Centers 4

State Agencies & Institutions
Dept. of Public Instruction
Division of Independent Study
ND School for the Blind
ND School for the Deaf
ND Youth Correctional Center
State Board of Voc. Ed.
Total State Institutions 6

Colleges/Universities
Bismarck State College
ND State College of Science
ND State University
University of ND – Lake Region
Valley City State University
Total Colleges/Univ. 5

Other
Fargo Catholic Schools Network
ND High School Activities Assn.
ND Council of Ed. Leaders
ND Education Assn.
New Horizons ITV
Valley City Teacher Center
Total Other 6

Total Employers 273

PAYMENTS TO INVESTMENT CONSULTANTS
PENSION POOL PARTICIPANTS
FOR FISCAL YEARS ENDED JUNE 30

	2003	2002	2001	2000	1999
INVESTMENT MANAGERS					
Domestic Large Cap Equity:					
AllianceBernstein Capital Management	$ 137,107	$ 151,964	$ 170,278	$ 432,146	$ 404,624
Ark Asset Management Company, Inc.	-	-	-	234,988	335,910
Los Angeles Capital Management	263,973	280,792	282,817	108,754	107,331
LSV Asset Management	448,581	294,418	324,269	353,562	304,279
Northern Trust Global Investments	250,046	279,447	262,719	-	-
State Street Global Advisors	22,707	35,858	45,034	58,184	51,926
Strong Capital Management Co.	208,778	256,989	364,056	-	-
Westridge Capital Management, Inc.	417,561	737,898	256,246	-	-
Total Domestic Large Cap Equity	1,748,753	2,037,366	1,705,419	1,187,634	1,204,070
Domestic Small Cap Equity:					
Nicholas-Applegate Capital Management	-	-	553,613	634,058	495,864
SEI Investments Management Co.	1,691,371	1,936,560	-	-	-
UBS Global Asset Management	-	-	1,408,427	1,531,712	1,399,649
Total Domestic Small Cap Equity	1,691,371	1,936,560	1,962,040	2,165,770	1,895,513
International Equity:					
Bank of Ireland Asset Management	227,016	86,262	-	-	-
Capital Guardian Trust Company	629,489	693,003	729,367	734,312	623,976
Lazard Asset Management	246,569	82,230	-	-	-
State Street Global Advisors	170,764	368,456	508,852	372,945	278,985
Wellington Trust Company, NA	307,985	106,925	-	-	-
Total International Equity	1,581,823	1,336,876	1,238,219	1,107,257	902,961
Emerging Markets Equity:					
Capital Guardian Trust Company	644,587	675,677	674,300	825,655	621,534
Domestic Fixed Income:					
Bank of North Dakota	44,239	53,531	55,322	81,362	77,632
WestLB Asset Management	146,821	196,555	226,269	290,787	270,619
Evergreen Timberland Investment Mgmt.	423,603	176,129	-	-	-
Investment Advisors, Inc.	-	-	-	-	267,905
Sanford C. Bernstein & Co.	-	-	-	-	99,916
Strong Capital Management, Inc.	150,395	228,669	265,279	315,735	201,369
Trust Company of the West	255,695	335,802	404,831	564,546	39,685
Western Asset Management Company	106,155	145,338	183,831	240,028	227,272
Total Domestic Fixed Income	1,126,908	1,136,024	1,135,532	1,492,458	1,184,398
High Yield Fixed Income:					
Western Asset Management Company	249,265	266,409	296,678	171,706	190,188
International Fixed Income:					
UBS Global Asset Management	423,731	478,521	501,752	431,538	403,577
Brandywind Asset Management	39,940	-	-	-	-
Total International Fixed Income	463,671	478,521	501,752	431,538	403,577

PAYMENTS TO INVESTMENT CONSULTANTS
PENSION POOL PARTICIPANTS (Continued)
FOR FISCAL YEARS ENDED JUNE 30

	2003	2002	2001	2000	1999
INVESTMENT MANAGERS (continued)					
Real Estate:					
Heitman/JMB Advisory Corp.	$ -	$ 23,141	$ 26,691	$ 66,948	$ 72,444
INVESCO Realty Advisors	634,499	741,084	757,962	560,459	378,060
J.P. Morgan Investment Management, Inc.	944,537	874,910	1,090,524	958,248	602,099
Westmark Realty Advisors L.L.C.	-	-	2,501	3,947	16,976
Total Real Estate	1,579,036	1,639,135	1,877,678	1,589,602	1,069,579
Private Equity:					
Adams Street Partners	1,220,639	1,325,000	1,325,000	712,500	593,750
Coral Partners, Inc.	1,646,036	1,003,190	959,047	915,598	82,551
Hearthstone Homebuilding Investors, LLC	1,307,083	1,036,884	584,209	339,416	8,504.00
InvestAmerica L&C, LLC	348,772	-	-	-	-
Matlin Patterson Global Opportunities, LLC	943,322	-	-	-	-
Total Private Equity	5,465,852	3,365,074	2,868,256	1,967,514	684,805
Cash Equivalents:					
The Northern Trust Company, Inc.	48,678	75,064	54,463	59,412	62,383
Total Investment Manager Fees	14,599,944	12,946,706	12,314,337	10,998,546	8,219,008
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	548,056	626,718	535,136	435,770	367,464
INVESTMENT CONSULTANT					
Callan Associates Inc.	140,195	131,463	182,032	133,793	105,941
SIB ADMINISTRATIVE FEES	272,871	252,997	265,243	276,744	284,404
SECURITIES LENDING FEES					
Rebates	1,674,462	3,002,217	10,347,230	10,576,555	9,228,993
Bank Fees	185,818	205,838	257,804	297,605	317,982
Total Securities Lending Fees	1,860,280	3,208,055	10,605,034	10,874,160	9,546,975

PAYMENTS TO INVESTMENT CONSULTANTS
INDIVIDUAL INVESTMENT ACCOUNT
FOR FISCAL YEARS ENDED JUNE 30

	2003	2002	2001	2000	1999
INVESTMENT MANAGERS					
State Street Global Advisors	$ 47,599	$ 50,380	$ 53,036	$ 46,430	$ 40,695
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	1,692	2,740	2,743	2,995	2,752
SIB ADMINISTRATIVE FEES	2,587	2,251	2,325	2,123	2,294

PAYMENTS TO INVESTMENT CONSULTANTS
INSURANCE POOL PARTICIPANTS
FOR FISCAL YEARS ENDED JUNE 30

	2003	2002	2001	2000	1999
INVESTMENT MANAGERS					
Domestic Large Cap Equity:					
AllianceBernstein Capital Management	$ 50,673	$ 54,786	$ 52,883	$ 57,859	$ 66,687
LSV Asset Management	73,011	96,428	108,130	145,556	143,905
State Street Global Advisors	38,949	41,842	38,089	25,559	28,408
Total Domestic Large Cap Equity	162,633	193,056	199,102	228,974	239,000
Domestic Small Cap Equity:					
Brinson Partners, Inc.	-	-	253,112	267,304	78,615
Nicholas-Applegate Capital Management	-	-	164,218	188,539	335,385
SEI Investments Management	453,329	484,616	-	-	-
Total Domestic Small Cap Equity	453,329	484,616	417,330	455,843	414,000
International Equity:					
Capital Guardian Trust Company	344,834	392,190	358,164	380,196	352,362
Lazard Asset Management	44,755	-	-	-	-
The Vanguard Group	2,891	-	-	-	-
Total International Equity	392,480	392,190	358,164	380,196	352,362
Convertible Bonds:					
Trust Company of the West	466,670	492,572	478,858	506,269	364,223
Domestic Fixed Income:					
Bank of North Dakota	94,786	134,261	145,520	123,888	99,305
Strong Capital Management Co.	272,484	68,273	-	-	-
Western Asset Management Company	524,407	572,893	609,483	528,146	430,817
Total Domestic Fixed Income	891,677	775,427	755,003	652,034	530,122
Balanced Fund-State Street (Health Trust)	41,346	-	-	-	-
Total Investment Manager Fees	2,408,135	2,337,861	2,208,457	2,223,316	1,899,707
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	337,768	366,837	321,958	248,237	216,136
INVESTMENT CONSULTANT					
Callan Associates	87,266	69,955	63,139	61,725	89,713
SIB ADMINISTRATIVE FEES	120,095	99,689	94,145	84,600	85,328
SECURITIES LENDING FEES					
Rebates	1,811,453	3,907,272	11,106,470	9,707,091	7,169,009
Bank Fees	141,667	249,189	239,062	246,404	241,781
Total Securities Lending Fees	1,953,120	4,156,461	11,345,532	9,953,495	7,410,790

Note: Totals will not tie to financial statements as certain commingled investment account managers net the investment management fees with income when reporting to the custodian bank. These amounts are not broken out on the financial statements.

SUMMARY OF OPERATIONS
PENSION INVESTMENT POOL
FOR FISCAL YEARS ENDED JUNE 30

	2003	2002	2001	2000	1999
Public Employees Retirement System					
Net assets beginning of year	$ 1,080,040,861	$ 1,170,179,844	$ 1,232,890,945	$ 1,141,177,612	$ 1,031,396,659
Net increase/(decrease) in fair value of investments	22,232,141	(115,940,983)	(96,066,919)	70,477,207	80,332,335
Interest, dividends and other income	36,951,759	38,541,144	44,862,313	39,803,984	34,745,874
Investment expenses	3,575,041	3,727,939	4,108,479	3,813,626	3,317,452
Net securities lending income	195,613	238,795	301,984	346,768	270,196
Net incr/(decr) in net assets resulting from unit transactions	(9,750,000)	(9,250,000)	(7,700,000)	(15,101,000)	(2,250,000)
Net assets end of year	$ 1,126,095,333	$ 1,080,040,861	$ 1,170,179,844	$ 1,232,890,945	$ 1,141,177,612
City of Bismarck Employees Pension Plan					
Net assets beginning of year	$ 21,573,002	$ 23,006,697	$ 23,523,256	$ 21,557,727	$ 19,513,831
Net increase/(decrease) in fair value of investments	721,533	(2,192,830)	(1,377,978)	1,103,780	1,398,230
Interest, dividends and other income	735,176	827,200	937,911	781,496	689,484
Investment expenses	65,768	73,474	83,255	76,525	48,775
Net securities lending income	4,163	5,409	6,763	6,778	4,957
Net incr/(decr) in net assets resulting from unit transactions	-	-	-	150,000	-
Net assets end of year	$ 22,968,106	$ 21,573,002	$ 23,006,697	$ 23,523,256	$ 21,557,727
City of Bismarck Police Pension Plan					
Net assets beginning of year	$ 10,494,577	$ 11,304,692	$ 11,704,525	$ 10,543,678	$ 9,525,849
Net increase/(decrease) in fair value of investments	262,050	(1,152,914)	(796,598)	611,076	740,763
Interest, dividends and other income	354,978	380,805	438,908	366,210	320,418
Investment expenses	35,988	40,275	45,028	44,288	45,450
Net securities lending income	1,854	2,269	2,885	2,849	2,098
Net incr/(decr) in net assets resulting from unit transactions	-	-	-	225,000	-
Net assets end of year	$ 11,077,471	$ 10,494,577	$ 11,304,692	$ 11,704,525	$ 10,543,678
Job Service of North Dakota					
Net assets beginning of year	$ 60,847,741	$ 62,062,970	$ 60,815,829	$ 52,923,765	$ 42,803,391
Net increase/(decrease) in fair value of investments	2,153,287	(6,167,057)	(4,125,395)	2,966,328	3,997,738
Interest, dividends and other income	2,077,422	2,217,530	2,267,013	1,477,003	1,092,243
Investment expenses	181,548	191,608	200,498	177,519	145,756
Net securities lending income	15,388	17,906	20,021	17,252	11,149
Net incr/(decr) in net assets resulting from unit transactions	2,391,000	2,908,000	3,286,000	3,609,000	5,165,000
Net assets end of year	$ 67,303,290	$ 60,847,741	$ 62,062,970	$ 60,815,829	$ 52,923,765
TOTAL PENSION INVESTMENT POOL					
Net assets beginning of year	$ 1,172,956,181	$ 1,266,554,203	$ 1,328,934,555	$ 1,226,202,782	$ 1,103,239,730
Net increase/(decrease) in fair value of investments	25,369,011	(125,453,784)	(102,366,890)	75,158,391	86,469,066
Interest, dividends and other income	40,119,335	41,966,679	48,506,145	42,428,693	36,848,019
Investment expenses	3,858,345	4,033,296	4,437,260	4,111,958	3,557,433
Net securities lending income	217,018	264,379	331,653	373,647	288,400
Net incr/(decr) in net assets resulting from unit transactions	(7,359,000)	(6,342,000)	(4,414,000)	(11,117,000)	2,915,000
Net assets end of year	$ 1,227,444,200	$ 1,172,956,181	$ 1,266,554,203	$ 1,328,934,555	$ 1,226,202,782

SUMMARY OF OPERATIONS
INSURANCE INVESTMENT POOL
FOR FISCAL YEARS ENDED JUNE 30

	2003	2002	2001	2000	1999
Workers Compensation Fund					
Net assets beginning of year	$ 906,570,883	$ 924,957,230	$ 899,472,385	$ 775,385,306	$ 687,485,649
Net increase/(decrease) in fair value of investments	44,052,887	(51,653,135)	(27,760,213)	59,796,225	25,517,718
Interest, dividends and other income	38,713,140	38,573,723	43,475,209	37,936,151	29,315,285
Investment expenses	2,461,558	2,344,928	2,566,986	2,497,150	2,185,943
Net securities lending income	317,203	537,993	536,835	551,853	402,597
Net incr/(decr) in net assets resulting from unit transactions	(7,000,000)	(3,500,000)	11,800,000	28,300,000	34,850,000
Net assets end of year	$ 980,192,555	$ 906,570,883	$ 924,957,230	$ 899,472,385	$ 775,385,306
State Fire & Tornado					
Net assets beginning of year	$ 13,219,551	$ 16,640,670	$ 15,922,249	$ 16,585,982	$ 15,217,739
Net increase/(decrease) in fair value of investments	640,258	(896,648)	(746,935)	1,199,681	900,335
Interest, dividends and other income	578,844	603,477	777,494	722,556	706,054
Investment expenses	39,974	36,532	46,420	46,296	47,364
Net securities lending income	5,063	8,584	9,282	10,326	9,218
Net incr/(decr) in net assets resulting from unit transactions	1,925,000	(3,100,000)	725,000	(2,550,000)	(200,000)
Net assets end of year	$ 16,328,742	$ 13,219,551	$ 16,640,670	$ 15,922,249	$ 16,585,982
State Bonding					
Net assets beginning of year	$ 4,781,300	$ 4,909,606	$ 4,900,394	$ 4,550,096	$ 4,253,420
Net increase/(decrease) in fair value of investments	181,129	(303,555)	(201,129)	329,207	199,672
Interest, dividends and other income	185,032	185,119	221,523	207,121	182,365
Investment expenses	13,044	12,508	13,867	13,941	12,720
Net securities lending income	1,621	2,638	2,685	2,911	2,359
Net incr/(decr) in net assets resulting from unit transactions	-	-	-	(175,000)	(75,000)
Net assets end of year	$ 5,136,038	$ 4,781,300	$ 4,909,606	$ 4,900,394	$ 4,550,096
Petroleum Tank Release Compensation Fund					
Net assets beginning of year	$ 8,317,667	$ 8,632,780	$ 8,706,803	$ 7,920,716	$ 6,928,593
Net increase/(decrease) in fair value of investments	278,199	(484,206)	(342,226)	670,473	349,615
Interest, dividends and other income	296,926	310,995	389,458	361,724	311,438
Investment expenses	21,392	21,265	25,890	26,066	23,039
Net securities lending income	2,600	4,363	4,635	4,956	4,109
Net incr/(decr) in net assets resulting from unit transactions	(300,000)	(125,000)	(100,000)	(225,000)	350,000
Net assets end of year	$ 8,574,000	$ 8,317,667	$ 8,632,780	$ 8,706,803	$ 7,920,716
Insurance Regulatory Trust Fund					
Net assets beginning of year	$ 2,280,579	$ 2,327,671	$ 2,717,188	$ 2,569,789	$ 2,457,939
Net increase/(decrease) in fair value of investments	37,155	(142,511)	(53,790)	90,446	36,135
Interest, dividends and other income	49,452	48,598	78,012	86,655	79,987
Investment expenses	4,572	3,734	4,421	5,584	4,955
Net securities lending income	448	555	682	882	683
Net incr/(decr) in net assets resulting from unit transactions	400,000	50,000	(410,000)	(25,000)	-
Net assets end of year	$ 2,763,062	$ 2,280,579	$ 2,327,671	$ 2,717,188	$ 2,569,789

SUMMARY OF OPERATIONS
INSURANCE INVESTMENT POOL (continued)
FOR FISCAL YEARS ENDED JUNE 30

	2003	2002	2001	2000	1999
ND Health Care Trust Fund					
Net assets beginning of year	$ 43,795,649	$ -	$ -	$ -	$ -
Net increase/(decrease) in fair value of investments	(2,021,143)	(2,941,422)	-	-	-
Interest, dividends and other income	1,845,765	1,795,032	-	-	-
Investment expenses	47,908	134,190	-	-	-
Net securities lending income	1,823	24,468	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	(14,927,709)	45,051,761	-	-	-
Net assets end of year	$ 28,646,477	$ 43,795,649	$ -	$ -	$ -
Veterans Cemetery Fund					
Net assets beginning of year	$ 49,627	$ 35,697	$ 23,998	$ 10,279	$ 2,781
Net increase/(decrease) in fair value of investments	-	-	-	-	-
Interest, dividends and other income	846	999	1,618	968	318
Investment expenses	11	3	2	1	-
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	12,955	12,934	10,083	12,752	7,180
Net assets end of year	$ 63,417	$ 49,627	$ 35,697	$ 23,998	$ 10,279
Veterans Post War Trust Fund					
Net assets beginning of year	$ 1,186,374	$ 1,424,389	$ 1,382,644	$ 1,342,711	$ 1,147,114
Net increase/(decrease) in fair value of investments	(31,456)	(254,022)	(175,012)	26,007	182,178
Interest, dividends and other income	18,832	19,106	20,381	18,008	17,296
Investment expenses	2,656	3,132	3,677	4,184	3,971
Net securities lending income	113	33	53	102	94
Net incr/(decr) in net assets resulting from unit transactions	(45,000)	-	200,000	-	-
Net assets end of year	$ 1,126,207	$ 1,186,374	$ 1,424,389	$ 1,382,644	$ 1,342,711
Risk Management Fund					
Net assets beginning of year	$ 3,298,707	$ 3,532,523	$ 5,327,748	$ 6,397,739	$ 5,782,083
Net increase/(decrease) in fair value of investments	102,735	(205,527)	(177,198)	(105,028)	26,512
Interest, dividends and other income	107,014	128,818	190,789	293,754	346,568
Investment expenses	5,623	8,943	11,172	11,759	10,052
Net securities lending income	684	1,836	2,356	3,042	2,628
Net incr/(decr) in net assets resulting from unit transactions	(965,000)	(150,000)	(1,800,000)	(1,250,000)	250,000
Net assets end of year	$ 2,538,517	$ 3,298,707	$ 3,532,523	$ 5,327,748	$ 6,397,739
ND Association of Counties Fund					
Net assets beginning of year	$ 257,665	$ 271,137	$ 539,481	$ 341,846	$ -
Net increase/(decrease) in fair value of investments	8,441	(21,265)	(16,410)	33,039	13,815
Interest, dividends and other income	9,280	9,323	14,042	16,828	3,834
Investment expenses	1,672	1,666	1,891	2,485	864
Net securities lending income	83	136	190	253	61
Net incr/(decr) in net assets resulting from unit transactions	-	-	(264,275)	150,000	325,000
Net assets end of year	$ 273,797	$ 257,665	$ 271,137	$ 539,481	$ 341,846

SUMMARY OF OPERATIONS
INSURANCE INVESTMENT POOL (continued)
FOR FISCAL YEARS ENDED JUNE 30

	2003	2002	2001	2000	1999
ND Association of Counties Program Savings Fund					
Net assets beginning of year	$ 273,574	$ 287,382	$ 1,402,703	$ 260,627	$ -
Net increase/(decrease) in fair value of investments	8,916	(22,143)	(15,308)	23,645	7,006
Interest, dividends and other income	9,855	9,901	12,713	46,113	4,595
Investment expenses	1,714	1,709	1,857	1,973	1,056
Net securities lending income	88	143	156	168	82
Net incr/(decr) in net assets resulting from unit transactions	-	-	(1,111,025)	1,074,123	250,000
Net assets end of year	$ 290,719	$ 273,574	$ 287,382	$ 1,402,703	$ 260,627
PERS Group Insurance Fund					
Net assets beginning of year	$ 57,641	$ 1,544,733	$ 119,122	$ -	$ -
Net increase/(decrease) in fair value of investments	-	-	-	-	-
Interest, dividends and other income	58,525	95,512	191,229	120,041	-
Investment expenses	1,013	1,004	1,066	919	-
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	18,828	(1,581,600)	1,235,448	-	-
Net assets end of year	$ 133,981	$ 57,641	$ 1,544,733	$ 119,122	$ -
City of Bismarck Deferred Sick Leave Fund					
Net assets beginning of year	$ 559,779	$ 566,032	$ 558,682	$ -	$ -
Net increase/(decrease) in fair value of investments	26,238	(27,731)	(17,621)	36,876	-
Interest, dividends and other income	23,875	23,530	27,154	24,169	-
Investment expenses	2,491	2,397	2,529	2,719	-
Net securities lending income	207	345	346	356	-
Net incr/(decr) in net assets resulting from unit transactions	-	-	-	500,000	-
Net assets end of year	$ 607,608	$ 559,779	$ 566,032	$ 558,682	$ -
City of Fargo FargoDome Permanent Fund					
Net assets beginning of year	$ -	$ -	$ -	$ -	$ -
Net increase/(decrease) in fair value of investments	438,029	-	-	-	-
Interest, dividends and other income	95,346	-	-	-	-
Investment expenses	8,639	-	-	-	-
Net securities lending income	617	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	3,782,127	-	-	-	-
Net assets end of year	$ 4,307,480	$ -	$ -	$ -	$ -
TOTAL INSURANCE INVESTMENT POOL					
Net assets beginning of year	$ 984,648,996	$ 965,129,850	$ 941,073,397	$ 815,365,091	$ 723,325,088
Net increase/(decrease) in fair value of investments	43,721,388	(56,952,165)	(29,505,842)	62,100,571	27,232,986
Interest, dividends and other income	41,992,732	41,804,133	45,399,622	39,834,088	30,969,915
Investment expenses	2,612,267	2,572,011	2,679,778	2,613,077	2,290,882
Net securities lending income	330,550	581,094	557,220	574,849	421,831
Net incr/(decr) in net assets resulting from unit transactions	(17,098,799)	36,658,095	10,285,231	25,811,875	35,706,153
Net assets end of year	$ 1,050,982,600	$ 984,648,996	$ 965,129,850	$ 941,073,397	$ 815,365,091

Note: The National Guard Tuition Waiver Fund participated in the Insurance Investment Pool during FY1999, however the fund was closed prior to fiscal year end so is not shown separately on this summary. It is included in the Total Insurance Investment Pool for 1999.