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
1930 Burnt Boat Drive, P.O. Box 7100
Bismarck, ND 58507-7100
Phone: (701) 328-9885
www.discovernd.com/rio

For the Fiscal Year Ended June 30, 2004

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

Table of Contents

Introductory

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
Fax 701-328-9897
www.discovernd.com/rio

November 1, 2004

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, 2004, 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 nearly 10,000 teachers from 266 employer groups and pays benefits to more than 5,300 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 $4.0 billion in assets for five pension funds and 16 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	Insurance Investment Pool Participants
Teachers' Fund for Retirement	Workforce Safety & Insurance (WSI) Fund
Public Employees Retirement Fund	State Fire & Tornado Fund
City of Bismarck Employees Pension Fund	State Bonding Fund
City of Bismarck Police Pension Fund	Insurance Regulatory Trust Fund
Job Service of North Dakota Pension Fund	Petroleum Tank Release Compensation Fund
	ND Health Care Trust Fund
	State Risk Management Fund
Individual Investment Account	State Risk Management Workers Comp Fund
	Veterans Post War Trust Fund
PERS Retiree Health Insurance Credit 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 WSI, 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.
- The Risk Management Workers Compensation Fund was added in October 2003.

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

  Plan Amendments

  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. These changes became effective during the 2003-04 fiscal year and are not expected to have any actuarial cost implications. Specifically:

- ✓ 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

Other legislation approved in 2003 allowed active members of the Department of Public instruction to make a one-time irrevocable election to transfer from TFFR to the ND Public Employees Retirement System. Both assets and liabilities for all TFFR service was transferred for employees who made the election.

New Pension Administration System

Due to increasing costs to maintain TFFR's outdated mainframe computer system, we have started a project to replace the system with new pension software. The goal of an updated system is to improve service to members, increase the reliability of data, provide tools for improving staff productivity, enhance system integration capabilities, and update the technology. After completing a business needs analysis and market survey, we received legislative budget approval to replace the current pension administration computer system in the 2003-05 biennium. During the 2003-04 fiscal year, RFP's were distributed and analyzed, and CPAS Inc. was awarded the pension software contract. Implementation of the new software program is in process, and as of the end of the fiscal year, $486,500 of the $2 million project budget has been expended. The project is currently on schedule and on budget. The anticipated completion date is September 2005.

- Investment Program

The investment markets rebounded nicely during fiscal year 2004. All of the pension funds exceeded their actuarial return assumptions for the year. The insurance funds' returns were highly reflective of their individual asset class exposures and in all 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:

- ✓ Terminated a poor performing high yield fixed income manager, replacing it with two highly diversified new managers.
- ✓ After realizing successes in the pension investment pool, hired two of the existing large cap enhanced index equity managers for the insurance investment pool.
- ✓ Replaced a large cap domestic equity manager in both pools to improve style tracking characteristics.
- ✓ Consolidated the enhanced index equity managers from four to three in the pension investment pool.
- ✓ Based on client request, created a TIPS asset class in the insurance pension pool and hired two complementary managers to manage portfolios.
- ✓ Reviewed and accepted a proposed change by our direct equity real estate manager to pool investments in a commingled real estate fund in the pension investment pool.

The State Risk Management Workers Compensation 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, 2003. This was the sixth 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.

RIO also received the Public Pension Standards 2003 Award. This program, administered by the Public Pension Coordinating Council (PPCC), covers a one-year period and recognizes public employee retirement systems that adhere to high professional standards. NDRIO qualified for this award based on compliance with specific principles in the areas of plan design and administration.

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, 2004.

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

Pension Trust Fund (TFFR)	June 30, 2004	June 30, 2003	Incr/(Decr) $	Incr/(Decr) %
Additions	$ 283,898,141	$ 84,710,265	$199,187,876	235.1%
Deductions	84,466,942	74,831,352	9,635,590	12.9 %
Net Increase/(Decrease)	$ 199,431,199	$ 9,878,913	$189,552,286	1918.8%

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, 2004	June 30, 2003	Incr/(Decr) $	Incr/(Decr) %
Operating revenues	$ 1,896,124	$1,452,162	$ 443,962	30.6 %
Operating expenses	1,496,754	1,464,403	32,351	2.2 %
Non-operating revenue (expense)	(835)	810	(1,645)	(203.1)%
Net revenues (expenses)	$ 398,535	$ (11,431)	$ 409,966	(3586.4)%

Operating revenues increased due to an increase in overall expenses being allocated to the programs; mostly due to the retirement administration software replacement project. Operating expenses increased slightly mainly due to general inflation increases. Non-operating expenses increased due to the addition of a capital lease during the fiscal year.

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, 2004, the employer contribution rate needed in order to meet these goals is 11.34%. 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 -3.59%. This negative margin increased from -1.19% last year, mainly because of the recognition of investment experience losses from prior years. This increase would have been even larger if not for the 18.9% market return in FY 2004.

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 never achieve complete amortization (i.e. TFFR has an infinite funding period).

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, 2003 was 85.1%, while it is 80.3% as of July 1, 2004. This decrease is due to the recognized investment experience losses from prior years.

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 few years, 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 76.4%, rather than 80.3%, if the market value of assets had been used rather than the actuarial value. As of July 1, 2003, the funded ratio based on market value of assets was 69.5%.

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, 2004 (in millions)	**July 1, 2003 (in millions)**
Actuarial value of assets	$ 1,445.6	$ 1,438.4
Unfunded actuarial accrued liability	354.8	251.9
Funded ratio	80.3%	85.1%

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

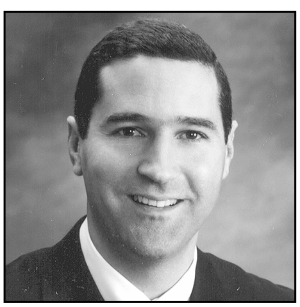
NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

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.

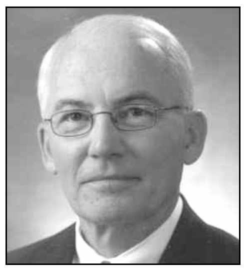
To ensure rigorous attention to all aspects of the investment program, the SIB follows an established investment process. This process involves three phases:

- 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 6/30/08



Mark Sanford
TFFR Trustee
Term expires 6/30/05

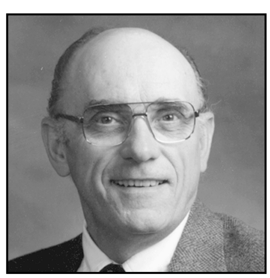
Kathi Gilmore
State Treasurer
Term expires 12/31/04

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

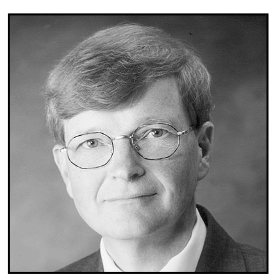
Gary Preszler
University and School Land Commissioner

Sandy Blunt
Executive Director Workforce Safety & Insurance

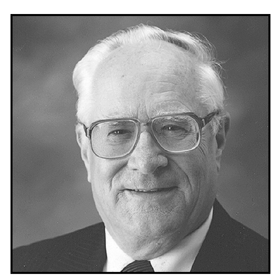
Paul Lofthus
TFFR Trustee
Term expires 6/30/06



Weldee Baetsch
PERS Trustee
Term expires 6/30/04



David Gunkel
PERS Trustee
Term expires 6/30/04



Norman Stuhlmiller
TFFR Trustee
Term expires 6/30/08

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.

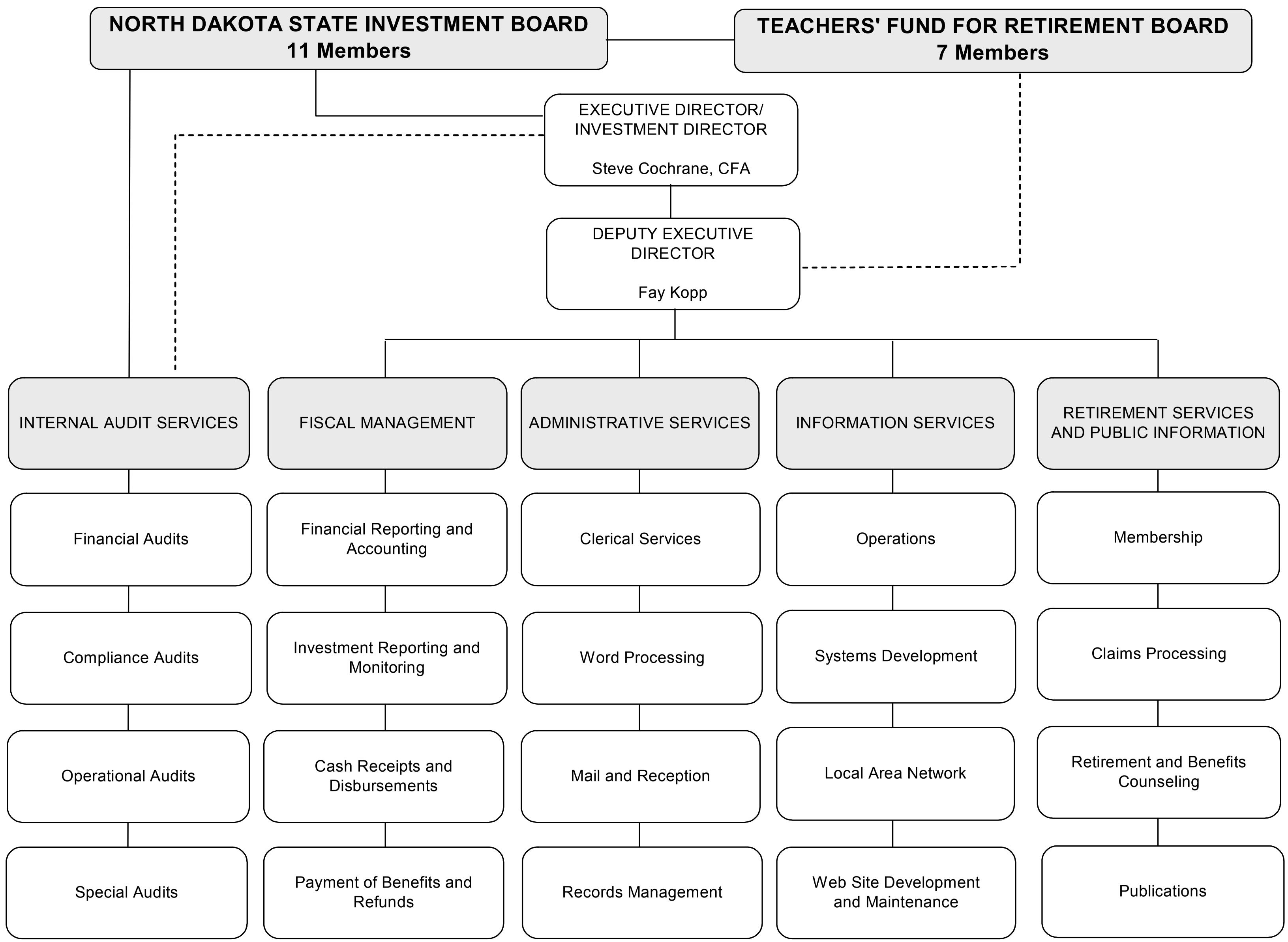
Goals

- 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

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

ADMINISTRATIVE ORGANIZATION
JUNE 30, 2004



NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

CONSULTING AND PROFESSIONAL SERVICES
AS OF JUNE 30, 2004

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

Information Technology
CPAS Systems Inc.
Toronto, Ontario

MSI Systems Integrators
Omaha, Nebraska

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

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

Hearthstone Homebuilding Investors, LLC
Encino, California

Heitman/JMB Advisory Corp.
Chicago, Illinois

INVESCO Realty Advisors
Dallas, Texas

InvestAmerica L&C, LLC
Cedar Rapids, Iowa

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

Lazard Asset Management
New York, New York

Loomis Sayles & Company
Boston, Massachusetts

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

RMK Timberland Group
Atlanta, Georgia

SEI Investments Management Co.
Oaks, Pennsylvania

State Street Global Advisors
Boston, Massachusetts

Strong Capital Management, Inc.
Menomonee Falls, Wisconsin

Sutter Advisors/Wells Capital Management
San Francisco, California

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, 2003

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.

President

Executive Director

PPCC

Public Pension Coordinating Council

Public Pension Standards

2003 Award

Presented to

North Dakota Retirement and Investment Office

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Alan H. Winkle
Program Administrator

This page intentionally blank.

Financial

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, 2004. 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, 2004, 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.

The actuary for the North Dakota Teachers' Fund for Retirement has determined the Fund's unfunded actuarial accrued liability is approximately $355 million at June 30, 2004. The funding for the actuarial accrued liabilities is predicated on employer and employee funding rates mandated by North Dakota statutes. The actuary has determined that the current statutory contribution rates are insufficient to amortize the unfunded actuarial accrued liability over any period of time, based on the current actuarial assumptions, unless there are sufficient actuarial gains in the future to offset the recent investment losses.

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, 2004, 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, 2004, 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.

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

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 44 and 45 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.

The Management's Discussion and Analysis (MD&A) on pages 18 through 23 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 50 through 54 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 1, 2004

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

June 30, 2004

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, 2004. Please read it in conjunction with the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

Total assets exceeded total liabilities in the proprietary fund at the close of fiscal year 2004 by $373,941. This was mainly due to the capitalization of the retirement administration software in development at year end.

Total net assets increased in the fiduciary fund by $496.3 million or 14.3% 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 July 1, 2004, the funded ratio was approximately 80.3%.

Revenues and expenses in the proprietary fund increased from the prior year mainly due to the retirement software replacement project in the retirement program. This project will result in the replacement of the current mainframe-based system used to administer the TFFR plan. As of the end of the fiscal year, just over $486,000 had been expended on the project.

Additions in the fiduciary fund for the year were $585.3 million, which is comprised of contributions of $63.7 million and investment income of $521.6 million.

Deductions in the fiduciary fund increased over the prior year by $9.6 million or 12.9%. This increase represented a rise in the number of retirees drawing retirement benefits and increased refunds from the pension fund.

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.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

June 30, 2004

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.

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, 2004 were $700,423 and were comprised mostly of capital assets and cash. Total assets increased $507,825 or 263.7% from the prior year primarily due to an increase in capital assets.

Total current liabilities as of June 30, 2004 were $243,379 and were comprised mostly of accrued payroll and accounts payable. Total current liabilities increased $87,534 or 56.2% from the prior year primarily due to an increase in accounts payable at year-end. Total noncurrent liabilities increased $21,756 or 35.5% due to a larger balance of accrued leave at year-end and a capital lease entered into during the fiscal year.

RIO's internal service fund assets exceeded its liabilities at the close of fiscal year 2004 by approximately $374,000.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

June 30, 2004

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

	2004	2003	Total % Change
Assets			
Cash	$ 133	$ 133	(0.3)%
Receivables	144	56	157.2%
Capital Assets	423	3	12301.5%
Total Assets	700	192	263.7%
Current Liabilities	243	156	56.2%
Noncurrent Liabilities	83	61	35.5%
Total Liabilities	326	217	50.3%
Net Assets – Invested in capital assets, net of debt	410	3	11922.3%
Net Assets – Unrestricted	(36)	(28)	(30.3)%
Total Net Assets	$ 374	$ (25)	1620.5%

RIO's fiduciary fund total assets as of June 30, 2004 were $4.4 billion and were comprised mainly of investments and invested securities lending collateral. Total assets increased over $700 million or 18.7% from the prior year primarily due to the improvement in the financial markets during the fiscal year.

Total liabilities as of June 30, 2004 were $470.9 million and were comprised mostly of securities lending collateral. Total liabilities increased $204 million or 76.5% from the prior year primarily due to an increase in securities lending collateral at year-end.

RIO's fiduciary fund total net assets were just under $4 billion at the close of fiscal year 2004.

ND Retirement and Investment Office
Net Assets – Fiduciary Funds
(In Millions)

	2004	2003	Total % Change
Assets			
Investments	$ 3,946	$ 3,453	14.3%
Sec Lending Collateral	468	264	76.9%
Receivables	24	21	16.4%
Cash & Other	8	7	13.4%
Total Assets	4,446	3,745	18.7%
Accounts Payable	3	2	31.6%
Sec Lending Collateral	468	264	76.9%
Total Liabilities	471	266	76.5%
Total Net Assets	$ 3,975	$ 3,479	14.3%

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

June 30, 2004

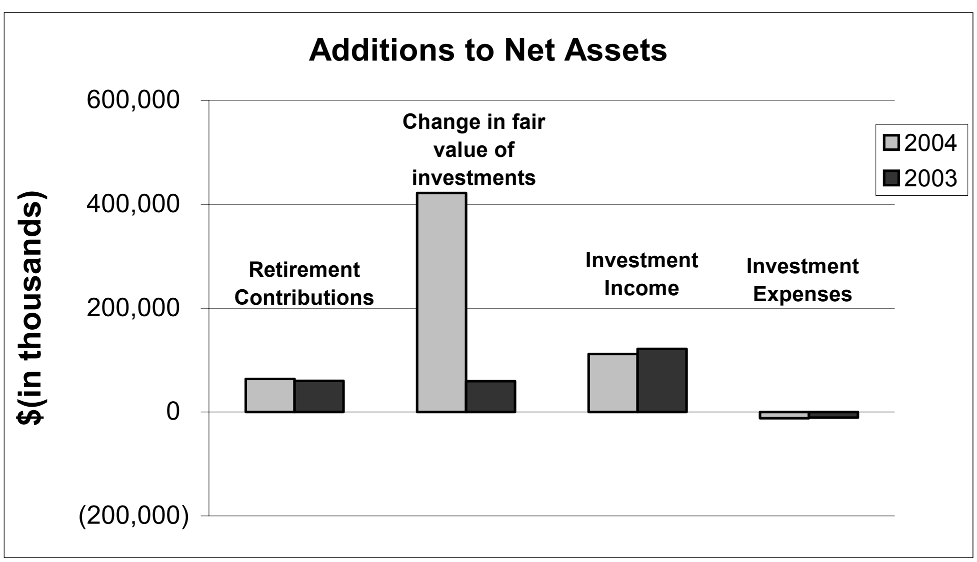
ND Retirement and Investment Office
Changes in Net Assets – Fiduciary Funds
(In Millions)

	2004	2003	Total % Change
Additions:			
Contributions	$ 64	$ 60	5.7%
Investment Income	521	171	205.7%
Total Additions	585	231	153.5%
Deductions	84	75	12.9%
Net inc(dec) from unit transactions	(5)	(24)	(80.9%)
Total inc(dec) in net assets	$ 496	$ 132	274.9%

Statement of Changes in Net Assets – Additions

Contributions to the pension trust fund increased by $3.4 million or 5.7% over the previous fiscal year. The fair value of investments in the fiduciary funds increased by $421.7 million during fiscal year 2004 following an increase of $59.4 million in fiscal year 2003.

Investment income, including net income from securities lending activities, decreased by $9.9 million from last year due to lower interest rates in the bond markets. Investment expenses increased by $1.3 million or 12.4% due to higher investment market values which the fee calculations are based upon.



NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

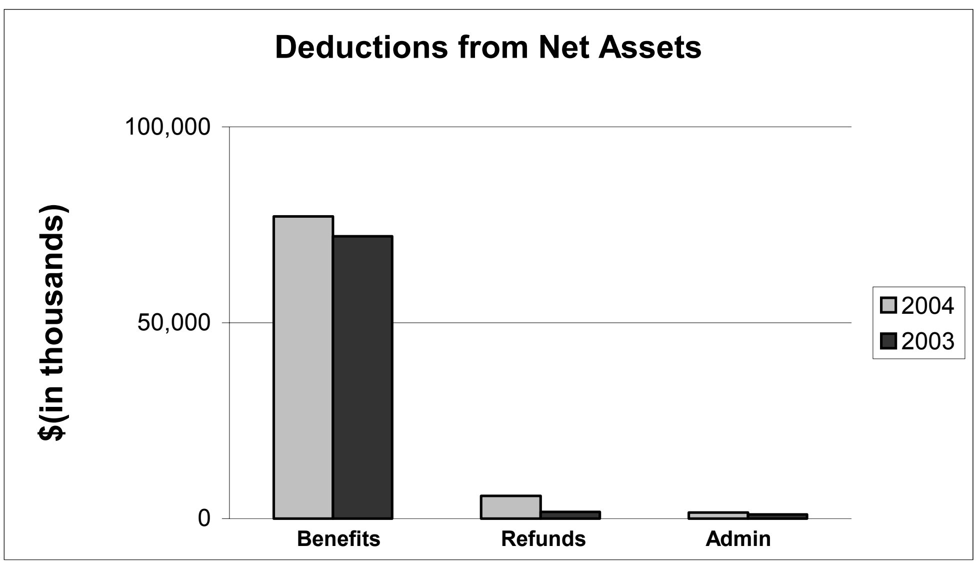
June 30, 2004

Statement of Changes in Net Assets – Deductions

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by $5.1 million or 7.1% during the fiscal year ended June 30, 2004. This was due to an increase in the number of retirees in the plan.

Refunds increased significantly in fiscal year 2004. The 2003 legislature approved a law allowing Department of Public Instruction employees covered under TFFR to make an election to transfer to the Public Employees Retirement System (PERS). Approximately $3.8 million in member account balances and/or actuarially determined values were transferred to PERS and these are shown as refunds on the financial statements. Total refunds for the year, including those DPI transfers, were $5.8 million versus $1.7 million or 235.3% more than the previous fiscal year.

Administrative expenses also increased, up $457,177 from fiscal year 2003. This increase was due to the launching of the retirement software replacement project in the pension fund.



CONCLUSION

Fiscal Year 2004 saw a significant recovery in the global equity markets which benefited RIO's combined net assets measureably.

Management believes, and actuarial studies concur, that the TFFR plan is in a financial position to meet its current obligations. However, all of the investment losses from previous years are not yet reflected in the actuarial measurements due to the five-year smoothing approach used by TFFR. As these losses are recognized over the next few years, 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.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

June 30, 2004

The investment trust funds are invested within their policy guidelines and adding additional investment return to their expected benchmark return objectives. We believe over the long term our 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, 2004 and 2003

	Internal Service Fund 2004	2003
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 132,738	$ 133,089
Due from other state agency	28	19
Administrative fees receivable	2,086	2,089
Due from fiduciary funds	142,183	53,987
Total current assets	277,035	189,184
Noncurrent assets:		
Capital assets:		
Equipment & software (net of depreciation)	423,388	3,414
Total assets	$ 700,423	$ 192,598
LIABILITIES:		
Current liabilities:		
Accounts payable	$ 149,966	$ 69,792
Accrued expenses	75,762	73,549
Capital leases payable	3,395	-
Due to fiduciary funds	2,453	673
Due to other state agencies	11,803	11,831
Total current liabilities	243,379	155,845
Noncurrent liabilities:		
Capital leases payable	9,550	-
Accrued annual leave	73,553	61,347
Total noncurrent liabilities	83,103	61,347
Total liabilities	326,482	217,192
NET ASSETS:		
Invested in capital assets, net of related debt	410,443	3,414
Unrestricted	(36,502)	(28,008)
Total net assets	373,941	(24,594)
Total net assets and liabilities	$ 700,423	$ 192,598

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, 2004 and 2003

	Internal Service Fund	
	2004	2003
Operating revenues:		
Charges for services	$ 1,877,249	$ 1,433,110
Miscellaneous	18,875	19,052
Total operating revenues	1,896,124	1,452,162
Operating expenses:		
Salaries and wages	860,257	835,210
Operating expenses	631,881	626,604
Depreciation	4,616	2,589
Total operating expenses	1,496,754	1,464,403
Operating income (loss)	399,370	(12,241)
Nonoperating revenue (expense):		
Investment income	581	810
Interest on capital lease	(1,416)	-
Total nonoperating revenue (expense)	(835)	810
Change in net assets	398,535	(11,431)
Total net assets - beginning of year	(24,594)	(13,163)
Total net assets - end of year	$ 373,941	$ (24,594)

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, 2004 and 2003

	Internal Service Fund	
	2004	2003
Cash flows from operating activities:		
Cash received from other state agencies	$ 1,863,721	$ 1,487,425
Cash received from external clients	7,508	7,026
Payments to vendors	(1,459,091)	(1,479,549)
Net cash provided (used) by operating activities	412,138	14,902
Cash flow from capital-related financing activities:		
Purchase of capital assets	(410,000)	-
Payments on capital lease	(3,061)	-
Net cash provided (used) by capital-related financing activities	(413,061)	-
Cash flow from investing activities:		
Investment Income	572	846
Net increase (decrease) in cash and equivalents	(351)	15,748
Cash and equivalents - beginning of year	133,089	117,341
Cash and equivalents - end of year	$ 132,738	$ 133,089
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ 399,370	$ (12,241)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	4,616	2,589
Net change in assets and liabilities:		
Administrative fees receivable	3	(306)
Due from other funds	(88,196)	(32,779)
Accounts payable	80,174	45,875
Accrued expenses	14,419	10,971
Due to other funds	1,780	(267)
Due to other state agencies	(28)	1,060
Net cash provided (used) by operating activities	$ 412,138	$ 14,902
Noncash transactions:		
Acquisition of equipment under capital lease	$ 14,590	$ -

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, 2004 and 2003

	Pension Trust		Investment Trust		Total	
	2004	2003	2004	2003	2004	2003
Assets:						
Investments, at fair value						
Equities	$ -	$ -	$ 19,412,080	$ 16,267,550	$ 19,412,080	$ 16,267,550
Equity pool	900,981,977	769,229,604	1,107,851,093	1,068,542,825	2,008,833,070	1,837,772,429
Fixed income	-	-	27,658,250	27,027,596	27,658,250	27,027,596
Fixed income pool	245,500,877	203,349,406	1,248,149,485	1,016,502,506	1,493,650,362	1,219,851,912
Real estate pool	108,794,052	109,451,910	62,862,985	58,847,673	171,657,037	168,299,583
Private equity	60,138,622	52,189,986	59,398,786	51,592,705	119,537,408	103,782,691
Cash and cash pool	39,971,282	23,855,378	65,268,301	56,391,143	105,239,583	80,246,521
Total investments	1,355,386,810	1,158,076,284	2,590,600,980	2,295,171,998	3,945,987,790	3,453,248,282
Invested securities lending collateral	69,506,360	53,373,514	398,167,068	211,051,305	467,673,428	264,424,819
Receivables:						
Investment income	6,145,079	4,588,915	11,403,421	9,650,406	17,548,500	14,239,321
Contributions	6,354,683	6,302,169	-	-	6,354,683	6,302,169
Total receivables	12,499,762	10,891,084	11,403,421	9,650,406	23,903,183	20,541,490
Due from other funds	-	-	2,453	673	2,453	673
Cash and cash equivalents	8,378,563	7,388,155	-	-	8,378,563	7,388,155
Total assets	1,445,771,495	1,229,729,037	3,000,173,922	2,515,874,382	4,445,945,417	3,745,603,419
Liabilities:						
Accounts payable	-	106	-	-	-	106
Investment expenses payable	1,198,117	824,066	1,615,736	1,314,538	2,813,853	2,138,604
Securities lending collateral	69,506,360	53,373,514	398,167,068	211,051,305	467,673,428	264,424,819
Accrued expenses	253,408	244,481	-	-	253,408	244,481
Due to other funds	133,933	38,392	8,250	15,595	142,183	53,987
Total liabilities	71,091,818	54,480,559	399,791,054	212,381,438	470,882,872	266,861,997
Net assets:						
Held in trust for pension benefits (see Schedule of Funding Progress on page 44)	1,374,679,677	1,175,248,478	-	-	1,374,679,677	1,175,248,478
Held for external investment pool participants:						
Pension pool	-	-	1,417,160,799	1,227,444,200	1,417,160,799	1,227,444,200
Insurance pool	-	-	1,153,380,140	1,050,982,600	1,153,380,140	1,050,982,600
Held for individual investment account	-	-	29,841,929	25,066,144	29,841,929	25,066,144
Total net assets	$ 1,374,679,677	$ 1,175,248,478	$ 2,600,382,868	$ 2,303,492,944	$ 3,975,062,545	$ 3,478,741,422
Each participant unit is valued at $1.00						
Participant units outstanding			2,600,382,868	2,303,492,944	2,600,382,868	2,303,492,944

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, 2004 and 2003

	Pension Trust		Investment Trust		Total	
	2004	2003	2004	2003	2004	2003
Additions:						
Contributions:						
Employer contributions	$ 29,635,584	$ 28,850,725	$ -	$ -	$ 29,635,584	$ 28,850,725
Member contributions	29,635,970	28,851,110	-	-	29,635,970	28,851,110
Purchased service credit	4,383,456	2,507,168	-	-	4,383,456	2,507,168
Interest and penalties	352	1,065	-	-	352	1,065
Total contributions	63,655,362	60,210,068	-	-	63,655,362	60,210,068
Investment income:						
Net increase (decrease) in fair value of investments	188,732,952	(9,926,054)	232,942,174	69,374,701	421,675,126	59,448,647
Interest, dividends and other income	36,083,028	38,287,835	74,938,084	82,733,993	111,021,112	121,021,828
	224,815,980	28,361,781	307,880,258	152,108,694	532,696,238	180,470,475
Less investment expenses	4,827,788	4,078,106	7,077,592	6,517,101	11,905,380	10,595,207
Net investment income	219,988,192	24,283,675	300,802,666	145,591,593	520,790,858	169,875,268
Securities lending activity:						
Securities lending income	754,559	920,831	2,980,052	3,656,659	3,734,611	4,577,490
Less securities lending expenses	499,972	704,309	2,390,792	3,109,091	2,890,764	3,813,400
Net securities lending income	254,587	216,522	589,260	547,568	843,847	764,090
Total additions	283,898,141	84,710,265	301,391,926	146,139,161	585,290,067	230,849,426
Deductions:						
Benefits paid to participants	77,112,918	72,044,977	-	-	77,112,918	72,044,977
Partial lump-sum distributions	40,136	-	-	-	40,136	-
Refunds	5,800,100	1,729,764	-	-	5,800,100	1,729,764
Administrative charges	1,513,788	1,056,611	-	-	1,513,788	1,056,611
Total deductions	84,466,942	74,831,352	-	-	84,466,942	74,831,352
Net increase (decrease) in net assets resulting from operations	199,431,199	9,878,913	301,391,926	146,139,161	500,823,125	156,018,074
Unit transactions at net asset value of $1.00 per unit:						
Purchase of units	-	-	156,663,183	143,942,201	156,663,183	143,942,201
Redemption of units	-	-	(161,165,187)	(167,565,000)	(161,165,187)	(167,565,000)
Net increase (decrease) in assets and units resulting from unit transactions	-	-	(4,502,004)	(23,622,799)	(4,502,004)	(23,622,799)
Total increase (decrease) in net assets	199,431,199	9,878,913	296,889,922	122,516,362	496,321,121	132,395,275
Net assets:						
Beginning 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
End of Year	$ 1,374,679,677	$ 1,175,248,478	$ 2,600,382,866	$ 2,303,492,944	$ 3,975,062,543	$ 3,478,741,422

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

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2004

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, 2004

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 Workforce Safety and Insurance, 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, Risk Management Workers Comp, 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, Workforce Safety and Insurance, State Fire and Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Health Care Trust, Veterans Cemetery, and Risk Management and Risk Management Workers Comp.

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, 2004

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, 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2004

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, 2004

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, 2004 was 98 days.

Cash open collateral is invested in a short term investment pool, the Core USA Collateral Section, which had an interest sensitivity of 24 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, 2004

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 $75,113 at June 30, 2004. The current portion of accrued leave amounted to $1,560 at June 30, 2004, 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, 2004 consisted of the following:

Balance July 1, 2003	$66,713
Additions	8,400
Deductions	-
Balance June 30, 2004	$75,113

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2004

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, 2004 include $114,627 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 $18,111 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, 2004 were deposited in the Bank of North Dakota. At June 30, 2004, the carrying amount of TFFR's deposits was $8,378,564, and the bank balance was $8,393,622. 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 $95,460,531 at June 30, 2004. 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, 2004

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, 2004 is as follows:

		Credit Risk Category		
	Fair Value	(a)	(b)	(c)
Equity Securities:				
Not on securities loan	$ 910,628,562	$ 910,628,562	$ -	$ -
On securities loan for non-cash collateral	10,107,976	10,107,976	-	-
US Government & agency issues:				
Not on securities loan	155,464,984	155,464,984	-	-
On securities loan for non-cash collateral	63,066,680	63,066,680	-	-
Bonds and notes:				
Not on securities loan	619,457,939	596,336,043	-	23,121,896
On securities loan for non-cash collateral	6,741,298	6,741,298	-	-
		$ 1,742,345,543	$ -	23,121,896
Real estate	171,657,037			
Private equity	119,537,408			
Mutual funds	1,336,708,683			
Investments held by broker-dealers under securities loans with cash collateral:				
Equity securities	104,046,939			
US Government & agency issues	265,762,824			
Bonds and notes	87,346,929			
Securities lending short-term collateral investment pool	467,673,427			
	$ 4,318,200,686			

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2004

NOTE 4 CAPITAL ASSETS

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

	7/1/2003	Additions	Retirements	6/30/2004
Office equipment	$28,396	$14,590	($14,990)	$27,996
Software	-	410,000	-	410,000
	28,396	$424,590	($14,990)	437,996
Less accumulated depreciation	(24,982)	($4,616)	$14,990	(14,608)
	$3,414			$423,388

NOTE 5 INTERFUND AND STATE AGENCY TRANSACTIONS

Due To / Due From Fiduciary Funds

Amounts due to and due from fiduciary funds are as follows as of June 30, 2004:

	Due to Internal Service Fund	Due from Internal Service Fund
Investment Trust Funds:		
PERS	$4,717	$ -
Workforce Safety and Insurance	-	1,513
State Fire and Tornado	-	200
State Bonding	138	-
Petroleum Tank Release Compensation Fund	-	133
Insurance Regulatory Trust	-	41
Health Care Trust	-	230
Veterans Post War	250	-
Veterans Cemetery	22	-
Risk Management	-	76
Risk Management Workers Comp	-	260
PERS Group Insurance	250	-
PERS Retiree Health	823	-
Job Service of North Dakota	2,050	-
Total Investment Trust	8,250	2,453
Pension Trust Fund:		
TFFR	133,933	-
Total due to / due from internal service fund	$142,183	$ 2,453

Continued

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2004

NOTE 5 INTERFUND AND STATE AGENCY TRANSACTIONS - Continued

Due To / Due From Other State Agencies

Amounts due to and due from other state agencies are as follows as of June 30, 2004:

Due To:	
Information Technology Department	$10,554
Attorney General's Office	585
Central Supply	41
Central Duplicating	623
Total due to other state agencies	$11,803
Due From:	
Bank of North Dakota	$ 28

NOTE 6 OPERATING LEASES

RIO leases office space under an operating lease, which expires on June 30, 2005. RIO also incurs rent expense at other locations on a temporary basis to sponsor retirement education for TFFR members. Rent expense totaled $70,961 for fiscal 2004. Minimum payments under this lease for fiscal 2005 are $69,278.

NOTE 7 CAPITAL LEASES

RIO is obligated under a lease accounted for as a capital lease in its internal service fund. The liability is reduced by payments of principal, with a portion of the payment allocated to interest expense.

The schedule below lists the future minimum lease payments under the capital lease and the present value of the net minimum lease payments at June 30, 2004:

June 30,	Amount
2005	$ 4,951
2006	4,951
2007	4,951
2008	1,238
Total minimum lease payments	$ 16,091
Less: Amount Representing Interest	(3,146)
Present value of future minumum lease payments	$ 12,945

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2004

NOTE 8 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, 2004 and 2003, the number of participating employer units was 266 and 273 consisting of the following:

	2004	2003
Public School Districts	211	218
County Superintendents	15	15
Special Education Units	19	19
Vocational Education Units	4	4
Other	17	17
Total	266	273

TFFR's membership consisted of the following:

	2004	2003
Retirees and beneficiaries currently receiving benefits	5,373	5,177
Terminated employees - vested	1,346	1,276
Terminated employees - nonvested	175	233
Total	6,894	6,686
Current employees:		
Vested	8,658	8,672
Nonvested	1,168	1,244
Total	9,826	9,916

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.

Continued

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2004

NOTE 8 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT - Continued

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, 2004, TFFR had net realized gains of $53,606,509.

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.

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, ten or twenty-year term certain annuity, partial lump-sum option 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, 2004

NOTE 8 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 9 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, 2004, 2003, and 2002, were $59,134, $58,218, and $54,895, equal to the required contributions for each year plus a 1% contribution for retiree health benefits.

NOTE 10 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

Notes to Combined Financial Statements - Continued

June 30, 2004

NOTE 11 COMMITMENTS

RIO has entered into two contracts to implement a new pension administration software system for the North Dakota Teachers Retirement Fund. The contracts commenced March 1, 2004 and terminate June 30, 2005 and September 30, 2005. The approximate costs under these contracts for implementation of the new software is $1,707,875. RIO has budgeted $2.0 million for the implementation of this system. Other costs of the system not under contract include support from Information Technology Department and other miscellaneous costs totaling $292,125. Fees paid under these contracts total $480,864 as of June 30, 2004.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Required Supplementary Information

June 30, 2004

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
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
2004	1,445.6	1,800.4	354.8	80.3	376.5	94.2

Schedule of Employer Contributions
North Dakota Teachers' Fund for Retirement

Fiscal Year	Annual Required Contribution	Percentage Contributed
1999	$ 24,257,091	100.0%
2000	25,527,734	100.0%
2001	26,289,206	100.0%
2002	27,243,542	100.0%
2003	28,850,725	100.0%
2004	29,635,584	86.7%

See notes to required supplementary information.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Required Supplementary Information

June 30, 2004

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, 2004
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level payment, open
Amortization Period for GASB 25 ARC*:	20 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

(*) The GASB Annual Required Contribution (ARC) for this plan is defined as the larger of (a) the benchmark employer contribution rate, calculated using a 20-year amortization period, and (b) the 7.75% statutory employer contribution rate.

(**) Includes inflation at 3.00%.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Combining Statement of Net Assets – Investment Trust Funds
Fiduciary Funds
As of June 30, 2004
(With Comparative Totals for 2003)

	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	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund	Health Care Trust Fund
Assets:										
Investments										
Equities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Equity pool	740,326,130	13,412,960	6,847,612	29,984,234	296,013,779	7,988,222	1,528,245	3,627,039	954,164	-
Fixed income	-	-	-	-	-	-	-	-	-	17,438,667
Fixed income pool	423,333,921	11,636,698	4,912,039	43,050,393	742,470,230	9,580,246	1,852,389	3,953,105	793,257	-
Real estate pool	61,430,839	791,081	641,065	-	-	-	-	-	-	-
Private equity	58,823,345	234,246	341,195	-	-	-	-	-	-	-
Cash and cash pool	19,060,884	243,769	45,077	61,307	32,736,071	1,939,413	367,920	1,328,206	935,929	7,833,006
Total investments	1,302,975,119	26,318,754	12,786,988	73,095,934	1,071,220,080	19,507,881	3,748,554	8,908,350	2,683,350	25,271,673
Invested sec lending collateral	99,074,494	2,776,415	1,128,740	10,066,607	275,839,175	3,918,203	756,101	1,638,339	368,087	-
Investment income receivable	2,746,253	53,565	30,932	206,303	7,652,514	112,595	26,656	55,634	8,103	227,023
Due from other funds	-	-	-	-	1,513	200	-	133	41	230
Total assets	1,404,795,866	29,148,734	13,946,660	83,368,844	1,354,713,282	23,538,879	4,531,311	10,602,456	3,059,581	25,498,926
Liabilities:										
Investment expenses payable	977,699	17,695	10,244	40,644	524,430	12,823	2,475	5,676	1,375	-
Securities lending collateral	99,074,494	2,776,415	1,128,740	10,066,607	275,839,175	3,918,203	756,101	1,638,339	368,087	-
Due to other funds	4,717	-	-	2,050	-	-	138	-	-	-
Total liabilities	100,056,910	2,794,110	1,138,984	10,109,301	276,363,605	3,931,026	758,714	1,644,015	369,462	-
Net assets held in trust for external investment pool participants	$1,304,738,956	$ 26,354,624	$12,807,676	$73,259,543	$1,078,349,677	$ 19,607,853	$3,772,597	$8,958,441	$2,690,119	$25,498,926
Each participant unit is valued at $1.00										
Participant units outstanding	1,304,738,956	26,354,624	12,807,676	73,259,543	1,078,349,677	19,607,853	3,772,597	8,958,441	2,690,119	25,498,926

Insurance Pool Participants									Individual Investment Acct.	Totals	
Veterans Cemetery	Veterans Post War	Risk Mgmt	Risk Mgmt Work Comp	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	2004	2003
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$19,412,080	$ 19,412,080	$ 16,267,550
-	1,334,446	1,065,271	1,227,079	154,988	164,580	-	236,463	2,985,881	-	1,107,851,093	1,068,542,825
-	-	-	-	-	-	-	-	-	10,219,583	27,658,250	27,027,596
-	-	1,707,416	1,367,250	136,376	145,087	-	391,321	2,819,757	-	1,248,149,485	1,016,502,506
-	-	-	-	-	-	-	-	-	-	62,862,985	58,847,673
-	-	-	-	-	-	-	-	-	-	59,398,786	51,592,705
71,125	6,394	151,110	79,745	14,955	15,950	286,527	32,927	57,986	-	65,268,301	56,391,143
71,125	1,340,840	2,923,797	2,674,074	306,319	325,617	286,527	660,711	5,863,624	29,631,663	2,590,600,980	2,295,171,998
-	91,279	639,808	539,299	57,241	60,766	-	151,033	1,061,481	-	398,167,068	211,051,305
-	1,798	46,414	6,564	666	373	-	454	4,076	223,498	11,403,421	9,650,406
-	-	76	260	-	-	-	-	-	-	2,453	673
71,125	1,433,917	3,610,095	3,220,197	364,226	386,756	286,527	812,198	6,929,181	29,855,161	3,000,173,922	2,515,874,382
-	1,301	1,667	1,720	467	482	8	678	3,943	12,409	1,615,736	1,314,538
-	91,279	639,808	539,299	57,241	60,766	-	151,033	1,061,481	-	398,167,068	211,051,305
22	250	-	-	-	-	250	-	-	823	8,250	15,595
22	92,830	641,475	541,019	57,708	61,248	258	151,711	1,065,424	13,232	399,791,054	212,381,438
$ 71,103	$1,341,087	$ 2,968,620	$ 2,679,178	$ 306,518	$ 325,508	$286,269	$ 660,487	$5,863,757	$29,841,929	$2,600,382,868	$2,303,492,944
71,103	1,341,087	2,968,620	2,679,178	306,518	325,508	286,269	660,487	5,863,757	29,841,929	2,600,382,868	2,303,492,944

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, 2004
(With Comparative Totals for 2003)

	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	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund	Health Care Trust Fund
Investment income:										
Net increase/(decrease) in fair value of investments	$ 156,289,529	$ 2,770,138	$ 1,428,040	$ 6,536,599	$ 59,516,744	$ 1,276,515	$ 264,390	$ 653,442	$ 87,813	$ -
Interest, dividends and other income	34,280,353	683,552	340,580	1,946,003	34,358,320	596,671	131,611	261,312	43,323	1,209,708
	190,569,882	3,453,690	1,768,620	8,482,602	93,875,064	1,873,186	396,001	914,754	131,136	1,209,708
Less investment expenses	4,043,903	71,632	40,476	184,664	2,552,501	50,261	10,792	22,988	4,500	3,664
Net investment income	186,525,979	3,382,058	1,728,144	8,297,938	91,322,563	1,822,925	385,209	891,766	126,636	1,206,044
Securities lending activity:										
Securities lending income	934,005	24,698	10,200	91,312	1,846,315	32,337	7,063	13,994	2,084	-
Securities lending expenses	715,711	20,239	8,139	75,354	1,511,756	26,151	5,713	11,319	1,663	-
Net securities lending income	218,294	4,459	2,061	15,958	334,559	6,186	1,350	2,675	421	-
Net increase/(decrease) in net assets resulting from operations	186,744,273	3,386,517	1,730,205	8,313,896	91,657,122	1,829,111	386,559	894,441	127,057	1,206,044
Unit transactions at net asset value of $1 per unit:										
Purchase of units	3,789,350	-	-	2,543	21,500,000	3,000,000	-	200,000	1,700,000	13,646,405
Redemption of units	(11,890,000)	-	-	(2,360,187)	(15,000,000)	(1,550,000)	(1,750,000)	(710,000)	(1,900,000)	(18,000,000)
Net increase (decrease) in net assets and units resulting from unit transactions	(8,100,650)	-	-	(2,357,644)	6,500,000	1,450,000	(1,750,000)	(510,000)	(200,000)	(4,353,595)
Total increase (decrease) in net assets	178,643,623	3,386,517	1,730,205	5,956,252	98,157,122	3,279,111	(1,363,441)	384,441	(72,943)	(3,147,551)
Net assets:										
Beginning 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	28,646,477
End of year	$1,304,738,956	$26,354,623	$12,807,676	$73,259,542	$1,078,349,677	$19,607,853	$3,772,597	$ 8,958,441	$2,690,119	$25,498,926

Insurance Pool Participants									Individual Investment Acct.		
				ND	ND Ass'n		City of	City of	PERS		
	Veterans		Risk	Ass'n of	of Counties	PERS	Bismarck	Fargo	Retiree		
Veterans	Post	Risk	Mgmt	Counties	Program	Group	Deferred	FargoDome	Health	Totals	
Cemetery	War	Mgmt	Work Comp	Fund	Savings	Insurance	Sick Leave	Fund	Credit Fund	2004	2003
$ -	$ 200,635	$ 60,323	$ 124,123	$ 25,891	$ 27,475	$ -	$ 33,526	$ 419,447	$ 3,227,544	$ 232,942,174	$ 69,374,701
811	18,286	75,280	61,166	8,525	9,053	53,303	21,800	149,299	689,128	74,938,084	82,733,993
811	218,921	135,603	185,289	34,416	36,528	53,303	55,326	568,746	3,916,672	307,880,258	152,108,694
10	4,293	6,181	6,729	1,786	1,835	1,015	2,673	13,802	53,887	7,077,592	6,517,101
801	214,628	129,422	178,560	32,630	34,693	52,288	52,653	554,944	3,862,785	300,802,666	145,591,593
-	626	4,014	3,548	465	493	-	1,208	7,690	-	2,980,052	3,656,659
-	374	3,333	2,930	374	397	-	982	6,357	-	2,390,792	3,109,091
-	252	681	618	91	96	-	226	1,333	-	589,260	547,568
801	214,880	130,103	179,178	32,721	34,789	52,288	52,879	556,277	3,862,785	301,391,926	146,139,161
11,885	-	1,000,000	3,000,000	-	-	106,900,000	-	1,000,000	913,000	156,663,183	143,942,201
(5,000)	-	(700,000)	(500,000)	-	-	(106,800,000)	-	-	-	(161,165,187)	(167,565,000)
6,885	-	300,000	2,500,000	-	-	100,000	-	1,000,000	913,000	(4,502,004)	(23,622,799)
7,686	214,880	430,103	2,679,178	32,721	34,789	152,288	52,879	1,556,277	4,775,785	296,889,922	122,516,362
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
$ 71,103	$1,341,087	$2,968,620	$2,679,178	$306,518	$ 325,508	$ 286,269	$ 660,487	$5,863,757	$29,841,929	$2,600,382,866	$2,303,492,944

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, 2004 and 2003

	2004	2003
Salaries and wages:		
Salaries and wages	$655,710	$644,363
Fringe benefits	204,547	190,847
Total salaries and wages	860,257	835,210
Operating expenses:		
Information services	86,315	135,175
Intergovernmental services	3,265	928
Professional services	249,872	240,481
Rent of building space	70,961	69,629
Lease/rent of office equipment	1,693	-
Mailing services and postage	33,384	40,613
Travel and lodging	42,566	30,113
Printing	14,549	32,084
Office supplies	6,077	16,456
Professional development	12,424	21,504
Outside services	10,665	13,250
Small office equipment expense	60	13,222
Miscellaneous fees	4,061	3,445
Resource and reference materials	1,469	1,386
Service contracts - office equipment	331	2,506
IT contractual services	69,851	-
Repairs - office equipment	230	2,362
Insurance	2,572	1,650
Non-capitalized equipment purchases	21,536	1,800
Total operating expenses	631,881	626,604
Depreciation	4,616	2,589
Capital Assets	410,000	-
Capital lease payments - principal	1,645	-
Capital lease payments - interest	1,416	-
Less - nonappropriated items:		
Professional fees	249,872	240,481
Depreciation	4,616	2,589
Accrual adjustments to employee benefits	8,400	9,372
Total nonappropriated items	262,888	252,442
Total appropriated administrative expenditures	$ 1,646,927	$ 1,211,961

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Pension Trust Fund – Schedule of Administrative Expenses

For the Years Ended June 30, 2004 and 2003

	2004	2003
Salaries and wages:		
Salaries and wages	$442,302	$432,813
Fringe benefits	138,277	126,607
Total salaries and wages	580,579	559,420
Operating expenses:		
Information services	79,512	126,749
Intergovernmental services	2,449	650
Professional services	189,618	169,332
Rent of building space	50,052	49,120
Lease/rent of office equipment	2,493	-
Mailing services and postage	31,180	37,158
Travel and lodging	35,969	26,514
Printing	13,332	28,899
Office supplies	5,012	11,973
Professional development	11,290	19,019
Outside services	8,473	10,885
Small office equipment expense	30	8,293
Miscellaneous fees	2,931	1,774
Resource and reference materials	760	821
Service contracts - office equipment	239	1,409
IT contractual services	69,514	-
Repairs - office equipment	208	1,952
Insurance	1,800	1,155
Non-capitalized equipment purchases	18,553	1,800
Total operating expenses	523,415	497,503
Capital assets	410,000	-
Less: charges for services reduced by income	(206)	(312)
Total administrative expenditures	$ 1,513,788	$ 1,056,611

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Schedule of Appropriations – Budget Basis

Internal Service Fund

July 1, 2003 to June 30, 2005 Biennium

	Approved 2003-2005 Appropriation	Adjusted 2003-2005 Appropriation	Fiscal 2004 Expenses	Unexpended Appropriations
All Fund Types:				
Salaries and wages	$ 1,774,885	$ 1,774,885	$ 851,857	$ 923,028
Operating expenses	986,444	986,444	308,515	677,929
Contracted services	2,000,000	2,000,000	486,555	1,513,445
Contingency	82,000	82,000	-	82,000
Total	$ 4,843,329	$ 4,843,329	$ 1,646,927	$ 3,196,402

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

Reconciliation of Administrative Expenses to Appropriated Expenditures

	2004	2003
Administrative expenses as reflected in the financial statements	$1,496,754	$1,464,403
Plus:		
Capital assets	410,000	-
Capital lease payments - principal	$1,645	-
Capital lease payments - interest	$1,416	-
Less:		
Professional fees	(249,872)	(240,481)
Depreciation expense	(4,616)	(2,589)
Changes in annual leave and FICA payments	(8,400)	(9,372)
Total appropriated expenses	$1,646,927	$1,211,961

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Pension Trust Fund - Schedule of Investment Expenses

For the Years Ended June 30, 2004 and 2003

	2004	2003
Investment managers' fees:		
Domestic large cap equity managers	$ 1,020,824	$ 860,042
Domestic small cap equity managers	1,098,160	853,100
International equity managers	1,373,251	1,054,338
Emerging markets equity managers	444,565	335,501
Domestic fixed income managers	272,028	197,094
High yield fixed income managers	223,887	143,174
International fixed income managers	263,672	221,513
Real estate managers	1,131,313	1,008,818
Private equity managers	3,008,399	2,735,422
Cash & equivalents managers	49,022	30,926
Total investment managers' fees	8,885,121	7,439,928
Custodian fees	292,937	282,493
Investment consultant fees	94,187	67,964
State Investment Board admin fees	127,235	129,823
Total investment expenses	$ 9,399,480	$ 7,920,208
Securities lending fees	$ 499,972	$ 704,309

Reconciliation of Investment Expenses to Financial Statements

	2004
Investment expenses as reflected in the financial statements	$ 4,827,788
Plus investment management fees included in investment income	
Domestic large cap equity	1,646
Domestic small cap equity	714,201
International equity	34,238
Emerging markets equity	444,565
Domestic fixed income	145,640
Real estate	524,599
Private equity	2,657,781
Cash equivalents	49,022
Investment expenses per schedule	$ 9,399,480

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Pension Trust Fund - Schedule of Consultant Expenses

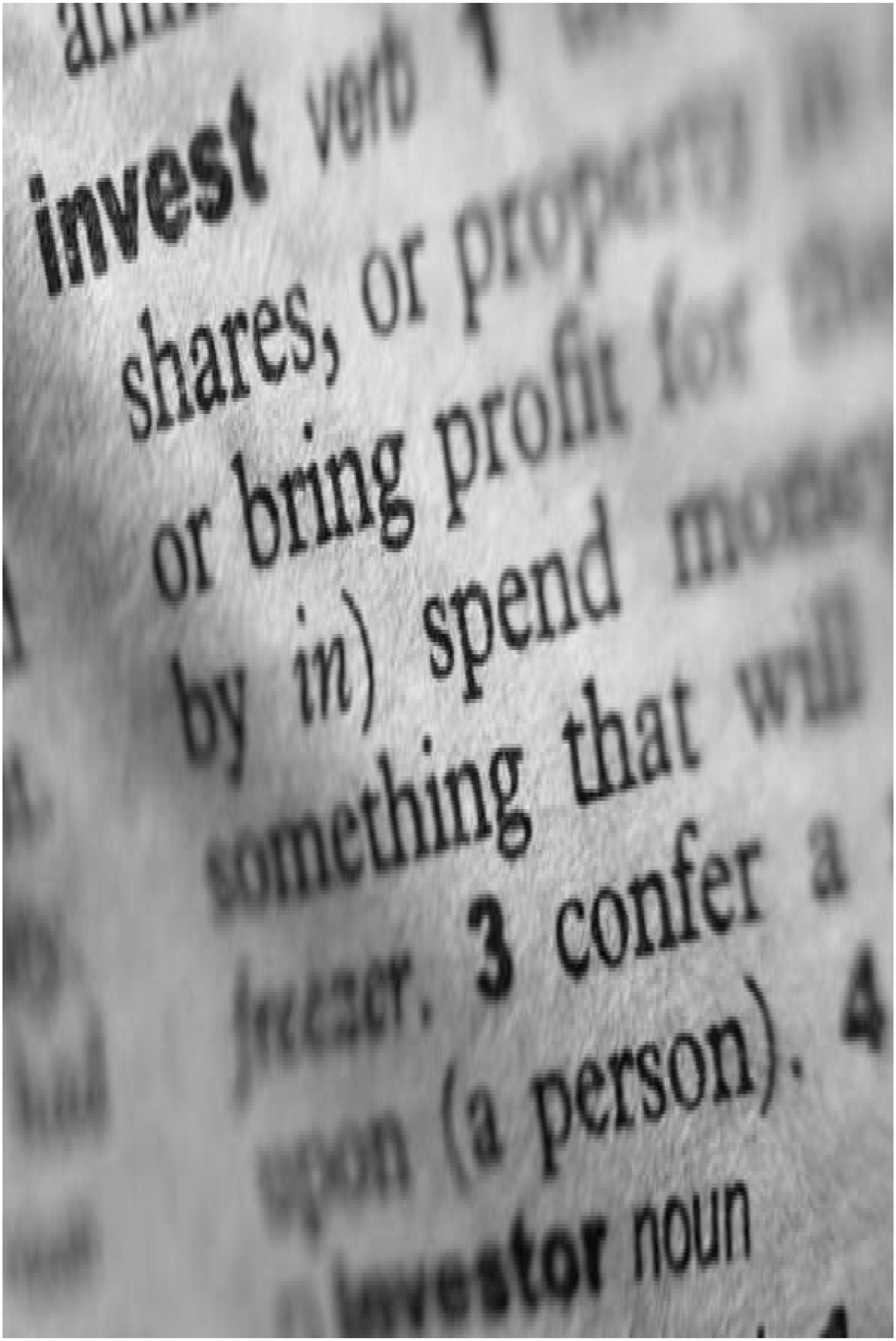
For the Years Ended June 30, 2004 and 2003

	2004	2003
Actuary fees:		
Gabriel, Roeder, Smith & Co.	$ 123,615	$ 94,082
Consulting fees:		
Brady Martz & Associates, P.C.	26,675	26,125
CPAS Systems Inc.	410,000	
MSI Systems Integrators	66,237	44,336
Total consulting fees:	502,912	70,461
Disability consulting fees:		
Dr. G.M. Lunn	300	475
Legal fees:		
ND Attorney General	11,916	3,989
Calhoun Law Group, P.C.	875	325
Total legal fees	12,791	4,314
Total consultant expenses	$ 639,618	$ 169,332

Reconciliation of Consultant Expenses to Schedule of Administrative Expenses

	2004	2003
Total professional services on schedule	$ 189,618	$ 169,332
Plus capitalized expenses paid to CPAS	410,000	-
Plus IT contractual services from MSI	40,000	-
Total consultant expenses	$ 639,618	$ 169,332

Investment


invest verb
shares, or
or bring profit for
by in) spend
something that will
3 confer a
upon (a person).
investor noun

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
Fax 701-328-9897
www.discovernd.com/rio

November 1, 2004

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, 2004.

Introduction

For the fiscal year ended June 30, 2004, the $2.8 billion North Dakota Pension investment pool portfolio experienced a total return of 18.13%. The Teachers' Fund for Retirement, a participant in the Pension pool, grew by 19.30% for the year. The Insurance investment pool, valued at $1.2 billion on June 30, 2004, returned 9.49% 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 29 external investment managers are presented in the Investment Section.

Our investment program's cost effectiveness as measured by expense ratio is 58.1 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, 2004, as measured by standard deviation has been 12.74% for the Pension Trust and 6.88% 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 maintained the federal funds target rate at 1.00% until the June 30, 2004 meeting when it raised rates 25 basis points. This marked the first rate increase since May of 2000. GDP grew at a pace above 4% throughout the fiscal year until the second quarter of 2004 when it slowed to 3%. Continuous GDP growth since the fourth quarter of 2001 has been fueled by low rates and tax cuts along with strong retail sales and lean inventories. The economy continued to add jobs during the fiscal year, but not at the pace that many economists predicted given the strength of GDP growth. Consumers continued to load up on cheap debt throughout the fiscal year, driving the savings rate to record lows. Overall, the U.S. dollar weakened against other major currencies during the fiscal year.

Domestic Equity Overview

The domestic equity markets ended the fiscal year with strong results. The S&P 1500 Index, a broad market indicator, finished the year with four positive quarters and a fiscal year return of 20.38%. This is a dramatic improvement from fiscal year 2003 when the index only gained 0.04%. For the fiscal year ending June 30, 2004, small cap stocks outpaced large cap stocks and value investors tended to outperform their growth counterparts, in a reversal from fiscal year 2003.

International Equity Overview

International equity, as represented by the MSCI EAFE Index, produced strong results in fiscal year 2004 as the index gained 32.37%, which was superior to the 22.73% local return for EAFE due to the weakening of the US dollar during this period. Japan and the Pacific Basin posted particularly strong returns for the fiscal year; Japan and the Pacific Basin's MSCI Indexes gained 46.22% and 41.12%, respectively, a vast improvement over fiscal year 2003 when each fell by more than 9%. Europe's MSCI Index rose 28.87% for the fiscal year despite a roller coaster of optimism and pessimism about economic activity and recovery throughout the period. The Emerging Markets Free Index had another positive fiscal year as it gained 33.51%, performing in-line with EAFE.

Domestic Fixed-Income Overview

The bond market, as measured by the Lehman Aggregate Bond Index, generated just 0.32% return for the fiscal year ending June 30, 2004. The 10-year Treasury ended the fiscal year with a yield of 4.58%, approximately 1% higher than the 3.51% yield on June 30, 2003. Longer-term bond investors were hurt by the rise in interest rates as shown by the 2.69% loss of the Lehman Government/Credit Long Index over the fiscal year ended June 30, 2004. Corporate bond investors were virtually unmoved as the Lehman Credit Index rose 0.08% over the fiscal year.

Buoyed by the equity markets and a stronger economy, high yield investors had a solid fiscal year as measured by the Lehman High Yield Index, which gained 10.32% during the period. High yield issuers were able to meet the strong demand for below-investment grade debt in the fiscal year. Fundamentals continue to support the high yield market with the Moody's 12-month default rate below 5%.

International Fixed-Income Overview

The international bond market produced positive returns in fiscal year 2004 as the Citi Non-US World Government Bond Index climbed 7.6%. Non-US dollar bonds benefited from the US dollar's decline during the period. The second quarter of 2004 proved to be a turning point for international fixed-income as the dollar strengthened and there was global rotation out of emerging markets, where the JP Morgan Emerging Markets Bond Index showed its first loss (-5.89%) in the past seven quarters. The JP Morgan EMBI Index, however, ended the fiscal year with a gain of 4.78%.

Real Estate Overview

The real estate markets saw capital inflows during the 2004 fiscal year despite continued weak fundamentals, including low lease rates and high vacancy rates. The NCREIF Total Index was up 10.83% for the year ended June 30, 2004, as it produced consistent returns every quarter. Investors took advantage of low cost debt during the period, driving overall capitalization rates down.

Private Equity Overview

Private equity saw the downward trend in fundraising continue in the second half of 2003, but renewed interest in buyouts during the first and second quarter of 2004 brought an inflow of new commitments. 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 returned 3.0% for the period.

Summary

Fiscal year 2004 was a welcome relief following a prolonged period of market strife. Our funds experienced positive returns in every asset class for the year, in some cases achieving outsized returns that resulted in total fund performances that were not only very good on an absolute basis, but also in comparison to similar funds. Diversification across asset classes, as well as within asset classes, has contributed to the risk-controlled profile of the funds and to their ability to generally outperform their benchmarks.

Sincerely,

STEVE COCHRANE, CFA
Executive Director/CIO

INVESTMENT PERFORMANCE SUMMARY
JUNE 30, 2004

	Market Value	% Of Pool	Rates of Return (net of fees)						
			For Fiscal Year Ended 6/30					Annualized	
PENSION POOL PARTICIPANTS			2004	2003	2002	2001	2000	3 Years	5 Years
Teachers' Fund for Retirement	$1,361,531,889	49.0%	19.30%	2.28%	-8.88%	-7.00%	11.63%	3.60%	2.91%
Public Employees Retirement System	1,305,721,372	47.0%	16.66%	5.46%	-6.83%	-3.95%	9.34%	4.66%	3.78%
Bismarck City Employee Pension Fund	26,372,319	0.9%	14.85%	6.14%	-6.37%	-1.99%	8.04%	4.51%	3.86%
Bismarck City Police Pension Fund	12,817,920	0.5%	15.99%	5.32%	-7.25%	-3.18%	8.74%	4.25%	3.59%
Job Service of North Dakota	73,302,237	2.6%	12.57%	5.70%	-7.00%	-3.05%	6.85%	3.43%	2.77%
Subtotal Pension Pool Participants	2,779,745,737	100.0%							
INSURANCE POOL PARTICIPANTS									
Workforce Safety & Insurance Fund	1,078,872,594	93.5%	9.62%	8.96%	-1.68%	1.38%	12.22%	5.50%	5.97%
State Fire and Tornado Fund	19,620,476	1.7%	7.25%	7.25%	-2.24%	0.38%	11.65%	3.99%	4.74%
State Bonding Fund	3,775,210	0.3%	7.52%	7.52%	-2.74%	0.43%	11.60%	3.99%	4.73%
Petroleum Tank Release Fund	8,963,984	0.8%	7.05%	7.05%	-2.41%	-0.81%	13.13%	3.80%	4.65%
Insurance Regulatory Trust Fund	2,691,453	0.2%	6.74%	6.74%	-1.92%	0.60%	11.71%	3.77%	4.66%
Health Care Trust Fund	25,498,696	2.2%	2.91%	-0.95%	-2.24%	*	*	*	*
State Risk Management Fund	2,970,211	0.3%	8.09%	8.86%	-2.56%	0.33%	2.58%	4.66%	3.37%
State Risk Management Workers Comp	2,680,638	0.2%	*	*	*	*	*	*	*
Veterans Cemetery Trust Fund	71,125	0.0%	1.20%	1.57%	2.41%	5.85%	6.05%	1.73%	3.39%
Veterans Post War Trust Fund	1,342,638	0.1%	20.47%	-0.46%	-16.82%	-9.82%	2.94%	-0.08%	-1.53%
ND Assoc. of Counties (NDACo) Fund	306,985	0.0%	12.43%	6.76%	-4.69%	-2.37%	12.79%	4.59%	*
NDACo Program Savings Fund	325,990	0.0%	12.42%	6.75%	-4.57%	-1.97%	12.36%	4.62%	*
City of Bismarck Deferred Sick Leave	661,165	0.1%	8.91%	8.77%	-1.16%	1.85%	*	5.40%	*
PERS Group Insurance	286,527	0.0%	1.20%	1.57%	2.41%	5.85%	*	1.73%	*
City of Fargo FargoDome Permanent Fund	5,867,700	0.5%	12.38%	*	*	*	*	*	*
Subtotal Insurance Pool Participants	1,153,935,392	100.0%							
INDIVIDUAL INVESTMENT ACCOUNT									
Retiree Health Insurance Credit Fund	29,855,161	100.0%	15.24%	3.39%	-7.33%	-7.65%	9.16%	3.36%	2.17%
TOTAL	$3,963,536,290								
BENCHMARKS									
S&P 500			19.11%	0.24%	-17.99%	-14.83%	7.24%	-0.70%	-2.21%
Lehman Brothers Aggregate			0.32%	10.39%	8.63%	11.22%	4.57%	6.35%	6.95%
90 Day T-Bills			0.98%	1.52%	2.63%	5.88%	5.53%	1.71%	3.29%
Callan Public Plan Sponsors Database (Median)			14.96%	4.08%	-5.28%	-3.62%	10.04%	4.26%	3.75%

* 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, 2004

	Style	Date Initiated	Market Value	Annualized Rates of Return 1 Year	3 Years	5 Years
DOMESTIC LARGE CAP EQUITY:						
Los Angeles Capital Management	Structured Growth	08/2003	$ 124,252,549	*	*	*
Los Angeles Capital Management	Enhanced Russell 1000	08/2000	151,404,350	18.80%	0.07%	*
LSV Asset Management	Structured Value	06/1998	130,618,542	29.86%	9.66%	8.77%
Northern Trust Global Investments	Enhanced S&P 500	08/2000	168,557,554	19.24%	-0.05%	*
State Street Global Advisors	S&P 500 Index	06/1987	85,342,145	19.11%	-0.65%	-2.15%
Strong Capital Management, Inc.	Enhanced S&P 500	08/2000	31,925,089	21.41%	0.20%	*
Westridge Capital Management, Inc.	Enhanced S&P 500	08/2000	158,950,399	19.64%	-0.04%	*
TOTAL DOMESTIC LARGE CAP EQUITY			851,050,628	20.66%	0.33%	-1.93%
Standard & Poor's 500 Index				19.11%	-0.70%	-2.20%
DOMESTIC SMALL CAP EQUITY:						
SEI Investments Management Co.	Mgr of Managers	06/2001	284,668,335	34.11%	6.58%	*
TOTAL DOMESTIC SMALL CAP EQUITY			284,668,335	34.11%	6.59%	7.63%
Russell 2000 Index				33.37%	6.24%	6.63%
INTERNATIONAL EQUITY:						
Bank of Ireland Asset Management	Concentrated Core	03/2002	42,443,097	24.34%	*	*
Capital Guardian Trust Company	Core	03/1992	210,698,235	25.83%	-0.72%	2.09%
Lazard Asset Management	Small Cap Value	03/2002	45,532,908	45.12%	*	*
State Street Global Advisors	Core	03/1987	85,482,479	27.74%	0.70%	-0.55%
Wellington Trust Company, NA	Small Cap Growth	03/2002	44,281,417	43.17%	*	*
TOTAL INTERNATIONAL EQUITY			428,438,136	29.70%	2.50%	2.36%
MSCI EAFE 50% Hedged Index				25.74%	-1.60%	-1.35%
EMERGING MARKETS EQUITY:						
Capital Guardian Trust Company	Core	08/1996	128,748,906	28.63%	9.61%	3.44%
MSCI Emerging Markets Free Index				33.51%	13.10%	3.27%
DOMESTIC FIXED INCOME:						
Bank of North Dakota	LB G/C Index	01/1988	91,477,539	-0.96%	6.94%	7.10%
Bank of North Dakota - CDs	Cert. of Deposit	02/1994	21,116,603	6.27%	5.97%	5.93%
WestLB Asset Management	Active Duration	02/1986	57,606,740	-0.01%	5.40%	6.70%
RMK Timberland Group	Timberland	06/2001	102,101,086	11.42%	14.57%	*
Strong Capital Management, Inc.	Baa Average	11/1998	55,757,141	1.52%	6.53%	7.50%
Trust Company of the West	Convertibles	06/1999	59,241,784	17.15%	0.95%	4.33%
Western Asset Management Co.	Core Bonds	02/1986	58,695,299	2.19%	8.22%	8.60%
TOTAL DOMESTIC FIXED INCOME			445,996,192	5.45%	6.66%	7.61%
Lehman Brothers Aggregate Index				0.32%	6.36%	6.95%
HIGH YIELD FIXED INCOME:						
Loomis Sayles	High Yield	04/2004	79,457,333	*	*	*
Sutter/Wells Capital	High Yield	04/2004	80,929,103	*	*	*
TOTAL HIGH YIELD FIXED INCOME			160,386,436	7.94%	6.93%	3.03%
Lehman Brothers High Yield Index				10.32%	9.30%	5.06%
INTERNATIONAL FIXED INCOME:						
UBS Global Asset Management	Core Non-U.S.	03/1989	63,765,990	8.30%	14.64%	6.88%
Brandywine Asset Management	Core Non-U.S.	05/2003	66,111,172	10.09%	*	*
TOTAL INTERNATIONAL FIXED INCOME			129,877,162	9.22%	14.85%	6.99%
Salomon Brothers Non-US Gov't Bond Index				7.60%	13.66%	6.84%

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
PENSION POOL PARTICIPANTS (CONTINUED)
FOR PERIODS ENDED JUNE 30, 2004

	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	31,472	1.45%	-5.92%	-3.05%
INVESCO Realty Advisors	Direct Equity	08/1997	82,519,633	6.73%	5.80%	7.76%
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	10/1987	89,105,933	11.11%	7.64%	9.54%
TOTAL REAL ESTATE			171,657,038	8.86%	6.69%	8.64%
NCREIF Classic Index				10.82%	8.40%	9.33%
PRIVATE EQUITY						
Adams Street Partners (I.V.C.F. II)	Diversified	03/1989	213,363	8.26%	-10.68%	3.10%
Adams Street Partners (I.V.C.F. III)	Diversified	01/1993	1,029,644	28.91%	19.98%	60.36%
Adams Street Partners (1998 Fund)	Diversified	01/1998	3,309,545	9.41%	-7.52%	4.36%
Adams Street Partners (1999 Fund)	Diversified	01/1999	5,522,903	14.67%	-9.09%	-0.53%
Adams Street Partners (2000 Fund)	Diversified	10/1999	9,171,285	11.19%	-6.65%	*
Adams Street Partners (2001 Fund)	Diversified	12/2000	4,233,167	6.64%	-2.21%	*
Adams Street Partners (2002 Fund)	Diversified	03/2002	1,970,080	14.42%	*	*
Adams Street Partners (2003 Fund)	Diversified	04/2003	330,720	-4.64%	*	*
Adams Street Partners (1999 Non-U.S. Fund)	Diversified	01/1999	2,787,485	21.08%	8.13%	5.35%
Adams Street Partners (2000 Non-U.S. Fund)	Diversified	01/2000	3,481,055	15.38%	5.70%	*
Adams Street Partners (2001 Non-U.S. Fund)	Diversified	02/2001	2,176,357	16.63%	3.39%	*
Adams Street Partners (2002 Non-U.S. Fund)	Diversified	05/2002	3,269,458	18.71%	*	*
Adams Street Partners (2003 Non-U.S. Fund)	Diversified	04/2003	774,779	-3.92%	*	*
Adams Street Partners (2004 Non-U.S. Fund)	Diversified	04/2004	149,946	*	*	*
Adams Street Partners (B.V.C.F. IV)	Diversified	05/1999	15,833,730	21.17%	-9.85%	-9.45%
Coral Partners, Inc. (V.P. II)	Direct	06/1990	119,302	14.13%	-16.27%	-15.36%
Coral Partners, Inc. (Fund V)	Direct	03/1998	15,518,922	-31.07%	-34.06%	-13.06%
Coral Partners, Inc. (Supplemental Fund V)	Direct	08/2001	1,389,288	30.44%	*	*
Coral Partners, Inc. (Fund VI)	Direct	07/2002	7,873,889	-21.72%	*	*
Hearthstone Homebuilding Investors (MSII)	Home Building	10/1999	899,981	29.05%	20.46%	*
Hearthstone Homebuilding Investors (MSIII)	Home Building	09/2003	13,584,057	*	*	*
Invest America (Lewis and Clark)	Direct	02/2002	3,243,822	-7.73%	*	*
Matlin Patterson Global Opportunities Fund	Distressed Debt	07/2002	22,654,631	13.00%	*	*
TOTAL PRIVATE EQUITY			119,537,409	3.04%	-13.22%	0.20%
CASH EQUIVALENTS:						
The Northern Trust Company	STIF/STEP	07/1994	59,385,495	1.49%	1.99%	3.64%
90 Day T-Bills				0.98%	1.71%	3.29%
TOTAL PENSION POOL			$ 2,779,745,737	18.13%	4.49%	3.65%
Policy Target				16.53%	3.75%	3.62%

* 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, 2004

	Style	Date Initiated	Market Value	Annualized Rates of Return 1 Year	3 Years	5 Years
DOMESTIC LARGE CAP EQUITY:						
Los Angeles Capital Management	Structured Growth	08/2003	$ 18,832,766	*	*	*
Los Angeles Capital Management	Enhanced Russell 1000	04/2004	39,117,044	*	*	*
LSV Asset Management	Structured Value	06/1998	19,075,881	30.96%	9.78%	8.83%
State Street Global Advisors	S&P 500 Index	10/1996	11,474,238	19.06%	-0.70%	-2.20%
Westridge Capital Management, Inc.	Enhanced S&P 500	04/2004	38,062,681	*	*	*
TOTAL DOMESTIC LARGE CAP EQUITY			126,562,610	21.64%	0.31%	-1.19%
Standard & Poor's 500 Index				19.11%	-0.70%	-2.20%
DOMESTIC SMALL CAP EQUITY:						
SEI Investments Management Co.	Mgr of Managers	06/2001	62,424,927	33.80%	6.32%	*
TOTAL DOMESTIC SMALL CAP EQUITY			62,424,927	33.80%	6.35%	6.81%
Russell 2000 Index				33.37%	6.24%	6.63%
INTERNATIONAL EQUITY:						
Capital Guardian Trust Company	Core	04/1997	45,989,201	26.26%	0.21%	1.08%
Lazard Asset Management	Small Cap Value	11/2002	6,320,196	44.62%	*	*
The Vanguard Group	Small Cap Growth	06/2003	6,047,758	46.15%	*	*
TOTAL INTERNATIONAL EQUITY			58,357,155	29.84%	1.57%	1.91%
**MSCI EAFE 50% Hedged Index ** **				25.74%	-1.60%	-2.34%
CONVERTIBLE BONDS:						
Trust Company of the West	Sector Rotation	07/1990	70,434,811	17.90%	1.47%	4.32%
First Boston Convertible Index				14.16%	4.89%	5.75%
DOMESTIC FIXED INCOME:						
Bank of North Dakota - CDs	Cert. of Deposit	12/1996	28,975,400	3.55%	4.12%	4.79%
Bank of North Dakota	LB G/C Index	07/1989	236,810,747	0.13%	7.16%	7.32%
Strong Capital Management, Inc.	Baa Average Quality	04/2002	101,326,626	1.33%	*	*
Western Asset Management Co.	Core Bond	07/1990	182,602,765	2.60%	7.97%	8.31%
TOTAL DOMESTIC FIXED INCOME			549,715,538	1.92%	7.77%	7.95%
Lehman Brothers Government/Credit Index				-0.72%	6.74%	7.11%
TREASURY INFLATION PROTECTED (TIPS):						
Northern Trust Global Investments	Index	05/2004	119,335,818	*	*	*
Western Asset Management Co.	Core	05/2004	121,247,269	*	*	*
TOTAL TIPS			240,583,087	*	*	*
Lehman Brothers US TIPS Index				*	*	*
CASH EQUIVALENTS:						
Bank of North Dakota	Enhanced MMDA	07/1989	45,857,264	1.19%	1.73%	3.40%
90 Day T-Bills				0.98%	1.71%	3.29%
TOTAL INSURANCE POOL			$ 1,153,935,392	9.49%	5.49%	6.01%
Policy Target				7.17%	5.15%	5.32%

* 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, 2004

PENSION POOL PARTICIPANTS

Shares	Stocks	Market Value
475,066	Microsoft Corporation	$ 13,567,885
373,031	Pfizer Incorporated	12,787,503
266,229	Exxon Mobile Corporation	11,640,083
117,372	Bank of America Corporation	9,932,019
169,468	Johnson & Johnson	9,439,368
329,460	Intel Corporation	9,093,096
194,866	Citigroup Incorporated	9,061,269
349,842	Cisco Systems Incorporated	8,291,255
246,787	General Electric Company	7,995,899
3,950,598	Vodafone Group	6,561,025

Par	Bonds	Market Value
5,360,000	Federal Republic of Germany 5.25% Bonds Due 4/7/10	$ 7,005,120
6,000,000	US Treasury Notes Dated 02-15-2000 6.50% Due 02-15-2010	6,760,782
6,110,000	GNMA TBA Pool 6.00% 30 Year July	6,255,113
4,350,000	Federal Republic of Germany 4.50% Bonds Due 4/7/2009	5,496,186
35,300,000	Kingdom of Sweden 5.00% Bonds Due 1-28-2009	4,876,287
31,790,000	Kingdom of Norway 5.75% Bonds Due 11-30-04	4,655,104
4,000,000	US Treasury Notes 4.625% Due 05-15-2006	4,141,720
15,870,000	Government of Poland 5.75% Bonds Due 6-24-08	4,045,732
27,740,000	Kingdom of Sweden 3.5% Bonds Due 4-20-2006	3,715,741
1,950,000	Treasury 8.50% Due 7/12/2005	3,715,263

INSURANCE POOL PARTICIPANTS

Shares	Stocks	Market Value
42,435	Ford Motor Company	$ 2,323,741
65,580	Microsoft Corporation	1,872,965
52,800	Pfizer Incorporated	1,809,984
33,300	Exxon Mobile Corporation	1,662,000
19,022	Bank of America Corporation	1,609,642
26,250	Johnson & Johnson	1,462,125
6,300	State Street Corporation	1,444,275
26,300	Merck & Company	1,249,250
715,813	Vodafone Group	1,567,488
26,765	Astrazeneca	1,215,146

Par	Bonds	Market Value
21,900,000	US Treasury Bonds Inflation Index 3.875% Due 04-15-2029	$ 32,034,467
24,300,000	US Treasury Notes Inflation Index 2.00% Due 01-15-2014	24,628,899
15,500,000	US Treasury Notes Inflation Index 3.875% Due 01-15-2009	19,828,979
15,000,000	US Treasury Notes Dated 02-15-2004 3.00% Due 02-15-2009	14,534,760
13,000,000	GNMA TBA Pool 6.00% 30 Year July	13,308,750
13,000,000	US Treasury Notes 2.25% Due 02-15-2007	12,746,604
12,000,000	FNMA 7.00% TBA Pool 30 Year July	12,652,500
9,000,000	US Treasury Notes Inflation Index 3.625% Due 01-15-2008	11,457,165
9,400,000	US Treasury Notes Inflation Index 3.50% Due 01-15-2011	11,291,555
10,000,000	FNMA 15 Year Single Family Mortgage 6.00%	10,412,500

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, 2004

	Assets under management	Fees	Basis points
Investment managers' fees:			
Domestic large cap equity managers	$ 977,613,238	$ 2,304,071	24
Domestic small cap equity managers	347,093,262	2,791,420	80
International equity managers	486,795,291	2,613,502	54
Emerging markets equity managers	128,748,906	886,004	69
Convertibles managers	70,434,811	505,255	72
Domestic fixed income managers	995,711,730	2,325,911	23
TIPS managers	240,583,087	-	0
High yield fixed income managers	160,386,436	387,086	24
International fixed income managers	129,877,162	540,627	42
Real estate managers	171,657,038	1,787,235	104
Private equity managers	119,537,409	6,004,269	502
Cash & equivalents managers	105,242,759	75,054	7
Balanced account managers	29,855,161	56,210	19
Total investment managers' fees	$ 3,963,536,290	20,276,644	51
Custodian fees		771,770	2
Investment consultant fees		303,334	1
Administrative fees		382,335	1
Total investment expenses		$ 21,734,083	55
Securities lending fees		$ 2,890,764	7

Reconciliation of Investment Expenses to Financial Statements

Investment expenses as reflected in the financial statements	$ 11,905,380
Plus investment management fees included in investment income	
Domestic large cap equity	4,792
Domestic small cap equity	1,813,600
International equity	226,253
Emerging markets equity	886,004
Domestic fixed income	736,627
Real estate	777,309
Private equity	5,303,475
Cash equivalents	75,054
Balanced fund	5,589
Investment expenses per schedule	$ 21,734,083

Brokers	Number of shares traded	Total commissions	Commissions per share
Morgan Stanley & Co. Inc. New York	10,576,351	$ 285,653	$ 0.027
Smith Barney Inc.	4,946,438	124,746	0.025
Instinet	2,746,510	82,391	0.030
UBS Securities LLC New York	1,958,494	53,253	0.027
B Trade Services	806,921	35,524	0.044
Investment Technology Group Inc.	2,323,857	32,903	0.014
Goldman Sachs & Company	1,461,915	31,459	0.022
Jefferies & Company	949,763	29,753	0.031
PXP Securities Corp.	960,800	28,909	0.030
Wilshire Associates Incorporated	946,600	28,398	0.030
Other 176 Brokers *	29,115,573	454,825	0.016
Gross commissions	56,793,222	1,187,814	0.021
Less commissions recaptured		(71,366)	
Net commissions paid		$ 1,116,448	$ 0.020

* 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 TFFR Board is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund 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. No transaction shall be made which threatens the tax exempt status of the Fund.

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

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

f. 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 public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

g. 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.

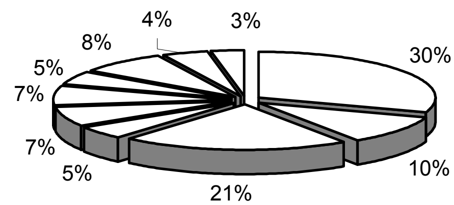
   (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.

   (4) The safeguards and diversity that a prudent investor would adhere to are present.

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.

■ Teachers' Fund for Retirement
Actual Asset Allocation – June 30, 2004

Asset Allocation		Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	413,973,252	30%	
Domestic Small Cap Equity		138,021,692	10%	
International Equity		283,640,341	21%	
Emerging Markets Equity		66,153,477	5%	
Domestic Fixed Income		93,424,152	7%	
High Yield Fixed Income		94,246,197	7%	
International Fixed Income		63,170,880	5%	
Real Estate		108,794,088	8%	
Private Equity		60,138,606	4%	
Cash Equivalents		39,969,204	3%	
TOTAL FUND	$	1,361,531,889	100%	19.30%



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 or replicate underlying index exposure, 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 6.0% in excess of the annual rate of inflation. However the absolute total rate of return must be no less than 10.5% 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%

Rebalancing of the Fund's investment portfolio to this target must be done as soon as feasible while ensuring the process is effectively coordinated and accomplished in a cost effective manner. 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, diversification, restrictions, and performance objectives of the funds participating in the pools.

Restrictions

A. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
B. No transaction shall be made which threatens the tax-exempt status of the Fund.
C. No unhedged short sales or speculative margin purchases shall be made.
D. 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 public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries.*"

E. 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:

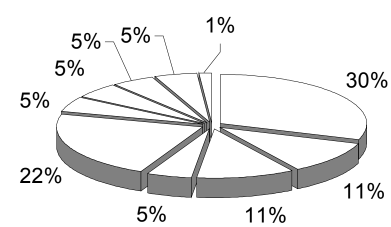
   1. The cost does not exceed the fair market value at the time of investment.
   2. The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
   3. Sufficient liquidity is maintained in the Fund to permit distributions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

F. 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, 2004**

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 400,715,120	30%	
Domestic Small Cap Equity	138,548,276	11%	
International Equity	139,583,095	11%	
Emerging Markets Equity	62,004,972	5%	
Domestic Fixed Income	299,032,864	22%	
High Yield Fixed Income	64,596,234	5%	
International Fixed Income	61,926,258	5%	
Real Estate	61,430,802	5%	
Private Equity	58,823,318	5%	
Cash Equivalents	19,060,433	1%	
TOTAL FUND	$ 1,305,721,372	100%	16.66%



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 State Investment Board (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.

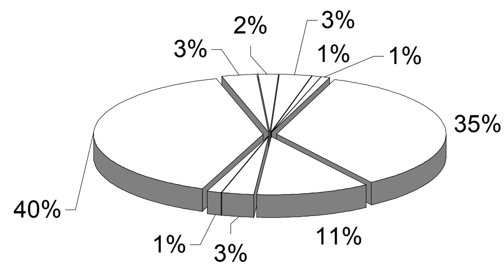
- The portfolio mix shall be in accordance with the asset allocation adopted and periodically revised by the NDSIB as approved by the BCEPP Board of Trustees.

Asset Allocation

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, 2004

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 9,323,251	35%	
Domestic Small Cap Equity	2,916,131	11%	
International Equity	817,433	3%	
Emerging Markets Equity	357,180	1%	
Domestic Fixed Income	10,263,798	40%	
High Yield Fixed Income	911,779	3%	
International Fixed Income	511,957	2%	
Real Estate	791,081	3%	
Private Equity	234,264	1%	
Cash Equivalents	245,445	1%	
TOTAL FUND	$ 26,372,319	100%	14.85%



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.

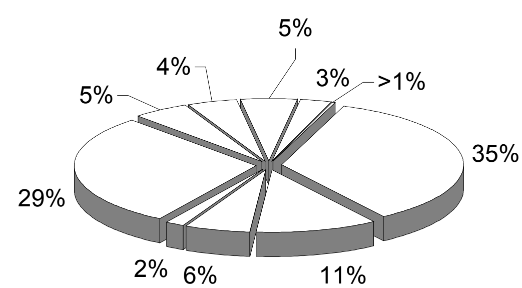
- The portfolio mix shall be in accordance with the asset allocation adopted and periodically revised by the NDSIB as approved by the BCPPP Board of Trustees.

Asset Allocation

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, 2004

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 4,494,835	35%	
Domestic Small Cap Equity	1,378,497	11%	
International Equity	741,750	6%	
Emerging Markets Equity	233,277	2%	
Domestic Fixed Income	3,742,468	29%	
High Yield Fixed Income	632,227	5%	
International Fixed Income	566,490	4%	
Real Estate	641,065	5%	
Private Equity	341,221	3%	
Cash Equivalents	46,090	0%	
TOTAL FUND	$ 12,817,920	100%	15.99%



RETIREMENT PLAN FOR EMPLOYEES OF JOB SERVICE NORTH DAKOTA

■ Job Service ND
Investment Objectives and Policy Guidelines

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 participant's 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%.

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 or replicate underlying index exposure, 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.

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	30%
Domestic Small Cap Equity	5%
International Equity	5%
Domestic Fixed Income	55%
International Fixed Income	5%

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

Restrictions

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.
d. 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 public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*
e. 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.

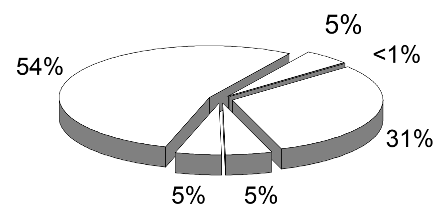
(2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

(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.

- **Job Service ND**
  Actual Asset Allocation – June 30, 2004

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 22,544,172	31%	
Domestic Small Cap Equity	3,803,739	5%	
International Equity	3,655,516	5%	
Domestic Fixed Income	39,532,910	54%	
International Fixed Income	3,701,578	5%	
Cash Equivalents	64,322	0%	
TOTAL FUND	$ 73,302,237	100%	12.57%



WORKFORCE SAFETY & INSURANCE FUND

■ Workforce Safety & Insurance Fund Investment Objectives and Policy Guidelines

Introduction

North Dakota Workforce Safety & Insurance (WSI) is an exclusive state workers' compensation fund, which exists for the mutual benefit of North Dakota employers and employees. The assets of WSI are utilized to pay benefits to injured workers or their survivors.

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

1. The payment of the expenses of administration of WSI,
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 WSI. The goals and objectives are to be used by the North Dakota State Investment Board (SIB) for the investment of WSI assets.

Delegation of Responsibilities

Responsibilities of WSI and its Board of Directors:

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

Responsibilities of the North Dakota State Investment Board (SIB)

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

Asset Allocation Policy

The asset allocation policy developed herein is based on an evaluation of WSI's ability and willingness to assume investment risk in light of WSI'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 2004, the following asset allocation is deemed appropriate for WSI. The portfolio mix shall be in accordance with the following asset allocation and periodically reviewed by WSI.

Asset Class	Target Allocation
Broad Domestic Equity	
Large Cap Equity	10.7%
Small Cap Equity	5.3%
Convertibles	6.0%
International Equity	5.0%
Domestic Fixed Income	
Lehman Agg Bonds	22.0%
Intermediate Bonds	22.0%
TIPS	22.0%
Real Estate	6.0%
Cash Equivalents	1.0%
Total	100%

The operating and liquidity needs of WSI 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 WSI 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. WSI 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 understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
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 unhedged short sales or speculative 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 WSI 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.

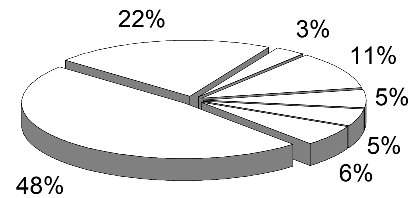
  A broad universe of managers is measured by a universe of managers composed of 10.7% large cap equity; 5.3% small cap equity; 6% convertible; 5% international equity; 22% Lehman aggregate bonds; 22% intermediate bonds; 22% TIPS; 6% real estate; and 1% cash equivalents.

  The reference index benchmark is composed of 10.7% S&P 500; 5.3% Russell 2000; 6% First Boston Convertible; 5% MSCI EAFE; 22% Lehman Aggregate; 22% Lehman Intermediate Govt/Credit; 22% Lehman US TIPS; 6% NCREIF; 1% 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.

■ Workforce Safety & Insurance Fund
Actual Asset Allocation – June 30, 2004

Asset Allocation		Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	118,508,289	11%	
Domestic Small Cap Equity		58,295,832	5%	
International Equity		54,340,663	5%	
Convertible Bonds		65,350,075	6%	
Fixed Income		509,058,578	48%	
TIPS		240,583,086	22%	
Cash Equivalents		32,736,071	3%	
TOTAL FUND	$	1,078,872,594	100%	9.62%



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 $3.7 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 $2 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 2003-2005 biennium, these appropriations were assumed to be $707,288 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2003-2005 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%

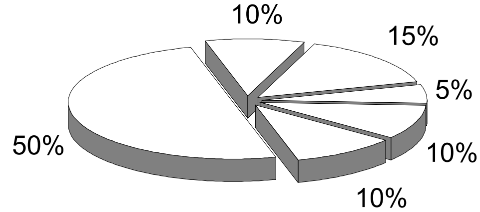
Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

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. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
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 unhedged short sales or speculative margin purchases shall be made.

■ **State Fire and Tornado Fund**
Actual Asset Allocation – June 30, 2004

Asset Allocation	**Market Value**	**Percent of Total**	**One Year Return**
Domestic Large Cap Equity	$ 2,988,295	15%	
Domestic Small Cap Equity	1,009,926	5%	
International Equity	1,954,887	10%	
Convertible Bonds	2,040,775	10%	
Fixed Income	9,687,180	50%	
Cash Equivalents	1,939,413	10%	
TOTAL FUND	$ 19,620,476	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 $92,222 annually over the last four fiscal years.

Appropriations from the Fund are exclusively for administrative costs. For planning purposes during the 2003-2005 biennium, these appropriations are assumed to be $17,500 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2003-2005 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%

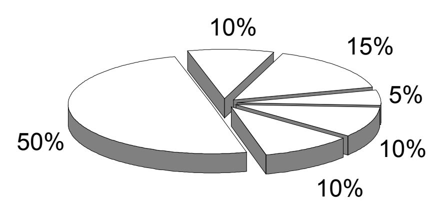
Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

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. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
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 unhedged short sales or speculative margin purchases shall be made.

State Bonding Fund
Actual Asset Allocation – June 30, 2004

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 574,804	15%	
Domestic Small Cap Equity	193,574	5%	
International Equity	379,139	10%	
Convertible Bonds	383,453	10%	
Fixed Income	1,876,320	50%	
Cash Equivalents	367,920	10%	
TOTAL FUND	$ 3,775,210	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 $300,601 annually over the last four fiscal years.

Operating expenses are paid from the Fund as incurred. For planning purposes over the 2003-2005 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 2003-2005 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%

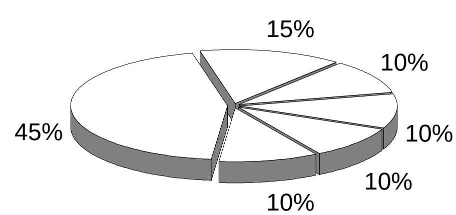
Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

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. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
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 unhedged short sales or speculative margin purchases shall be made.

■ Petroleum Tank Release Compensation Fund Actual Asset Allocation – June 30, 2004

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 917,106	10%	
Domestic Small Cap Equity	913,208	10%	
International Equity	890,746	10%	
Convertible Bonds	908,798	10%	
Fixed Income	4,005,920	45%	
Cash Equivalents	1,328,206	15%	
TOTAL FUND	$ 8,963,984	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 $3.5 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 2003-2005 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 2003-2005 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%

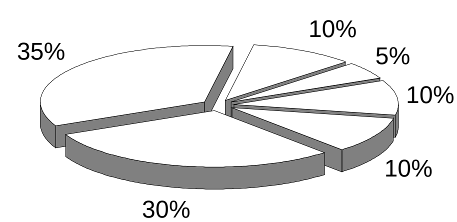
Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

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. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
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 unhedged short sales or speculative margin purchases shall be made.

■ Insurance Regulatory Trust Fund Actual Asset Allocation – June 30, 2004

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 273,345	10%	
Domestic Small Cap Equity	138,888	5%	
International Equity	267,716	10%	
Convertible Bonds	275,340	10%	
Fixed Income	800,235	30%	
Cash Equivalents	935,929	35%	
TOTAL FUND	$ 2,691,453	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, 2004

Asset Allocation	Market Value	Percent of Total	One Year Return
Cash Equivalents & CD's	25,498,696	100%	
TOTAL FUND	$ 25,498,696	100%	2.91%

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 increased from an average cost of approximately $925,000 per year to $1,149,950.

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 Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund 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 18% S&P 500 domestic stock index, 6% Russell 2000 domestic small cap index, 11% 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 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	18%
Small Cap Domestic Equity	6%
Convertible Bonds	11%
Fixed Income	60%
Cash Equivalents	5%

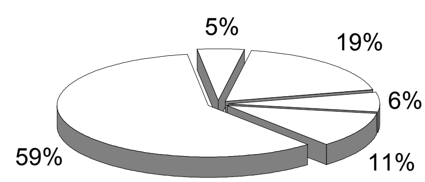
Rebalancing of the Fund to this allocation will be done in accordance with the SIB's rebalancing policy.

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. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
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 unhedged short sales or speculative margin purchases shall be made.

■ State Risk Management Fund
Actual Asset Allocation – June 30, 2004

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 551,536	19%	
Domestic Small Cap Equity	179,651	6%	
Convertible Bonds	333,623	11%	
Fixed Income	1,754,291	59%	
Cash Equivalents	151,110	5%	
TOTAL FUND	$ 2,970,211	100%	8.09%



STATE RISK MANAGEMENT WORKERS COMPENSATION FUND

■ State Risk Management Workers Comp Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The 2001 North Dakota Legislature established a single workers' compensation account for state entities, N.D.C.C. § 65-04-03.1. N.D.C.C. § 65-04-03.1(2) directs that workers' compensation premiums from state entities must be deposited in the Risk Management Workers Compensation Fund (Fund) and the State Investment Board is directed to invest the Fund in accordance with chapter 21-10.

The Risk Management Division of the Office of Management and Budget is responsible for administering the Fund to include promulgating rules, collecting and dispersing funds, and establishing an internal workers' compensation return-to-work program. Each entity of the State is required to participate in the program unless exempted by the director of the Office of Management and Budget. Contributions to the Fund are determined by the Workforce Safety & Insurance (WSI) based on an actuarial review of combined payroll, premium, and loss history of agencies to determine experience rates, assessments, and premiums.

The Risk Management Workers Compensation Program charges the entity the first $250 ($150 if a designated medical provider is used for treatment) of each accepted claim and pays disability and medical benefits of up to $100,000 dollars per claim. Dollar amounts for claims in excess of $100,000 are paid for by WSI. In turn the Program pays WSI approximately $1,720,000 per year in premium.

Claims paid from the Fund average $84,089 per month and operating expenses approximate $6,000 per month.

Responsibilities of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund 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:

The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 20% S&P 500 domestic stock index, 10% Russell 2000 domestic small cap index, 15% First Boston Convertible Securities index, 52% Lehman Government/Corporate domestic bond index, and 3% 90-day Treasury bills.

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	20%
Small Cap Domestic Equity	10%
Convertible Bonds	15%
Fixed Income	52%
Cash Equivalents	3%

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. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.

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

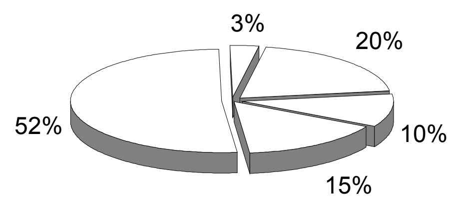
c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.

d. No funds shall be borrowed.

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

■ State Risk Management WC Fund
Actual Asset Allocation – June 30, 2004

Asset Allocation		Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	542,707	20%	
Domestic Small Cap Equity		275,528	10%	
Convertible Bonds		411,544	15%	
Fixed Income		1,371,114	52%	
Cash Equivalents		79,745	3%	
TOTAL FUND	$	2,680,638	100%	*



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, 2004

Asset Allocation	Market Value	Percent of Total	One Year Return
Cash Equivalents	$71,125	100%	1.20%

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. Approximately 25% of the total fund has been invested with the State Investment Board. This document pertains only to that 25%.

Responsibilities and Discretion of the State Treasurer

The State Treasurer is charged by law under North Dakota Century Code 37-14-14 with the responsibility of investing the assets of the Fund. The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund 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.

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:

Objective #1: Investment income is needed to provide stability of the Fund. This will be achieved through a diversified portfolio of high quality 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.

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 47% S&P 500 domestic stock index, 23% Russell 2000 stock index and 30% EAFE 50% Hedged Index. The expected return of the Fund based on 2004 data is 9.25%.

b. The annual standard deviation of total returns for the Fund should be consistent with that of the policy portfolio. The expected standard deviation of the Fund based on 2004 data is 17.36%.

Policy and Guidelines

The asset allocation of the Trust Fund is established by the State Treasurer, with input from the Veterans Administrative Committee. Asset allocation is based upon the appraisal of current liquidity and income needs and estimates of the investment returns likely to be achieved by the various asset classes over the next 5 years.

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

Large Cap Domestic Equities	47%
Small Cap Domestic Equities	23%
International Equities	30%

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. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.

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

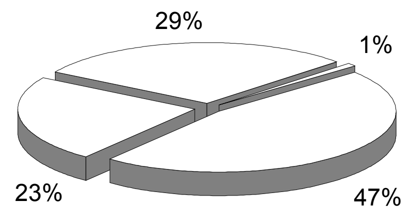
c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.

d. No funds shall be borrowed.

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

■ Veterans Post War Trust Fund
Actual Asset Allocation – June 30, 2004

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 628,564	47%	
Domestic Small Cap Equity	313,881	23%	
International Equity	393,799	29%	
Cash Equivalents	6,394	1%	
TOTAL FUND	$ 1,342,638	100%	20.47%



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%

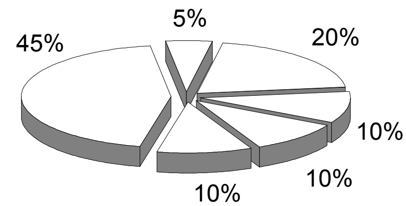
Rebalancing of the Funds to this target will be done in accordance with the SIB's rebalancing policy.

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. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
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 unhedged short sales or speculative margin purchases shall be made.

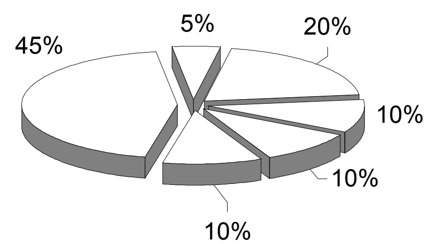
■ ND Association of Counties (NDACo) Fund
Actual Asset Allocation – June 30, 2004

Asset Allocation		Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	61,944	20%	
Domestic Small Cap Equity		30,995	10%	
International Equity		30,834	10%	
Convertible Bonds		31,190	10%	
Fixed Income		137,067	45%	
Cash Equivalents		14,955	5%	
TOTAL FUND	$	306,985	100%	12.43%



■ NDACo Program Savings Fund
Actual Asset Allocation – June 30, 2004

Asset Allocation		Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	65,808	20%	
Domestic Small Cap Equity		32,921	10%	
International Equity		32,698	10%	
Convertible Bonds		33,035	10%	
Fixed Income		145,578	45%	
Cash Equivalents		15,950	5%	
TOTAL FUND	$	325,990	100%	12.42%



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. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.

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

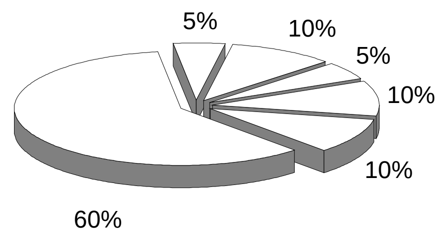
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

d. No funds shall be borrowed.

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

City of Bismarck Deferred Sick Leave Actual Asset Allocation – June 30, 2004

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 68,317	10%	
Domestic Small Cap Equity	33,486	5%	
International Equity	66,674	10%	
Convertible Bonds	67,738	10%	
Fixed Income	392,023	60%	
Cash Equivalents	32,927	5%	
TOTAL FUND	$ 661,165	100%	8.91%



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, 2004

Asset Allocation	Market Value	Percent of Total	One Year Return
Cash Equivalents	$286,527	100%	1.20%

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. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.

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

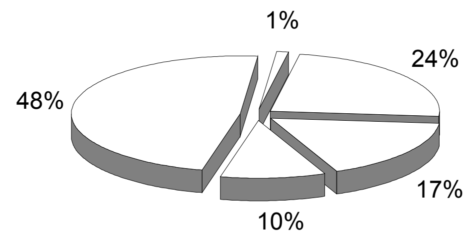
c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.

d. No funds shall be borrowed.

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

■ City of Fargo FargoDome Permanent Fund
Actual Asset Allocation – June 30, 2004

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 1,381,894	24%	
Domestic Small Cap Equity	1,007,036	17%	
Convertible Bonds	599,240	10%	
Fixed Income	2,821,544	48%	
Cash Equivalents	57,986	1%	
TOTAL FUND	$ 5,867,700	100%	12.38%



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%

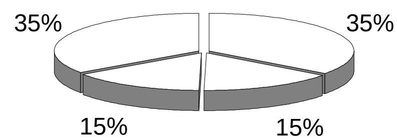
Rebalancing of the Plan to this target will be done in accordance with the SIB's rebalancing policy.

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, 2004

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 10,511,424	35%	
Domestic Small Cap Equity	4,505,390	15%	
International Equity	4,493,532	15%	
Fixed Income	10,344,815	35%	
TOTAL FUND	$29,855,161	100%	15.24%



Actuarial

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

October 15, 2004

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, 2004

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, 2004.

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. All three are Enrolled Actuaries and Members of the American Academy of Actuaries and both are experienced in performing valuations for large public retirement systems. All three meet the Qualification Standards of the American Academy of Actuaries.

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.

Progress Toward Realization of Financing Objectives

As of July 1, 2004, the employer contribution rate needed in order to meet these goals is 11.34%. This is greater than the 7.75% rate currently required by law. The margin between the rate mandated by law and

Board of Trustees
October 15, 2004
Page 2

the rate necessary to fund the UAAL in 20 years is -3.59 percentage points. This negative margin increased from -1.19 percentage points last year, mainly because of the recognition of investment experience losses from prior years. This increase would have been even larger if not for the 18.9% market return in FY 2004.

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 never achieve complete amortization (i.e. TFFR has an infinite funding period).

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, 2003 was 85.1%, while it is 80.3% as of July 1, 2004. This decrease is also due to the recognized investment experience losses from prior years.

However, this picture of TFFR may be slightly 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. For example, 60% of the investment losses in FY 2003 and 80% of the investment gains in FY 2004 are not yet reflected in the actuarial measurements. As these gains and 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 76.4%, rather than 80.3%, if the market value of assets had been used rather than the actuarial value of assets. As of July 1, 2003, the funded ratio based on market value of assets was 69.5%.

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 prior year, the 7.75% rate was less than the 20-year benchmark rate. This is also true this year, 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. The table on page 44 of this report shows that the contributions received in FY 2004 were 86.7% of the ARC (7.75% ÷ 8.94%). Next year's CAFR will disclose that employer contributions in FY 2005 will amount to only 68.3% of the ARC (7.75% ÷ 11.34%).

GABRIEL, ROEDER, SMITH & COMPANY

Board of Trustees
October 15, 2004
Page 3

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, although 22 employees of the Department of Public Instruction transferred from TFFR to the North Dakota Public Employees Retirement System. This transfer was permitted by a bill enacted a year earlier.

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 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 reasonable, 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, 2004, 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.

We prepared the Schedule of Funding Progress and the Schedule of Employer Contributions found in the Financial Section, while 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 valuations.

Sincerely,
Gabriel, Roeder, Smith & Co.

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

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

William B. Fornia, FSA, MAAA, EA
Senior Consultant

GABRIEL, ROEDER, SMITH & COMPANY

SUMMARY OF ACTUARIAL VALUATION RESULTS

Item	2004	2003
Membership		
• Number of		
- Active Members	9,826	9,916
- Retirees and Beneficiaries	5,373	5,177
- Inactive, Vested	1,346	1,276
- Inactive, Nonvested	175	233
- Total	16,720	16,602
• Payroll	$376.5 million	$367.9 million
Statutory contribution rate		
• Employer	7.75%	7.75%
• Member	7.75%	7.75%
Assets		
• Market value	$1,374.7 million	$1,175.2 million
• Actuarial value	1,445.6 million	1,438.4 million
• Return on market value	18.9 %	2.1 %
• Return on actuarial value	1.9 %	0.6 %
• Ratio - actuarial value to market value	105.2 %	122.4 %
• External cash flow %	(1.5)%	(1.2)%
Actuarial Information		
• Normal cost %	10.29%	10.29%
• Unfunded actuarial accrued liability (UAAL)	$354.8 million	$251.9 million
• Funded ratio	80.3%	85.1%
• Funding period	Infinite	43.6 years
Benchmark Contribution		
• 20-year funding rate	11.34%	8.94%
• Margin	(3.59)%	(1.19)%
Gains/(Losses)		
• Asset experience	$(87.8) million	$(106.4) million
• Liability experience	(19.7) million	(26.0) million
• Benefit changes	0.0 million	0.0 million
• Assumption/method changes	N/A	N/A
• Total	$(107.5) million	$(132.4) 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

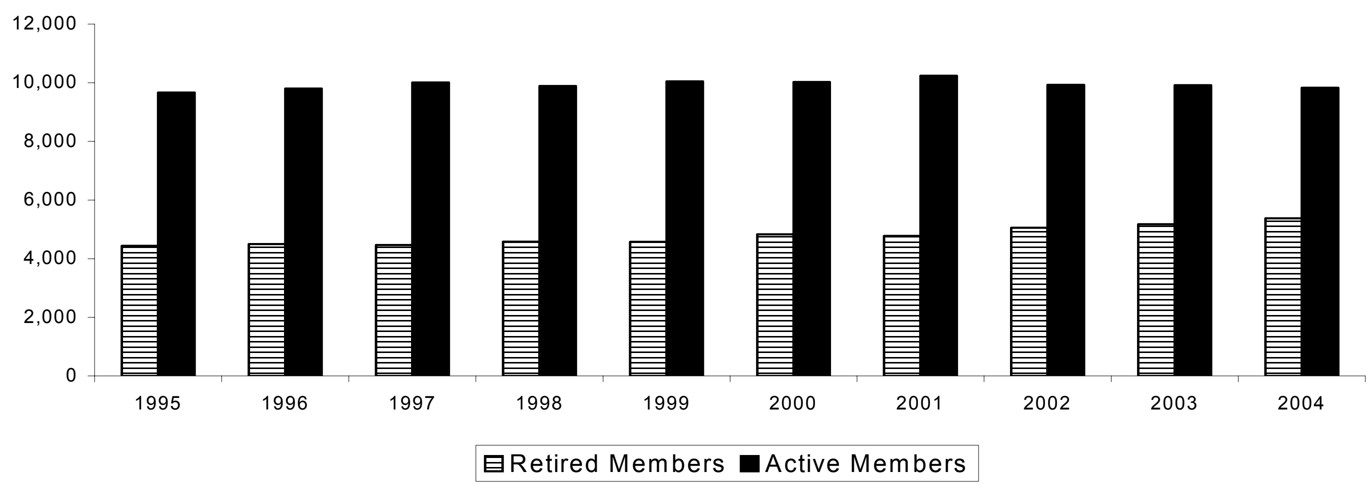
	Active Members		Covered Payroll		Average Salary			
Year Ending June 30	Number	Percent Increase	Amount in $ Millions	Percent Increase	$ Amount	Percent Increase	Average Age	Average Service
1995	9,663	0.1	268.7	2.4	27,803	2.3	42.6	13.4
1996	9,797	1.4	281.2	4.7	28,708	3.3	42.9	13.6
1997	10,010	2.2	294.1	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
2004	9,826	(0.9)	376.5	2.3	38,321	3.3	44.9	14.7

SCHEDULE OF RETIREES AND BENEFICIARIES

Year Ended June 30	Number Added During Year	Annual Benefits Added (in mils)	Number Removed During Year	Annual Benefits Removed (in mils)	Number Receiving End of Year	Average Annual Benefit	Annual Pension Benefits (in mils)	Percent Increase In Annual Benefits
1995	253		168		4,433	$ 8,280	$36.1	5.6%
1996	238		168		4,503	8,628	38.5	6.9
1997	138		179		4,462	8,748	39.5	2.6
1998	321		198		4,585	9,720	43.7	10.6
1999	170		187		4,568	9,996	46.1	5.5
2000	425		166		4,827	11,640	53.6	16.3
2001	162		212		4,777	11,940	57.7	7.6
2002	505		228		5,054	13,824	67.5	17.0
2003	312		189		5,177	14,436	72.0	6.7
2004	385	$ 8.3	189	$ 1.9	5,373	15,060	77.2	7.2

Detail on annual benefits added and removed is not available prior to Fiscal Year 2004.

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 2004	2003
Prior valuation	8.94 %	6.09 %
Increases/(decreases) due to:		
Open amortization	(0.14)%	(0.08)%
Growth in covered payroll	(0.15)%	(0.18)%
Employer contributions received at 7.75% rather than 8.94%	0.02 %	(0.26)%
Liability experience	0.49 %	0.67 %
Investment experience	2.18 %	2.70 %
Assumption changes	0.00 %	0.00 %
Change in actuarial methods	0.00 %	0.00 %
Legislative changes	0.00 %	0.00 %
Total	2.40 %	2.85 %
Current valuation	11.34 %	8.94 %
Statutory employer contribution rate	7.75 %	7.75 %
Margin available	(3.59)%	(1.19)%

ANALYSIS OF CHANGE IN UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)

	Unfunded Actuarial Accrued Liability ($ in millions) 2004	2003
Prior valuation	$ 251.9	$ 132.3
Increases/(decreases) due to:		
Amortization payments	$ (4.6)	$ (12.8)
Investment experience	87.8	106.4
Assumption changes	-	-
Liability experience	19.7	26.0
Change in actuarial methods	-	-
Legislative changes	-	-
Total	$ 102.9	$ 119.6
Current valuation	$ 354.8	$ 251.9

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)
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
2004	475.3	755.2	569.9	1,445.6	100.0	100.0	37.8

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 Public Employee Retirement System.

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 (ten 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)

1999 Legislative Session:

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.

2001 Legislative Session:

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.

2003 Legislative Session:

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.

4. Active members of the Department of Public Instruction are permitted to make a one-time irrevocable election to transfer to the North Dakota Public Employees Retirement System in FY2004. Both assets and liabilities for all TFFR service will be transferred for electing employees. Transferred assets will be based on the actuarial present value of the member's accrued TFFR benefit, or the member's contribution account balance if larger.

Statistical

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
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
2004	29,635,970	29,635,584	7.75	220,243,131	4,383,456	283,898,141

Expenses by Type

Fiscal Year	Benefits Paid to Participants	Refunds	Administrative Charges	Total
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
2004	77,153,054	5,800,100	1,513,788	84,466,942

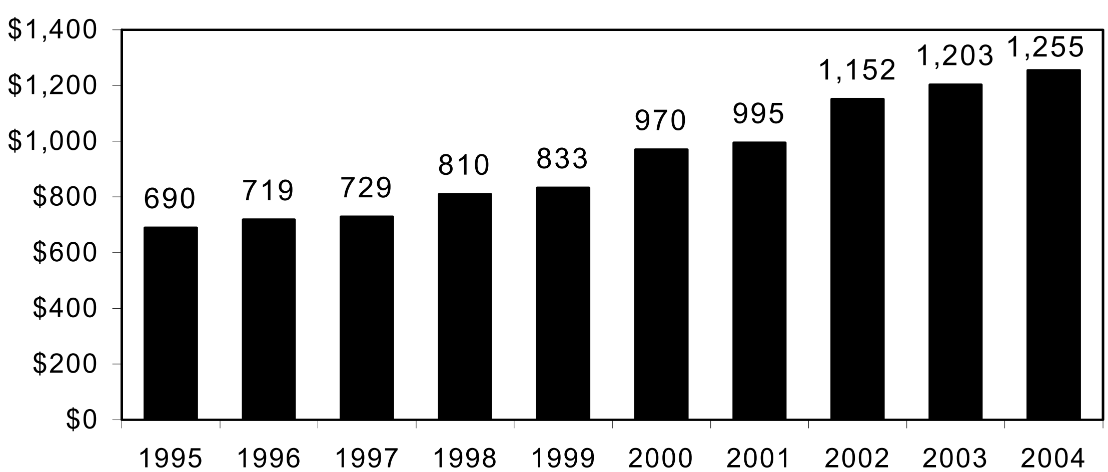
SCHEDULE OF BENEFIT EXPENSES BY TYPE

	Annuity Payments					Refunds *			
Year	Service Retirements	PLSO Distributions	Disability Retirements	Beneficiaries	Total Annuity Payments	Separation	Death	Total Refunds	Total Benefit Expenses
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
2004	71,091,246	40,136	893,973	5,127,699	77,153,054	5,686,052	114,048	5,800,100	82,953,154

* Detail not available for refunds for 1995 and 1996.

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Fiscal Year		Years of Service < 10	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	> 34	TOTAL
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
2004	Number of Retirees	206	426	399	597	1,130	1,513	1,102	5,373
	Average Monthly Benefit	264	398	545	879	1,212	1,657	1,751	1,255
	Average Years of Service	6	12	17	23	27	32	39	28



SCHEDULE OF RETIREES BY BENEFIT AMOUNT

Monthly Benefit Amount	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Under $199	146	134	119	154	146	218	209	311	298	292
200 to 399	466	473	481	646	669	904	929	1,020	1,045	1,078
400 to 599	637	671	705	927	997	1,007	1,071	1,077	1,142	1,181
600 to 799	637	663	715	538	564	477	492	477	488	493
800 to 999	434	439	458	490	497	482	476	438	419	389
1,000 to 1,199	517	513	503	470	459	410	394	365	357	338
1,200 to 1,399	458	450	431	417	405	357	349	289	279	256
1,400 to 1,599	455	432	423	349	343	237	230	189	185	159
1,600 to 1,799	392	358	327	229	225	166	160	110	109	101
1,800 to 1,999	348	297	261	173	164	100	94	67	63	57
2,000 & Over *		747	631	384	358	210	181	119	118	89
2,000 to 2,199	245									
2,200 to 2,399	202									
2,400 to 2,599	133									
2,600 to 2,799	105									
2,800 to 2,999	68									
3,000 & Over	130									
TOTAL	5,373	5,177	5,054	4,777	4,827	4,568	4,585	4,462	4,503	4,433

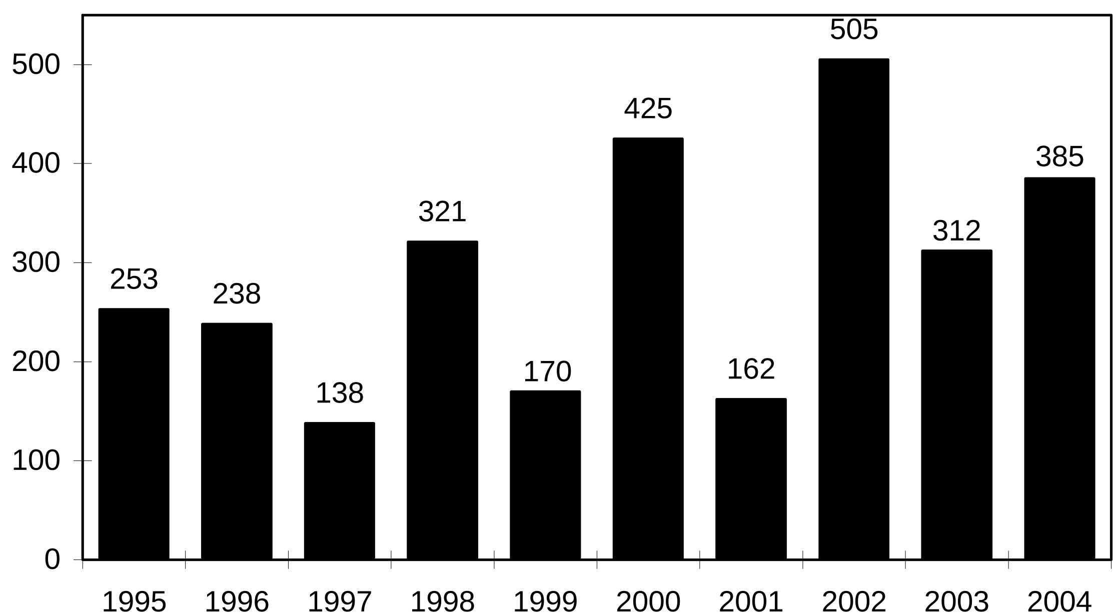
* Breakdown of data for monthly benefits > $2,000 is not available for fiscal years prior to 2004.

SCHEDULE OF RETIREES BY BENEFIT TYPE

Type of Benefit/ Form of Payment	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Service:										
Straight Life	2,527	2,531	2,566	2,566	2,674	2,661	2,760	2,787	2,858	2,897
100% J&S	1,243	1,128	1,030	872	862	719	675	591	591	548
50% J&S	357	333	328	301	303	281	286	270	268	259
5 Years C&L	35	34	32	31	33	31	31	30	28	26
10 Years C&L	151	149	149	140	141	130	129	122	119	116
20 Years C&L	8	0	0	0	0	0	0	0	0	0
Level	495	458	422	354	335	279	256	211	196	165
Subtotal	4,816	4,633	4,527	4,264	4,348	4,101	4,137	4,011	4,060	4,011
Disability:										
Straight Life	59	57	55	50	44	41	38	33	33	20
100% J&S	10	11	10	10	10	7	5	5	3	4
50% J&S	6	9	8	7	5	4	3	3	3	4
5 Years C&L	2	2	2	2	2	1	1	1	1	1
10 Years C&L	1	1	1	1	1	1	2	0	0	1
20 Years C&L	1	0	0	0	0	0	0	0	0	0
Subtotal	79	80	76	70	62	54	49	42	40	30
Beneficiaries:										
Straight Life	457	442	439	431	407	404	394	403	396	383
5 Years C&L	9	6	2	2	1	1	1	0	1	3
10 Years C&L	12	16	10	10	9	8	4	6	6	6
Subtotal	478	464	451	443	417	413	399	409	403	392
TOTAL	5,373	5,177	5,054	4,777	4,827	4,568	4,585	4,462	4,503	4,433

SCHEDULE OF NEW RETIREES BY TYPE

Year Ended June 30	Retirement	Disability	Beneficiary	Total
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
2004	342	5	38	385



SCHEDULE OF RETIREES RESIDING IN NORTH DAKOTA BY COUNTY

County	Number	Average Benefit	County	Number	Average Benefit	County	Number	Average Benefit
Adams	18	$ 1,298	Griggs	23	$ 946	Richland	93	$ 1,241
Barnes	133	1,170	Hettinger	21	1,481	Rolette	45	989
Benson	27	1,213	Kidder	17	939	Sargent	27	1,071
Billings	2	1,464	LaMoure	45	1,224	Sheridan	15	1,081
Bottineau	76	1,117	Logan	22	921	Sioux	4	637
Bowman	34	1,389	McHenry	50	1,086	Slope	5	818
Burke	21	1,304	McIntosh	29	1,466	Stark	148	1,328
Burleigh	549	1,418	McKenzie	32	1,168	Steele	13	812
Cass	580	1,478	McLean	90	1,133	Stutsman	151	1,198
Cavalier	54	1,190	Mercer	49	1,366	Towner	23	1,133
Dickey	51	967	Morton	175	1,451	Traill	72	1,264
Divide	20	1,410	Mountrail	44	995	Walsh	100	1,323
Dunn	20	789	Nelson	53	1,227	Ward	403	1,362
Eddy	29	1,109	Oliver	12	1,166	Wells	52	1,175
Emmons	26	961	Pembina	61	1,082	Williams	149	1,274
Foster	23	1,238	Pierce	35	1,407	Out-of-State	1,023	1,042
Golden Valley	17	940	Ramsey	114	1,199			
Grand Forks	410	1,515	Ransom	46	1,097	GRAND TOTALS:	5,373	$ 1,255
Grant	22	803	Renville	20	1,144			

SCHEDULE OF PARTICIPATING EMPLOYERS AT JUNE 30, 2004

School Districts
Adams
Alexander
Anamoose
Apple Creek Elementary
Ashley
Bakker Elementary
Baldwin Elementary
Beach
Belcourt
Belfield
Bell Elementary
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
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
Lewis and Clark
Lidgerwood
Linton
Lisbon
Litchville-Marion
Little Heart Elementary
Lone Tree Elementary
Maddock
Mandan
Mandaree
Manning Elementary
Mantador Elementary
Manvel Elementary
Maple Valley
Mapleton Elementary
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
Northern Cass
Northwood
Oakes
Oberon Elementary
Page
Park River
Parshall
Pembina
Pettibone
Pingree – Buchanan
Pleasant Valley Elementary
Powers Lake
Rhame
Richardton
Richland
Robinson
Rolette
Roosevelt

SCHEDULE OF PARTICIPATING EMPLOYERS (Continued)

School Districts (cont.)
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
Wimbledon – Courtenay
Wing
Wishek
Wolford
Wyndmere
Yellowstone
Zeeland
Total School Districts 211

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 Career & Tech. Ctr
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 Brd for Career & Tech. 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 266

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

	2004	2003	2002	2001	2000
INVESTMENT MANAGERS					
Domestic Large Cap Equity:					
AllianceBernstein Capital Management	$ 12,457	$ 137,107	$ 151,964	$ 170,278	$ 432,146
Ark Asset Management Company, Inc.	-	-	-	-	234,988
Los Angeles Capital Management	520,099	263,973	280,792	282,817	108,754
LSV Asset Management	533,657	448,581	294,418	324,269	353,562
Northern Trust Global Investments	291,741	250,046	279,447	262,719	-
State Street Global Advisors	16,857	22,707	35,858	45,034	58,184
Strong Capital Management Co.	262,974	208,778	256,989	364,056	-
Westridge Capital Management, Inc.	452,368	417,561	737,898	256,246	-
Total Domestic Large Cap Equity	2,090,153	1,748,753	2,037,366	1,705,419	1,187,634
Domestic Small Cap Equity:					
Nicholas-Applegate Capital Management	-	-	-	553,613	634,058
SEI Investments Management Co.	2,242,925	1,691,371	1,936,560	-	-
UBS Global Asset Management	-	-	-	1,408,427	1,531,712
Total Domestic Small Cap Equity	2,242,925	1,691,371	1,936,560	1,962,040	2,165,770
International Equity:					
Bank of Ireland Asset Management	291,873	227,016	86,262	-	-
Capital Guardian Trust Company	851,348	629,489	693,003	729,367	734,312
Lazard Asset Management	307,157	246,569	82,230	-	-
State Street Global Advisors	245,192	170,764	368,456	508,852	372,945
Wellington Trust Company, NA	387,222	307,985	106,925	-	-
Total International Equity	2,082,792	1,581,823	1,336,876	1,238,219	1,107,257
Emerging Markets Equity:					
Capital Guardian Trust Company	886,004	644,587	675,677	674,300	825,655
Domestic Fixed Income:					
Bank of North Dakota	50,271	44,239	53,531	55,322	81,362
WestLB Asset Management	130,429	146,821	196,555	226,269	290,787
Evergreen Timberland Investment Mgmt.	736,627	423,603	176,129	-	-
Strong Capital Management, Inc.	117,820	150,395	228,669	265,279	315,735
Trust Company of the West	242,297	255,695	335,802	404,831	564,546
Western Asset Management Company	101,180	106,155	145,338	183,831	240,028
Total Domestic Fixed Income	1,378,624	1,126,908	1,136,024	1,135,532	1,492,458
High Yield Fixed Income:					
Loomis Sayles	92,700	-	-	-	-
Sutter/Wells Capital Management	96,369	-	-	-	-
Western Asset Management Company	198,017	249,265	266,409	296,678	171,706
Total High Yield Fixed Income	387,086	249,265	266,409	296,678	171,706
International Fixed Income:					
UBS Global Asset Management	267,101	423,731	478,521	501,752	431,538
Brandywind Asset Management	273,526	39,940	-	-	-
Total International Fixed Income	540,627	463,671	478,521	501,752	431,538

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

	2004	2003	2002	2001	2000
INVESTMENT MANAGERS (continued)					
Real Estate:					
Heitman/JMB Advisory Corp.	$ -	$ -	$ 23,141	$ 26,691	$ 66,948
INVESCO Realty Advisors	777,309	634,499	741,084	757,962	560,459
J.P. Morgan Investment Management, Inc.	1,009,926	944,537	874,910	1,090,524	958,248
Westmark Realty Advisors L.L.C.	-	-	-	2,501	3,947
Total Real Estate	1,787,235	1,579,036	1,639,135	1,877,678	1,589,602
Private Equity:					
Adams Street Partners	1,152,935	1,220,639	1,325,000	1,325,000	712,500
Coral Partners, Inc.	1,684,712	1,646,036	1,003,190	959,047	915,598
Hearthstone Homebuilding Investors, LLC	2,354,122	1,307,083	1,036,884	584,209	339,416
InvestAmerica L&C, LLC	375,000	348,772	-	-	-
Matlin Patterson Global Opportunities, LLC	437,500	943,322	-	-	-
Total Private Equity	6,004,269	5,465,852	3,365,074	2,868,256	1,967,514
Cash Equivalents:					
The Northern Trust Company, Inc.	75,054	48,678	75,064	54,463	59,412
Total Investment Manager Fees	17,474,769	14,599,944	12,946,706	12,314,337	10,998,546
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	523,890	548,056	626,718	535,136	435,770
INVESTMENT CONSULTANT					
Callan Associates Inc.	193,175	140,195	131,463	182,032	133,793
SIB ADMINISTRATIVE FEES	277,786	272,871	252,997	265,243	276,744
SECURITIES LENDING FEES					
Rebates	1,107,164	1,674,462	3,002,217	10,347,230	10,576,555
Bank Fees	212,251	185,818	205,838	257,804	297,605
Total Securities Lending Fees	1,319,415	1,860,280	3,208,055	10,605,034	10,874,160

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

	2004	2003	2002	2001	2000
INVESTMENT MANAGERS					
State Street Global Advisors	$ 56,210	$ 47,599	$ 50,380	$ 53,036	$ 46,430
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	648	1,692	2,740	2,743	2,995
SIB ADMINISTRATIVE FEES	2,618	2,587	2,251	2,325	2,123

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

	2004	2003	2002	2001	2000
INVESTMENT MANAGERS					
Domestic Large Cap Equity:					
AllianceBernstein Capital Management	$ 4,525	$ 50,673	$ 54,786	$ 52,883	$ 57,859
Los Angeles Capital Management	62,875	-	-	-	-
LSV Asset Management	85,026	73,011	96,428	108,130	145,556
State Street Global Advisors	33,648	38,949	41,842	38,089	25,559
Westridge Capital Management, Inc.	27,844	-	-	-	-
Total Domestic Large Cap Equity	213,918	162,633	193,056	199,102	228,974
Domestic Small Cap Equity:					
Brinson Partners, Inc.	-	-	-	253,112	267,304
Nicholas-Applegate Capital Management	-	-	-	164,218	188,539
SEI Investments Management	548,495	453,329	484,616	-	-
Total Domestic Small Cap Equity	548,495	453,329	484,616	417,330	455,843
International Equity:					
Capital Guardian Trust Company	356,373	344,834	392,190	358,164	380,196
Lazard Asset Management	83,289	44,755	-	-	-
The Vanguard Group	91,048	2,891	-	-	-
Total International Equity	530,710	392,480	392,190	358,164	380,196
Convertible Bonds:					
Trust Company of the West	505,255	466,670	492,572	478,858	506,269
Domestic Fixed Income:					
Bank of North Dakota	109,926	94,786	134,261	145,520	123,888
Strong Capital Management Co.	301,395	272,484	68,273	-	-
Western Asset Management Company	535,966	524,407	572,893	609,483	528,146
Total Domestic Fixed Income	947,287	891,677	775,427	755,003	652,034
Balanced Fund-State Street (Health Trust)	-	41,346	-	-	-
Total Investment Manager Fees	2,745,665	2,408,135	2,337,861	2,208,457	2,223,316
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	247,232	337,768	366,837	321,958	248,237
INVESTMENT CONSULTANT					
Callan Associates	110,159	87,266	69,955	63,139	61,725
SIB ADMINISTRATIVE FEES	101,948	120,095	99,689	94,145	84,600
SECURITIES LENDING FEES					
Rebates	1,422,043	1,811,453	3,907,272	11,106,470	9,707,091
Bank Fees	149,306	141,667	249,189	239,062	246,404
Total Securities Lending Fees	1,571,349	1,953,120	4,156,461	11,345,532	9,953,495

See reconciliation of current year investment expenses to financial statements on page 64.

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

	2004	2003	2002	2001	2000
Public Employees Retirement System					
Net assets beginning of year	$ 1,126,095,333	$ 1,080,040,861	$ 1,170,179,844	$ 1,232,890,945	$ 1,141,177,612
Net increase/(decrease) in fair value of investments	156,289,529	22,232,141	(115,940,983)	(96,066,919)	70,477,207
Interest, dividends and other income	34,280,353	36,951,759	38,541,144	44,862,313	39,803,984
Investment expenses	4,043,903	3,575,041	3,727,939	4,108,479	3,813,626
Net securities lending income	218,294	195,613	238,795	301,984	346,768
Net incr/(decr) in net assets resulting from unit transactions	(8,100,650)	(9,750,000)	(9,250,000)	(7,700,000)	(15,101,000)
Net assets end of year	$ 1,304,738,956	$ 1,126,095,333	$ 1,080,040,861	$ 1,170,179,844	$ 1,232,890,945
City of Bismarck Employees Pension Plan					
Net assets beginning of year	$ 22,968,106	$ 21,573,002	$ 23,006,697	$ 23,523,256	$ 21,557,727
Net increase/(decrease) in fair value of investments	2,770,138	721,533	(2,192,830)	(1,377,978)	1,103,780
Interest, dividends and other income	683,552	735,176	827,200	937,911	781,496
Investment expenses	71,632	65,768	73,474	83,255	76,525
Net securities lending income	4,459	4,163	5,409	6,763	6,778
Net incr/(decr) in net assets resulting from unit transactions	-	-	-	-	150,000
Net assets end of year	$ 26,354,623	$ 22,968,106	$ 21,573,002	$ 23,006,697	$ 23,523,256
City of Bismarck Police Pension Plan					
Net assets beginning of year	$ 11,077,471	$ 10,494,577	$ 11,304,692	$ 11,704,525	$ 10,543,678
Net increase/(decrease) in fair value of investments	1,428,040	262,050	(1,152,914)	(796,598)	611,076
Interest, dividends and other income	340,580	354,978	380,805	438,908	366,210
Investment expenses	40,476	35,988	40,275	45,028	44,288
Net securities lending income	2,061	1,854	2,269	2,885	2,849
Net incr/(decr) in net assets resulting from unit transactions	-	-	-	-	225,000
Net assets end of year	$ 12,807,676	$ 11,077,471	$ 10,494,577	$ 11,304,692	$ 11,704,525
Job Service of North Dakota					
Net assets beginning of year	$ 67,303,290	$ 60,847,741	$ 62,062,970	$ 60,815,829	$ 52,923,765
Net increase/(decrease) in fair value of investments	6,536,599	2,153,287	(6,167,057)	(4,125,395)	2,966,328
Interest, dividends and other income	1,946,003	2,077,422	2,217,530	2,267,013	1,477,003
Investment expenses	184,664	181,548	191,608	200,498	177,519
Net securities lending income	15,958	15,388	17,906	20,021	17,252
Net incr/(decr) in net assets resulting from unit transactions	(2,357,644)	2,391,000	2,908,000	3,286,000	3,609,000
Net assets end of year	$ 73,259,542	$ 67,303,290	$ 60,847,741	$ 62,062,970	$ 60,815,829
TOTAL PENSION INVESTMENT POOL					
Net assets beginning of year	$ 1,227,444,200	$ 1,172,956,181	$ 1,266,554,203	$ 1,328,934,555	$ 1,226,202,782
Net increase/(decrease) in fair value of investments	167,024,306	25,369,011	(125,453,784)	(102,366,890)	75,158,391
Interest, dividends and other income	37,250,488	40,119,335	41,966,679	48,506,145	42,428,693
Investment expenses	4,340,675	3,858,345	4,033,296	4,437,260	4,111,958
Net securities lending income	240,772	217,018	264,379	331,653	373,647
Net incr/(decr) in net assets resulting from unit transactions	(10,458,294)	(7,359,000)	(6,342,000)	(4,414,000)	(11,117,000)
Net assets end of year	$ 1,417,160,797	$ 1,227,444,200	$ 1,172,956,181	$ 1,266,554,203	$ 1,328,934,555

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

	2004	2003	2002	2001	2000
Workforce Safety & Insurance Fund					
Net assets beginning of year	$ 980,192,555	$ 906,570,883	$ 924,957,230	$ 899,472,385	$ 775,385,306
Net increase/(decrease) in fair value of investments	59,516,744	44,052,887	(51,653,135)	(27,760,213)	59,796,225
Interest, dividends and other income	34,358,320	38,713,140	38,573,723	43,475,209	37,936,151
Investment expenses	2,552,501	2,461,558	2,344,928	2,566,986	2,497,150
Net securities lending income	334,559	317,203	537,993	536,835	551,853
Net incr/(decr) in net assets resulting from unit transactions	6,500,000	(7,000,000)	(3,500,000)	11,800,000	28,300,000
Net assets end of year	$ 1,078,349,677	$ 980,192,555	$ 906,570,883	$ 924,957,230	$ 899,472,385
State Fire & Tornado Fund					
Net assets beginning of year	$ 16,328,742	$ 13,219,551	$ 16,640,670	$ 15,922,249	$ 16,585,982
Net increase/(decrease) in fair value of investments	1,276,515	640,258	(896,648)	(746,935)	1,199,681
Interest, dividends and other income	596,671	578,844	603,477	777,494	722,556
Investment expenses	50,261	39,974	36,532	46,420	46,296
Net securities lending income	6,186	5,063	8,584	9,282	10,326
Net incr/(decr) in net assets resulting from unit transactions	1,450,000	1,925,000	(3,100,000)	725,000	(2,550,000)
Net assets end of year	$ 19,607,853	$ 16,328,742	$ 13,219,551	$ 16,640,670	$ 15,922,249
State Bonding Fund					
Net assets beginning of year	$ 5,136,038	$ 4,781,300	$ 4,909,606	$ 4,900,394	$ 4,550,096
Net increase/(decrease) in fair value of investments	264,390	181,129	(303,555)	(201,129)	329,207
Interest, dividends and other income	131,611	185,032	185,119	221,523	207,121
Investment expenses	10,792	13,044	12,508	13,867	13,941
Net securities lending income	1,350	1,621	2,638	2,685	2,911
Net incr/(decr) in net assets resulting from unit transactions	(1,750,000)	-	-	-	(175,000)
Net assets end of year	$ 3,772,597	$ 5,136,038	$ 4,781,300	$ 4,909,606	$ 4,900,394
Petroleum Tank Release Compensation Fund					
Net assets beginning of year	$ 8,574,000	$ 8,317,667	$ 8,632,780	$ 8,706,803	$ 7,920,716
Net increase/(decrease) in fair value of investments	653,442	278,199	(484,206)	(342,226)	670,473
Interest, dividends and other income	261,312	296,926	310,995	389,458	361,724
Investment expenses	22,988	21,392	21,265	25,890	26,066
Net securities lending income	2,675	2,600	4,363	4,635	4,956
Net incr/(decr) in net assets resulting from unit transactions	(510,000)	(300,000)	(125,000)	(100,000)	(225,000)
Net assets end of year	$ 8,958,441	$ 8,574,000	$ 8,317,667	$ 8,632,780	$ 8,706,803
Insurance Regulatory Trust Fund					
Net assets beginning of year	$ 2,763,062	$ 2,280,579	$ 2,327,671	$ 2,717,188	$ 2,569,789
Net increase/(decrease) in fair value of investments	87,813	37,155	(142,511)	(53,790)	90,446
Interest, dividends and other income	43,323	49,452	48,598	78,012	86,655
Investment expenses	4,500	4,572	3,734	4,421	5,584
Net securities lending income	421	448	555	682	882
Net incr/(decr) in net assets resulting from unit transactions	(200,000)	400,000	50,000	(410,000)	(25,000)
Net assets end of year	$ 2,690,119	$ 2,763,062	$ 2,280,579	$ 2,327,671	$ 2,717,188

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

	2004	2003	2002	2001	2000
ND Health Care Trust Fund					
Net assets beginning of year	$ 28,646,477	$ 43,795,649	$ -	$ -	$ -
Net increase/(decrease) in fair value of investments	-	(2,021,143)	(2,941,422)	-	-
Interest, dividends and other income	1,209,708	1,845,765	1,795,032	-	-
Investment expenses	3,664	47,908	134,190	-	-
Net securities lending income	-	1,823	24,468	-	-
Net incr/(decr) in net assets resulting from unit transactions	(4,353,595)	(14,927,709)	45,051,761	-	-
Net assets end of year	$ 25,498,926	$ 28,646,477	$ 43,795,649	$ -	$ -
Veterans Cemetery Fund					
Net assets beginning of year	$ 63,417	$ 49,627	$ 35,697	$ 23,998	$ 10,279
Net increase/(decrease) in fair value of investments	-	-	-	-	-
Interest, dividends and other income	811	846	999	1,618	968
Investment expenses	10	11	3	2	1
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	6,885	12,955	12,934	10,083	12,752
Net assets end of year	$ 71,103	$ 63,417	$ 49,627	$ 35,697	$ 23,998
Veterans Post War Trust Fund					
Net assets beginning of year	$ 1,126,207	$ 1,186,374	$ 1,424,389	$ 1,382,644	$ 1,342,711
Net increase/(decrease) in fair value of investments	200,635	(31,456)	(254,022)	(175,012)	26,007
Interest, dividends and other income	18,286	18,832	19,106	20,381	18,008
Investment expenses	4,293	2,656	3,132	3,677	4,184
Net securities lending income	252	113	33	53	102
Net incr/(decr) in net assets resulting from unit transactions	-	(45,000)	-	200,000	-
Net assets end of year	$ 1,341,087	$ 1,126,207	$ 1,186,374	$ 1,424,389	$ 1,382,644
Risk Management Fund					
Net assets beginning of year	$ 2,538,517	$ 3,298,707	$ 3,532,523	$ 5,327,748	$ 6,397,739
Net increase/(decrease) in fair value of investments	60,323	102,735	(205,527)	(177,198)	(105,028)
Interest, dividends and other income	75,280	107,014	128,818	190,789	293,754
Investment expenses	6,181	5,623	8,943	11,172	11,759
Net securities lending income	681	684	1,836	2,356	3,042
Net incr/(decr) in net assets resulting from unit transactions	300,000	(965,000)	(150,000)	(1,800,000)	(1,250,000)
Net assets end of year	$ 2,968,620	$ 2,538,517	$ 3,298,707	$ 3,532,523	$ 5,327,748
Risk Management Workers Comp Fund					
Net assets beginning of year	$ -	$ -	$ -	$ -	$ -
Net increase/(decrease) in fair value of investments	124,123	-	-	-	-
Interest, dividends and other income	61,166	-	-	-	-
Investment expenses	6,729	-	-	-	-
Net securities lending income	618	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	2,500,000	-	-	-	-
Net assets end of year	$ 2,679,178	$ -	$ -	$ -	$ -

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

	2004	2003	2002	2001	2000
ND Association of Counties Fund					
Net assets beginning of year	$ 273,797	$ 257,665	$ 271,137	$ 539,481	$ 341,846
Net increase/(decrease) in fair value of investments	25,891	8,441	(21,265)	(16,410)	33,039
Interest, dividends and other income	8,525	9,280	9,323	14,042	16,828
Investment expenses	1,786	1,672	1,666	1,891	2,485
Net securities lending income	91	83	136	190	253
Net incr/(decr) in net assets resulting from unit transactions	-	-	-	(264,275)	150,000
Net assets end of year	$ 306,518	$ 273,797	$ 257,665	$ 271,137	$ 539,481
ND Association of Counties Program Savings Fund					
Net assets beginning of year	$ 290,719	$ 273,574	$ 287,382	$ 1,402,703	$ 260,627
Net increase/(decrease) in fair value of investments	27,475	8,916	(22,143)	(15,308)	23,645
Interest, dividends and other income	9,053	9,855	9,901	12,713	46,113
Investment expenses	1,835	1,714	1,709	1,857	1,973
Net securities lending income	96	88	143	156	168
Net incr/(decr) in net assets resulting from unit transactions	-	-	-	(1,111,025)	1,074,123
Net assets end of year	$ 325,508	$ 290,719	$ 273,574	$ 287,382	$ 1,402,703
PERS Group Insurance Fund					
Net assets beginning of year	$ 133,981	$ 57,641	$ 1,544,733	$ 119,122	$ -
Net increase/(decrease) in fair value of investments	-	-	-	-	-
Interest, dividends and other income	53,303	58,525	95,512	191,229	120,041
Investment expenses	1,015	1,013	1,004	1,066	919
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	100,000	18,828	(1,581,600)	1,235,448	-
Net assets end of year	$ 286,269	$ 133,981	$ 57,641	$ 1,544,733	$ 119,122
City of Bismarck Deferred Sick Leave Fund					
Net assets beginning of year	$ 607,608	$ 559,779	$ 566,032	$ 558,682	$ -
Net increase/(decrease) in fair value of investments	33,526	26,238	(27,731)	(17,621)	36,876
Interest, dividends and other income	21,800	23,875	23,530	27,154	24,169
Investment expenses	2,673	2,491	2,397	2,529	2,719
Net securities lending income	226	207	345	346	356
Net incr/(decr) in net assets resulting from unit transactions	-	-	-	-	500,000
Net assets end of year	$ 660,487	$ 607,608	$ 559,779	$ 566,032	$ 558,682
City of Fargo FargoDome Permanent Fund					
Net assets beginning of year	$ 4,307,480	$ -	$ -	$ -	$ -
Net increase/(decrease) in fair value of investments	419,447	438,029	-	-	-
Interest, dividends and other income	149,299	95,346	-	-	-
Investment expenses	13,802	8,639	-	-	-
Net securities lending income	1,333	617	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	1,000,000	3,782,127	-	-	-
Net assets end of year	$ 5,863,757	$ 4,307,480	$ -	$ -	$ -

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

	2004	2003	2002	2001	2000
TOTAL INSURANCE INVESTMENT POOL					
Net assets beginning of year	$ 1,050,982,600	$ 984,648,996	$ 965,129,850	$ 941,073,397	$ 815,365,091
Net increase/(decrease) in fair value of investments	62,690,324	43,721,388	(56,952,165)	(29,505,842)	62,100,571
Interest, dividends and other income	36,998,468	41,992,732	41,804,133	45,399,622	39,834,088
Investment expenses	2,683,030	2,612,267	2,572,011	2,679,778	2,613,077
Net securities lending income	348,488	330,550	581,094	557,220	574,849
Net incr/(decr) in net assets resulting from unit transactions	5,043,290	(17,098,799)	36,658,095	10,285,231	25,811,875
Net assets end of year	$ 1,153,380,140	$ 1,050,982,600	$ 984,648,996	$ 965,129,850	$ 941,073,397