# 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***
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***www.nd.gov/rio***

For the Fiscal Year Ended June 30, 2005

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# Introductory

**ND Retirement and Investment Office**

*Teachers' Fund for Retirement*
*State Investment Board*

Steve Cochrane, CFA
Executive Director

Fay Kopp
Deputy Executive Director

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November 15, 2005

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, 2005, 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.

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

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 260 employer groups and pays benefits to more than 5,500 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 $4.4 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:

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| Pension Investment Pool Participants | Insurance Investment Pool Participants |
|---|---|
| Teachers' Fund for Retirement | Workforce Safety & Insurance (WSI) Fund |
| Public Employees Retirement Fund | State Fire and 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 Compensation 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 Fund |
| | City of Bismarck Deferred Sick Leave Fund |
| | NDPERS Group Insurance Account |
| | 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 and March, 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

  Proper funding of the retirement program remains a challenge for the TFFR Board. Funding information and details can be found in the Actuarial Section.

  While there were no material TFFR plan modifications made by the 2005 Legislative Assembly, during the year, the TFFR Board was involved in the following initiatives:

- ✓ Experience Study - Every five years, the TFFR Board contracts with its actuary to perform an actuarial experience study. The current study indicated that while most actuarial assumptions remain accurate, there were a few that need to be updated in order to reflect the actual experience of our members. The most significant findings were that individual teacher salary increases were higher than assumed, fewer teachers terminated than expected, and more teachers retired when first eligible than assumed. The assumption changes resulted in additional costs and liabilities. To help manage the increased costs, the Board changed the amortization period from 20 years to 30 years, and changed the amortization approach from a level dollar amount to a level percentage of payroll.
- ✓ Asset Liability Modeling Study – Because there is a significant and dynamic relationship that exists between the assets of the system and its future liabilities, every five years, the TFFR Board also contracts with its actuary to perform an asset liability modeling study. The 2005 study indicated it is unlikely that TFFR will be able to develop positive margin over the long term, regardless of portfolio selected. However, after reviewing the risk and return characteristics of a number of portfolios, the Board adopted modest changes. Asset allocation changes were implemented in August 2005.
- ✓ New Pension Administration System - TFFR began a project to replace its outdated mainframe computer system with new pension software in 2004. The goal of the 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 technology. The project is progressing on time and within budget. The software went into production in September 2005, and will be fully implemented during the 2005-06 year. We believe that over time, TFFR members, employers and RIO staff will all benefit from this state of the art pension administration system.

- Investment Program

  The investment markets remained strong during fiscal year 2005. 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:

  - ✓ Based on client guideline changes, eliminated convertible bonds as an asset class in the insurance investment pool.
  - ✓ Based on client guideline changes, studied real estate investment options for the insurance investment pool and ultimately voted to commit assets to one manager.
  - ✓ Restructured the international equity portfolios in both the pension and insurance investment pools by adding an additional large cap value manager in each and re-mandating a manager to an index exposure in the pension investment pool.
  - ✓ Terminated a duration based manager in the domestic fixed income asset class of the pension investment pool and subsequently reallocated those assets to existing managers.
  - ✓ Hired a private placement debt manager in the domestic fixed income asset class of the pension investment pool.

**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, 2004. This was the seventh 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.

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**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, 2005.

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

| Pension Trust Fund (TFFR) | June 30, 2005 | June 30, 2004 | Incr/(Decr) $ | Incr/(Decr) % |
|---|---|---|---|---|
| **Additions** | $ 244,833,136 | $ 283,898,141 | $(39,065,005) | (13.8)% |
| **Deductions** | 89,318,386 | 84,466,942 | 4,851,444 | 5.7 % |
| **Net Increase/(Decrease)** | $ 155,514,750 | $ 199,431,199 | $(43,916,449) | (22.0)% |

Additions decreased due to a decrease in 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, 2005 | June 30, 2004 | Incr/(Decr) $ | Incr/(Decr) % |
|---|---|---|---|---|
| **Operating revenues** | $ 2,468,546 | $ 1,896,124 | $ 572,422 | 30.2 % |
| **Operating expenses** | 1,881,859 | 1,496,754 | 385,105 | 25.7 % |
| **Non-operating revenue (expense)** | (448) | (835) | (387) | (46.3)% |
| **Net revenues (expenses)** | $ 586,239 | $ 398,535 | $ 187,704 | 47.1 % |

Operating revenues increased due to an increase in the overall expenses flowing through the fund and being allocated to the programs; mostly due to the retirement administration software replacement project. Operating expenses increased mainly due to additional costs associated with the software project. Non-operating expenses decreased due to an increase in interest income.

**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) over a period of 30 years from the valuation date. The amortization period used in the previous valuation was 20 years, but it was increased by the Board effective for this valuation. A thirty-year period is the maximum amortization period allowed by GASB 25 in computing the Annual Required Contribution (ARC). The thirty-year period is in common use for public-sector plans and is considered reasonable by the actuary.

In order to determine the adequacy of the 7.75% statutory contribution rate, it is compared to the GASB 25 ARC. The ARC is equal to the sum of (a) the employer normal cost, and (b) the level percentage of pay required to amortize the UAAL over a 30-year period. For this calculation, payroll is assumed to increase 2.00% per annum. As of July 1, 2005, the ARC is 12.12%. This is more than the 7.75% rate currently required by law. The shortfall (the negative margin) between the rate mandated by law and the rate necessary to fund the UAAL in 30 years is -4.37%.

The GASB ARC increased from last year due to the recognition of previous years' actuarial investment losses and changes made to actuarial assumptions, offset by the effect of the changes in the amortization procedures. The increase in the ARC would have been even larger if not for the 13.3% market asset return in fiscal year 2005.

If the 7.75% contribution rate remains unchanged, and all actuarial assumptions are exactly realized, including an 8.00% investment return on the actuarial value of assets, then the UAAL will never be amortized. 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, 2004, was 80.3%, while it is 74.8% as of July 1, 2005. This decrease is due to the two factors cited above. Based on market values rather than actuarial values of assets, the funded ratio improved to 77.9% from 76.4% last year.

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, 2005 (in millions)** | **July 1, 2004 (in millions)** |
|---|---|---|
| **Actuarial value of assets** | $ 1,469.7 | $ 1,445.6 |
| **Unfunded actuarial accrued liability** | 495.5 | 354.8 |
| **Funded ratio** | 74.8% | 80.3% |

**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,

STEVE COCHRANE, CFA
Executive Director/CIO

FAY KOPP
Deputy Executive Director

CONNIE L. FLANAGAN
Fiscal & Investment Officer

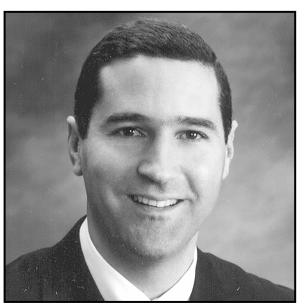
# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## 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.

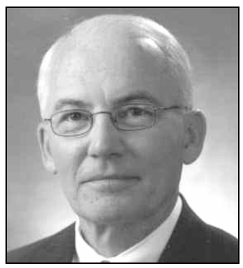
To ensure rigorous attention to all aspects of the investment program, the SIB follows an established investment process. This process involves three phases:

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

## Board Members

**Jack Dalrymple**
*Chair*
*Lt. Governor*
*Term expires 12/31/08*

**Howard Sage**
*Vice Chair*
*PERS Trustee*
*Term expires 6/30/08*



**Mark Sanford**
*TFFR Trustee*
*Term expires 6/30/10*

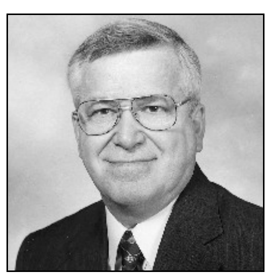
**Kelly Schmidt**
*State Treasurer*
*Term expires 12/31/08*

**Jim Poolman**
*State Insurance Commissioner*
*Term expires 12/31/08*

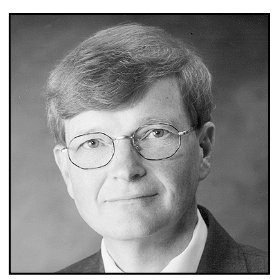
**Gary Preszler**
*University and School Land Commissioner*

**Sandy Blunt**
*Executive Director Workforce Safety & Insurance*

**Barbara Evanson**
*TFFR Trustee*
*Term expires 6/30/09*



**Ron Leingang**
*PERS Trustee*
*Term expires 6/30/09*



**David Gunkel**
*PERS Trustee*
*Term expires 10/31/05*

**Clarence Corneil**
*TFFR Trustee*
*Term expires 6/30/07*

# NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

## Retirement Program

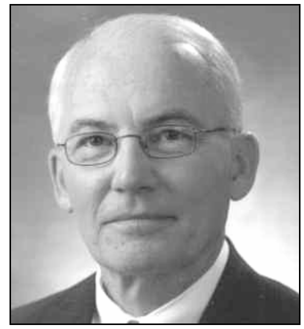
### *Mission*

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

### *Goals*

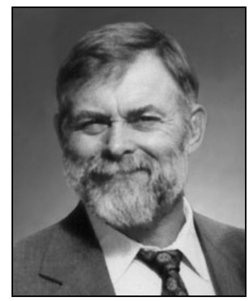
- To provide a replacement income equal to 60 percent of the final average salary of a career employee who has 30 or more years of credited service.
- To provide ad hoc biennial benefit increases and 2% annual benefit increases to retired members and beneficiaries to provide income protection and assist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

## Board of Trustees

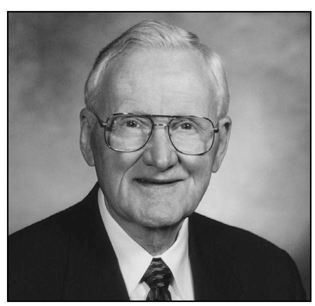


**Mark Sanford**
*President*
*(represents administrators)*
*Term expires 6/30/05*

**Barbara Evanson**
*Vice President*
*(represents active teachers)*
*Term expires 6/30/09*



**Mike Gessner**
*Trustee*
*(represents active teachers)*
*Term expires 6/30/06*



**Lowell Latimer**
*Trustee*
*(represents retired teachers)*
*Term expires 6/30/08*

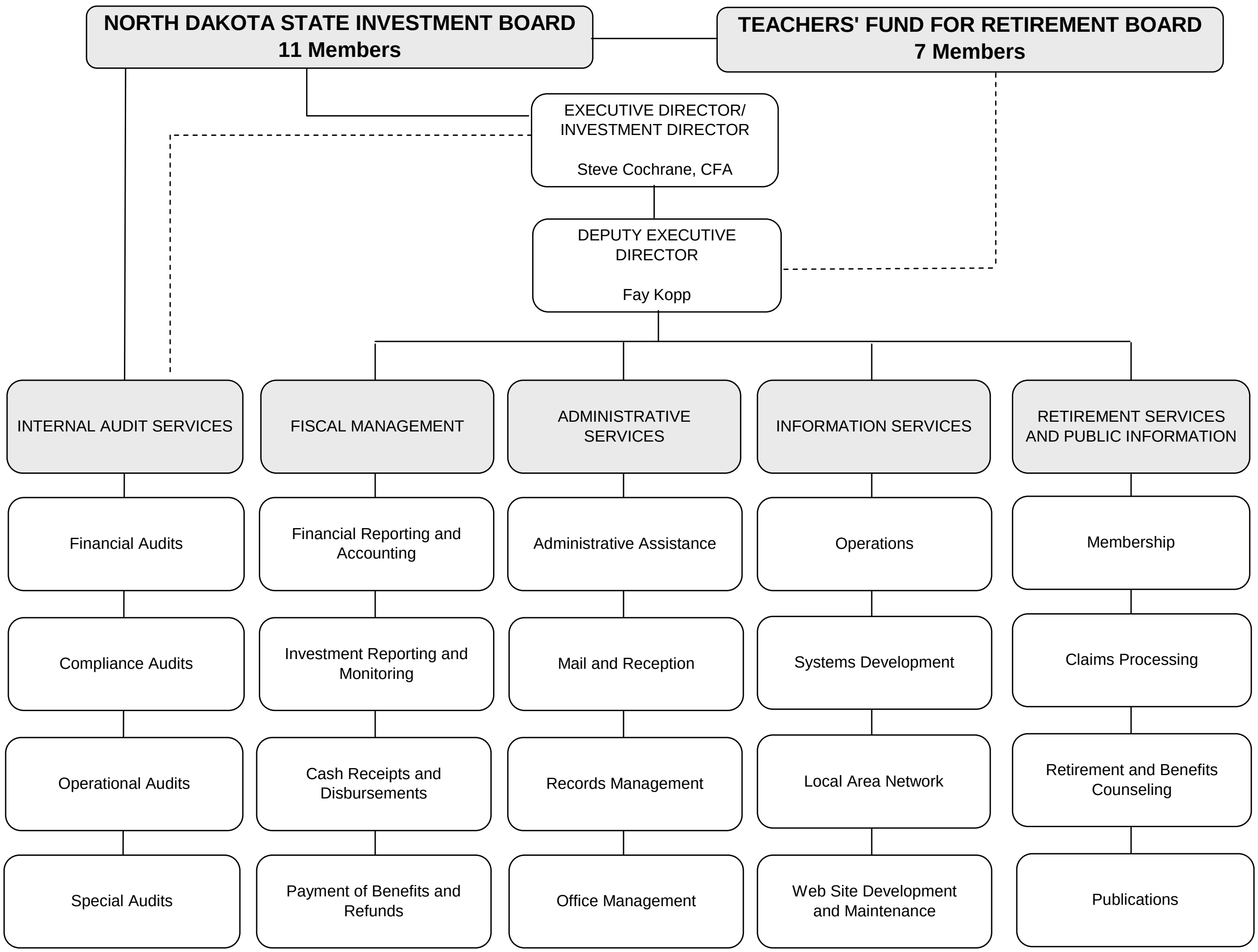
**Clarence Corneil**
*Trustee*
*(represents retired teachers)*
*Term expires 6/30/07*

**Kelly Schmidt**
State Treasurer
*Term expires 12/31/08*

**Wayne Sanstead**
*State Superintendent*
*of Public Instruction*
*Term expires 12/31/08*

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## ADMINISTRATIVE ORGANIZATION
## JUNE 30, 2005



# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## CONSULTING AND PROFESSIONAL SERVICES
## AS OF JUNE 30, 2005

**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

INVESCO Realty Advisors
Dallas, Texas

InvestAmerica L&C, LLC
Cedar Rapids, Iowa

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

**Investment Managers cont.**
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

Prudential Investment Management
Newark, New Jersey

RMK Timberland Group
Atlanta, Georgia

SEI Investments Management Co.
Oaks, Pennsylvania

State Street Global Advisors
Boston, Massachusetts

Timberland Investment Resources, LLC
Atlanta, Georgia

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

Wells Capital Management, Inc.
Menomonee Falls, Wisconsin

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, 2004

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

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

President

Executive Director


# Financial

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, 2005. 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, 2005, 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 $496 million at June 30, 2005. 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, 2005, 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, 2005, 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

RSM McGladrey Network
An Independently Owned Member

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information 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 16 through 21 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 13, 2005

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Management's Discussion and Analysis

## June 30, 2005

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, 2005. 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 2005 by $960,180. This was mostly due to the capitalization of the retirement administration software in development at year end.

Total net assets increased in the fiduciary fund by $448.4 million or 11.3% 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, 2005, the funded ratio was approximately 74.8%.

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. The project began during the previous fiscal year and as of the end of the current fiscal year, just over $1.4 million had been expended on the project. The total budget for the project is $2 million.

Additions in the fiduciary fund for the year were $532.9 million, which is comprised of contributions of $64.1 million and investment income of $468.8 million.

Deductions in the fiduciary fund increased over the prior year by $4.9 million or 5.7%. This increase represented a rise in the number of retirees drawing retirement benefits 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, 2005

### 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, 2005, were $1,308,918 and were comprised mostly of capital assets and cash. Total assets increased $608,495 or 86.9% from the prior year primarily due to an increase in capital assets.

Total current liabilities as of June 30, 2005, were $261,915 and were comprised mostly of accrued payroll and accounts payable. Total current liabilities increased $18,536 or 7.6% from the prior year primarily due to an increase in the due to fiduciary funds account at year-end. Total noncurrent liabilities increased $3,720 or 4.5% due to a larger balance of accrued leave at year-end.

RIO's internal service fund assets exceeded its liabilities at the close of fiscal year 2005 by just over $960,000.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Management's Discussion and Analysis

## June 30, 2005

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

| | 2005 | 2004 | Total % Change |
|---|---|---|---|
| **Assets** | | | |
| Cash | $ 257 | $ 133 | 93.8% |
| Receivables | 39 | 144 | (73.3)% |
| Capital Assets | 1,013 | 423 | 139.3% |
| **Total Assets** | 1,309 | 700 | 86.9% |
| **Current Liabilities** | 262 | 243 | 7.6% |
| **Noncurrent Liabilities** | 87 | 83 | 4.5% |
| **Total Liabilities** | 349 | 326 | 6.8% |
| **Net Assets – Invested in capital assets, net of debt** | 1,004 | 410 | 144.5% |
| **Net Assets – Unrestricted** | (44) | (36) | 19.0% |
| **Total Net Assets** | $ 960 | $ 374 | 156.8% |

RIO's fiduciary fund total assets as of June 30, 2005, were $5.0 billion and were comprised mainly of investments and invested securities lending collateral. Total assets increased over $560 million or 12.6% from the prior year primarily due to gains in the financial markets during the fiscal year.

Total liabilities as of June 30, 2005, were $583.0 million and were comprised mostly of securities lending collateral. Total liabilities increased $112 million or 23.8% from the prior year primarily due to an increase in securities lending collateral at year-end.

RIO's fiduciary fund total net assets were $4.4 billion at the close of fiscal year 2005.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Management's Discussion and Analysis

## June 30, 2005

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

| | 2005 | 2004 | Total % Change |
|---|---|---|---|
| **Assets** | | | |
| Investments | $ 4,389 | $ 3,946 | 11.2% |
| Sec Lending Collateral | 579 | 468 | 23.9% |
| Receivables | 29 | 24 | 21.4% |
| Cash & Other | 9 | 8 | 3.8% |
| **Total Assets** | 5,006 | 4,446 | 12.6% |
| Accounts Payable | 4 | 3 | 14.0% |
| Sec Lending Collateral | 579 | 468 | 23.9% |
| **Total Liabilities** | 583 | 471 | 23.8% |
| **Total Net Assets** | $ 4,423 | $ 3,975 | 11.3% |

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

| | 2005 | 2004 | Total % Change |
|---|---|---|---|
| **Additions:** | | | |
| Contributions | $ 64 | $ 64 | 0.7 % |
| Investment Income | 468 | 521 | (10.1)% |
| **Total Additions** | 532 | 585 | (9.0)% |
| **Deductions** | 89 | 84 | 5.7 % |
| **Net inc(dec) from unit transactions** | 5 | (5) | 208.2 % |
| **Total inc(dec) in net assets** | $ 448 | $ 496 | (9.7)% |

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

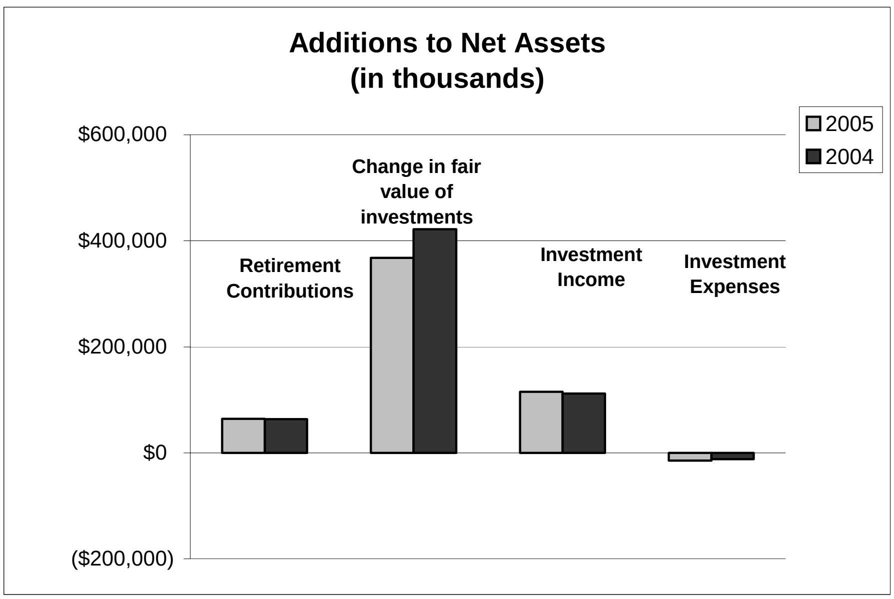
## Management's Discussion and Analysis

## June 30, 2005

### Statement of Changes in Net Assets – Additions

Contributions to the pension trust fund increased by $418,000 or 0.7% over the previous fiscal year. The fair value of investments in the fiduciary funds increased by $368.0 million during fiscal year 2005 following an increase of $421.7 million in fiscal year 2004.

Investment income, including net income from securities lending activities, increased by $3.4 million from last year due to higher interest rates in the bond markets. Investment expenses increased by $2.6 million or 21.7% due to higher investment market values which the fee calculations are based upon.




### Statement of Changes in Net Assets – Deductions

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by $7.3 million or 9.5% during the fiscal year ended June 30, 2005. This was due to an increase in the number of retirees in the plan.

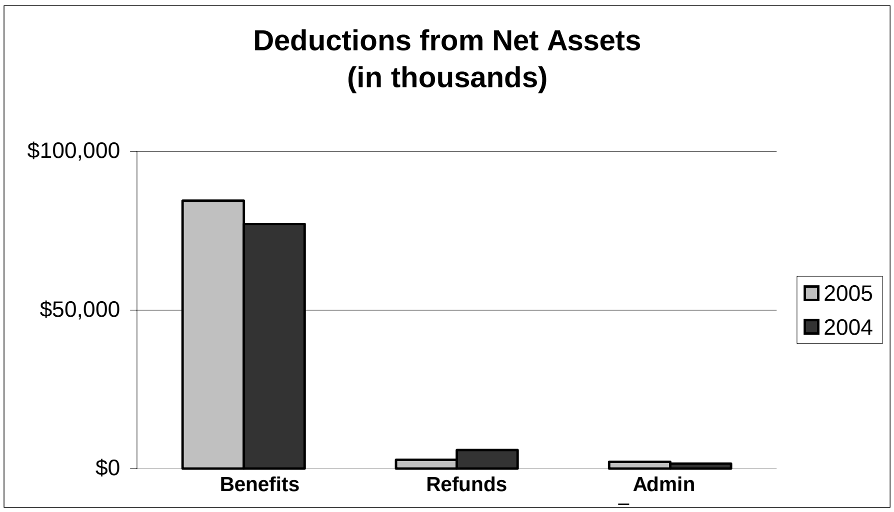
Refunds decreased significantly in fiscal year 2005. The 2003 legislature approved a law allowing Department of Public Instruction employees covered under TFFR to make an election to transfer to the Public Employees Retirement System (PERS). Approximately $3.8 million in member account balances and/or actuarially determined values were transferred to PERS in 2004 and these are shown as refunds on the financial statements. Total refunds for 2005 were $2.7 million versus $5.8 million in 2004. This is a 52.9% decrease.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Management's Discussion and Analysis

## June 30, 2005

Administrative expenses also increased, up $573,061 from fiscal year 2004. This increase was due to the continuing installation of the retirement software replacement project in the pension fund.




## CONCLUSION

Fiscal Year 2005 saw continued strength 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.

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, 2005 and 2004

| | Internal Service Fund | |
|---|---|---|
| | 2005 | 2004 |
| **ASSETS:** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 257,239 | $ 132,738 |
| Due from other state agency | 102 | 28 |
| Administrative fees receivable | 2,086 | 2,086 |
| Due from fiduciary funds | 36,327 | 142,183 |
| Total current assets | 295,754 | 277,035 |
| Noncurrent assets: | | |
| Capital assets: | | |
| Software (not in production) | 1,005,000 | 410,000 |
| Equipment & software (net of depreciation) | 8,164 | 13,388 |
| Total noncurrent assets | 1,013,164 | 423,388 |
| Total assets | $ 1,308,918 | $ 700,423 |
| **LIABILITIES:** | | |
| Current liabilities: | | |
| Accounts payable | $ 108,907 | $ 149,966 |
| Accrued expenses | 76,714 | 75,762 |
| Capital leases payable | 3,888 | 3,395 |
| Due to fiduciary funds | 53,576 | 2,453 |
| Due to other state agencies | 18,830 | 11,803 |
| Total current liabilities | 261,915 | 243,379 |
| Noncurrent liabilities: | | |
| Capital leases payable | 5,662 | 9,550 |
| Accrued annual leave | 81,161 | 73,553 |
| Total noncurrent liabilities | 86,823 | 83,103 |
| Total liabilities | 348,738 | 326,482 |
| **NET ASSETS:** | | |
| Invested in capital assets, net of related debt | (1,386) | 410,443 |
| Unrestricted | 961,566 | (36,502) |
| Total net assets | 960,180 | 373,941 |
| Total net assets and liabilities | $ 1,308,918 | $ 700,423 |

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, 2005 and 2004

| | Internal Service Fund 2005 | Internal Service Fund 2004 |
|---|---|---|
| Operating revenues: | | |
| Charges for services | $ 2,449,738 | $ 1,877,249 |
| Miscellaneous | 18,808 | 18,875 |
| Total operating revenues | 2,468,546 | 1,896,124 |
| Operating expenses: | | |
| Salaries and wages | 906,336 | 860,257 |
| Operating expenses | 970,299 | 631,881 |
| Depreciation | 5,224 | 4,616 |
| Total operating expenses | 1,881,859 | 1,496,754 |
| Operating income (loss) | 586,687 | 399,370 |
| Nonoperating revenue (expense): | | |
| Investment income | 1,107 | 581 |
| Interest on capital lease | (1,555) | (1,416) |
| Total nonoperating revenue (expense) | (448) | (835) |
| Change in net assets | 586,239 | 398,535 |
| Total net assets - beginning of year | 373,941 | (24,594) |
| Total net assets - end of year | $ 960,180 | $ 373,941 |

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, 2005 and 2004

| | Internal Service Fund | |
|---|---|---|
| | 2005 | 2004 |
| Cash flows from operating activities: | | |
| Cash received from other state agencies | $ 2,691,820 | $ 1,863,721 |
| Cash received from external clients | 7,549 | 7,508 |
| Payments to vendors | (1,975,951) | (1,459,091) |
| Net cash provided (used) by operating activities | 723,418 | 412,138 |
| Cash flow from capital-related financing activities: | | |
| Purchase of capital assets | (595,000) | (410,000) |
| Payments on capital lease | (4,951) | (3,061) |
| Net cash provided (used) by capital-related financing activities | (599,951) | (413,061) |
| Cash flow from investing activities: | | |
| Investment Income | 1,034 | 572 |
| Net increase (decrease) in cash and equivalents | 124,501 | (351) |
| Cash and equivalents - beginning of year | 132,738 | 133,089 |
| Cash and equivalents - end of year | $ 257,239 | $ 132,738 |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Operating income (loss) | $ 586,687 | $ 399,370 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation | 5,224 | 4,616 |
| Net change in assets and liabilities: | | |
| Administrative fees receivable | - | 3 |
| Due from other funds | 105,856 | (88,196) |
| Accounts payable | (41,059) | 80,174 |
| Accrued expenses | 8,560 | 14,419 |
| Due to other funds | 51,123 | 1,780 |
| Due to other state agencies | 7,027 | (28) |
| Net cash provided (used) by operating activities | $ 723,418 | $ 412,138 |
| 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, 2005 and 2004

| | Pension Trust | | Investment Trust | | Total | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Assets: | | | | | | |
| Investments, at fair value | | | | | | |
| Equities | $ - | $ - | $ 21,862,661 | $ 19,412,080 | $ 21,862,661 | $ 19,412,080 |
| Equity pool | 1,004,754,159 | 900,981,977 | 1,183,113,382 | 1,107,851,093 | 2,187,867,541 | 2,008,833,070 |
| Fixed income | - | - | 27,986,767 | 27,658,250 | 27,986,767 | 27,658,250 |
| Fixed income pool | 272,428,219 | 245,500,877 | 1,470,951,035 | 1,248,149,485 | 1,743,379,254 | 1,493,650,362 |
| Real estate pool | 139,039,070 | 108,794,052 | 77,236,675 | 62,862,985 | 216,275,745 | 171,657,037 |
| Private equity | 62,572,727 | 60,138,622 | 61,224,580 | 59,398,786 | 123,797,307 | 119,537,408 |
| Cash and cash pool | 28,950,655 | 39,971,282 | 39,294,401 | 65,268,301 | 68,245,056 | 105,239,583 |
| Total investments | 1,507,744,830 | 1,355,386,810 | 2,881,669,501 | 2,590,600,980 | 4,389,414,331 | 3,945,987,790 |
| Invested securities lending collateral | 104,685,772 | 69,506,360 | 474,658,207 | 398,167,068 | 579,343,979 | 467,673,428 |
| Receivables: | | | | | | |
| Investment income | 8,109,864 | 6,145,079 | 13,499,666 | 11,403,421 | 21,609,530 | 17,548,500 |
| Contributions | 7,403,583 | 6,354,683 | - | - | 7,403,583 | 6,354,683 |
| Total receivables | 15,513,447 | 12,499,762 | 13,499,666 | 11,403,421 | 29,013,113 | 23,903,183 |
| Due from other funds | 20,170 | - | 33,406 | 2,453 | 53,576 | 2,453 |
| Cash and cash equivalents | 8,648,006 | 8,378,563 | - | - | 8,648,006 | 8,378,563 |
| Total assets | 1,636,612,225 | 1,445,771,495 | 3,369,860,780 | 3,000,173,922 | 5,006,473,005 | 4,445,945,417 |
| Liabilities: | | | | | | |
| Accounts payable | - | - | - | - | - | - |
| Investment expenses payable | 1,414,912 | 1,198,117 | 1,922,316 | 1,615,736 | 3,337,228 | 2,813,853 |
| Securities lending collateral | 104,685,772 | 69,506,360 | 474,658,207 | 398,167,068 | 579,343,979 | 467,673,428 |
| Accrued expenses | 284,129 | 253,408 | - | - | 284,129 | 253,408 |
| Due to other funds | 32,985 | 133,933 | 3,342 | 8,250 | 36,327 | 142,183 |
| Total liabilities | 106,417,798 | 71,091,818 | 476,583,865 | 399,791,054 | 583,001,663 | 470,882,872 |
| Net assets: | | | | | | |
| Held in trust for pension benefits (see Schedule of Funding Progress on page 44) | 1,530,194,427 | 1,374,679,677 | - | - | 1,530,194,427 | 1,374,679,677 |
| Held for external investment pool participants: | | | | | | |
| Pension pool | - | - | 1,615,959,085 | 1,417,160,799 | 1,615,959,085 | 1,417,160,799 |
| Insurance pool | - | - | 1,243,699,436 | 1,153,380,140 | 1,243,699,436 | 1,153,380,140 |
| Held for individual investment account | - | - | 33,618,394 | 29,841,929 | 33,618,394 | 29,841,929 |
| Total net assets | $ 1,530,194,427 | $ 1,374,679,677 | $ 2,893,276,915 | $ 2,600,382,868 | $ 4,423,471,342 | $ 3,975,062,545 |
| Each participant unit is valued at $1.00 | | | | | | |
| Participant units outstanding | | | 2,893,276,915 | 2,600,382,868 | 2,893,276,915 | 2,600,382,868 |

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, 2005 and 2004

| | Pension Trust | | Investment Trust | | Total | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Additions: | | | | | | |
| Contributions: | | | | | | |
| Employer contributions | $ 30,388,265 | $ 29,635,584 | $ - | $ - | $ 30,388,265 | $ 29,635,584 |
| Member contributions | 30,388,650 | 29,635,970 | - | - | 30,388,650 | 29,635,970 |
| Purchased service credit | 3,292,441 | 4,383,456 | - | - | 3,292,441 | 4,383,456 |
| Interest and penalties | 3,525 | 352 | - | - | 3,525 | 352 |
| Total contributions | 64,072,881 | 63,655,362 | - | - | 64,072,881 | 63,655,362 |
| Investment income: | | | | | | |
| Net increase (decrease) in fair value of investments | 147,669,725 | 188,732,952 | 220,293,986 | 232,942,174 | 367,963,711 | 421,675,126 |
| Interest, dividends and other income | 38,900,553 | 36,083,028 | 75,282,138 | 74,938,084 | 114,182,691 | 111,021,112 |
| | 186,570,278 | 224,815,980 | 295,576,124 | 307,880,258 | 482,146,402 | 532,696,238 |
| Less investment expenses | 6,137,707 | 4,827,788 | 8,349,737 | 7,077,592 | 14,487,444 | 11,905,380 |
| Net investment income | 180,432,571 | 219,988,192 | 287,226,387 | 300,802,666 | 467,658,958 | 520,790,858 |
| Securities lending activity: | | | | | | |
| Securities lending income | 1,863,404 | 754,559 | 9,019,381 | 2,980,052 | 10,882,785 | 3,734,611 |
| Less securities lending expenses | 1,535,720 | 499,972 | 8,223,043 | 2,390,792 | 9,758,763 | 2,890,764 |
| Net securities lending income | 327,684 | 254,587 | 796,338 | 589,260 | 1,124,022 | 843,847 |
| Total additions | 244,833,136 | 283,898,141 | 288,022,725 | 301,391,926 | 532,855,861 | 585,290,067 |
| Deductions: | | | | | | |
| Benefits paid to participants | 84,125,369 | 77,112,918 | - | - | 84,125,369 | 77,112,918 |
| Partial lump-sum distributions | 372,761 | 40,136 | - | - | 372,761 | 40,136 |
| Refunds | 2,733,407 | 5,800,100 | - | - | 2,733,407 | 5,800,100 |
| Administrative charges | 2,086,849 | 1,513,788 | - | - | 2,086,849 | 1,513,788 |
| Total deductions | 89,318,386 | 84,466,942 | - | - | 89,318,386 | 84,466,942 |
| Net increase (decrease) in net assets resulting from operations | 155,514,750 | 199,431,199 | 288,022,725 | 301,391,926 | 443,537,475 | 500,823,125 |
| Unit transactions at net asset value of $1.00 per unit: | | | | | | |
| Purchase of units | - | - | 168,759,897 | 156,663,183 | 168,759,897 | 156,663,183 |
| Redemption of units | - | - | (163,888,573) | (161,165,187) | (163,888,573) | (161,165,187) |
| Net increase (decrease) in assets and units resulting from unit transactions | - | - | 4,871,324 | (4,502,004) | 4,871,324 | (4,502,004) |
| Total increase (decrease) in net assets | 155,514,750 | 199,431,199 | 292,894,049 | 296,889,922 | 448,408,799 | 496,321,121 |
| Net assets: | | | | | | |
| Beginning 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 |
| End of Year | $ 1,530,194,427 | $ 1,374,679,677 | $ 2,893,276,915 | $ 2,600,382,866 | $ 4,423,471,342 | $ 3,975,062,543 |

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

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements

## June 30, 2005

### 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.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

## June 30, 2005

### 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, 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.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

## June 30, 2005

### 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.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

## June 30, 2005

### 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.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

## June 30, 2005

### 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.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements – Continued

## June 30, 2005

### 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, 2005 was 116 days.

Cash open collateral is invested in a short term investment pool, the Core USA Collateral Section, which had an interest sensitivity of 28 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.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

## June 30, 2005

### 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 $81,959 at June 30, 2005. The current portion of accrued leave amounted to $798 at June 30, 2005, 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, 2005 consisted of the following:

| | |
|---|---|
| Balance July 1, 2004 | $75,113 |
| Additions | 6,846 |
| Deductions | - |
| Balance June 30, 2005 | $81,959 |

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

## June 30, 2005

### NOTE 2 NEW ACCOUNTING PRONOUNCEMENT

GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3,* was implemented for the fiscal year ended June 30, 2005. As a result, the disclosures related to deposit and investment risks were changed. The changes are reflected in Notes 3 and 4.

### NOTE 3 CASH AND CASH EQUIVALENTS

**Custodial Credit Risk**

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, "[a]ll state funds…must be deposited in the Bank of North Dakota" or must be deposited in accordance with constitutional and statutory provisions.

**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, 2005 include $180,888 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 $76,350 in a money market account. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these 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, 2005 were deposited in the Bank of North Dakota. At June 30, 2005, the carrying amount of TFFR's deposits was $8,648,005, and the bank balance was $8,659,417. The difference results from checks outstanding or deposits not yet processed by the bank. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits at the Bank of North Dakota 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 $85,381,090 at June 30, 2005. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits held at the Bank of North Dakota 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, 2005

### NOTE 4 INVESTMENTS

The investment policy of the SIB is governed by NDCC 21-10. The SIB shall apply the prudent investor rule in investing for 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 permanent disposition of funds, considering probably safety of capital as well as probably income. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The SIB does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

At June 30, 2005 the following table shows the investments by investment type and maturity (expressed in thousands).

| | Market Value | Less than 1 Year | 1-6 Years | 6-10 Years | 10+ Years |
|---|---|---|---|---|---|
| Asset Backed Securities | $ 16,798 | $ 1,500 | $ 2,806 | $ 191 | $ 12,301 |
| Commercial Mortgage-Backed | 3,927 | - | 493 | - | 3,434 |
| Corporate Bonds | 549,462 | 4,374 | 194,225 | 212,800 | 138,063 |
| Corporate Convertible Bonds | 33,232 | 737 | 9,201 | 784 | 22,510 |
| Government Agencies | 88,628 | 2,461 | 61,846 | 16,714 | 7,607 |
| Government Bonds | 254,663 | 6,520 | 156,191 | 34,287 | 57,665 |
| Government Mortgage-Backed | 24,993 | 1 | 188 | 112 | 24,692 |
| Index Linked Government Bonds | 157,379 | - | 68,674 | 48,898 | 39,807 |
| Municipal/Provincial Bonds | 9,752 | 875 | 6,052 | 1,495 | 1,330 |
| Non-Government Backed CMOs | 11,111 | - | 900 | 16 | 10,195 |
| Pooled Investments | 283,445 | - | 64,272 | 82,944 | 136,229 |
| Total Debt Securities | $ 1,433,390 | $ 16,468 | $ 564,848 | $ 398,241 | $ 453,833 |

In the table above, the market values of our inflation indexed bonds are reflected in the columns based on their stated maturity dates. The principal balances of these bonds are adjusted every six months based on the inflation index for that period.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

## June 30, 2005

### NOTE 4 INVESTMENTS – Continued

Some investments are more sensitive to interest rate changes than others. Variable and floating rate collateralized mortgage obligations (CMOs), asset-backed securities (ABS), interest-only and principal-only securities are examples of investments whose fair values may be highly sensitive to interest rate changes.

Interest-only (IO) and principal-only (PO) strips are transactions, which involve the separation of the interest and principal components of a security. They are highly sensitive to prepayments by mortgagors, which may result from a decline in interest rates. The SIB held IOs valued at $924,000, and POs valued at $8,413,000 at fiscal year end. The SIB has no policy regarding IO or PO strips.

**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Investment Board maintains a highly diversified portfolio of debt securities encompassing a wide range of credit ratings. Each debt securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit the manager may invest. These ranges include investment grade and high yield categories. The following table presents the SIB's ratings as of June 30, 2005 (expressed in thousands).

| S&P Credit Rating | Total Market Value | Asset Backed Securities | Commercial Mortgage Backed | Corporate Bonds | Corporate Convertible Bonds | Gov't Agencies | Gov't Bonds | Index Linked Gov't Bonds | Municipal/ Provincial Bonds | Non-Gov't Backed CMOs | Pooled Investments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| AAA | $ 636,607 | $ 8,615 | $ 3,778 | $ 12,708 | $ 938 | $ 41,755 | $ 208,479 | $ 142,670 | $ 6,052 | $ 11,111 | $ 200,501 |
| AA+ | 73,145 | - | - | 172 | - | - | 1,489 | - | - | - | 71,484 |
| AA | 6,294 | 39 | - | 3,981 | - | - | - | - | 2,274 | - | - |
| AA- | 9,649 | - | - | 9,396 | - | - | 253 | - | - | - | - |
| A+ | 35,092 | - | - | 33,070 | 1,768 | 254 | - | - | - | - | - |
| A | 55,152 | - | - | 47,019 | 854 | 1,129 | 6,150 | - | - | - | - |
| A- | 50,421 | 317 | - | 41,961 | 3,012 | - | 5,131 | - | - | - | - |
| BBB+ | 88,729 | 269 | - | 80,160 | 3,300 | - | - | - | - | - | 5,000 |
| BBB | 86,187 | 642 | - | 70,960 | 2,509 | - | 11,526 | - | 550 | - | - |
| BBB- | 55,093 | - | - | 50,269 | 1,642 | - | 3,182 | - | - | - | - |
| BB+ | 44,431 | 1,059 | - | 40,750 | 2,622 | - | - | - | - | - | - |
| BB | 25,114 | 244 | - | 24,175 | 421 | - | 274 | - | - | - | - |
| BB- | 36,856 | 457 | - | 26,537 | 1,446 | - | 1,956 | - | - | - | 6,460 |
| B+ | 21,339 | - | - | 20,166 | 1,173 | - | - | - | - | - | - |
| B | 26,245 | 266 | - | 24,311 | 1,668 | - | - | - | - | - | - |
| B- | 41,157 | 2,454 | - | 37,193 | 1,510 | - | - | - | - | - | - |
| CCC+ | 7,922 | - | - | 7,538 | 384 | - | - | - | - | - | - |
| CCC | 6,201 | 205 | - | 5,226 | 770 | - | - | - | - | - | - |
| CCC- | 4,446 | 38 | - | 4,408 | - | - | - | - | - | - | - |
| CC | 88 | - | - | 3 | 85 | - | - | - | - | - | - |
| C | 325 | - | - | 325 | - | - | - | - | - | - | - |
| NR | 44,334 | 2,193 | 149 | 9,134 | 9,130 | - | 8,143 | 14,709 | 876 | - | - |
| Total Credit Risk of Debt Securities | 1,354,827 | $ 16,798 | $ 3,927 | $ 549,462 | $ 33,232 | $ 43,138 | $ 246,583 | $ 157,379 | $ 9,752 | $ 11,111 | $ 283,445 |
| US Gov't & Agencies | 78,563 | | | | | | | | | | |
| Total Debt Securities | $ 1,433,390 | | | | | | | | | | |

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

## June 30, 2005

### NOTE 4 INVESTMENTS – Continued

#### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Although the SIB does not have a formal investment policy governing foreign currency risk, the SIB does manage its exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios to limit foreign currency and security risk. The SIB's exposure to foreign currency risk is presented in the following table (expressed in thousands).

| Currency | Short-Term | Debt | Equity | Total |
|---|---|---|---|---|
| Australian dollar | $ (12,500) | $ 9,037 | $ 15,013 | $ 11,550 |
| Brazilian real | 3,804 | - | - | 3,804 |
| British pound sterling | (22,964) | 3,143 | 91,765 | 71,944 |
| Canadian dollar | (5,338) | 10,104 | 6,214 | 10,980 |
| Colombian peso | - | - | - | - |
| Danish krone | (840) | - | 3,439 | 2,599 |
| Euro | (68,112) | 11,021 | 161,217 | 104,126 |
| Hong Kong dollar | (1,778) | - | 7,227 | 5,449 |
| Japanese yen | (33,450) | - | 101,818 | 68,368 |
| Mexican peso | (62) | 3,309 | - | 3,247 |
| New Zealand dollar | (2,681) | 3,006 | - | 325 |
| Norwegian krone | (1,320) | - | 4,577 | 3,257 |
| Polish zloty | - | 5,302 | - | 5,302 |
| Singapore dollar | (1,734) | 4,189 | 3,100 | 5,555 |
| South African rand | - | - | 249 | 249 |
| Swedish krona | (2,122) | - | 10,501 | 8,379 |
| Swiss franc | (17,292) | - | 37,093 | 19,801 |
| Thai baht | 1,397 | - | - | 1,397 |
| International commingled funds (various currencies) | - | 71,484 | 293,489 | 364,973 |
| Total international investment securities | $ (164,992) | $ 120,595 | $ 735,702 | $ 691,305 |

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

## June 30, 2005

### NOTE 5 CAPITAL ASSETS

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

| | 7/1/2004 | Additions | Retirements | 6/30/2005 |
|---|---|---|---|---|
| Office equipment | $ 27,996 | $ - | $ - | $ 27,996 |
| Less accumulated depreciation | (14,608) | (5,224) | - | (19,832) |
| | $ 13,388 | | | $ 8,164 |
| Software (not in production) | $ 410,000 | $ 595,000 | $ - | $ 1,005,000 |

### NOTE 6 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, 2005:

| | Due to Internal Service Fund | Due from Internal Service Fund |
|---|---|---|
| Investment Trust Funds: | | |
| PERS | $ - | $ 18,797 |
| Workforce Safety and Insurance | - | 12,926 |
| State Fire and Tornado | - | 359 |
| State Bonding | - | 380 |
| Petroleum Tank Release Compensation Fund | - | 178 |
| Insurance Regulatory Trust | - | 49 |
| Health Care Trust | - | 360 |
| Veterans Post War | 250 | - |
| Veterans Cemetery | 29 | - |
| Risk Management | - | 88 |
| Risk Management Workers Comp | - | 269 |
| PERS Group Insurance | 250 | - |
| PERS Retiree Health | 812 | - |
| Job Service of North Dakota | 2,001 | - |
| Total Investment Trust | 3,342 | 33,406 |
| Pension Trust Fund: | | |
| TFFR | 32,985 | 20,170 |
| Total due to / due from internal service fund | $36,327 | $ 53,576 |

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

## June 30, 2005

### NOTE 6 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, 2005:

| | |
|---|---|
| **Due To:** | |
| Information Technology Department | $17,492 |
| Attorney General's Office | 492 |
| Central Supply | 93 |
| Central Duplicating | 753 |
| Total due to other state agencies | $18,830 |
| **Due From:** | |
| Bank of North Dakota | $ 102 |

These balances are a result of a time lag between the dates that services are provided, the payments are made, and the transactions are entered into the accounting system.

### NOTE 7 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 $70,996 for fiscal 2005. RIO entered into a new lease for office space effective July 1, 2005. Minimum payments under this lease for fiscal 2006 and 2007 are $70,671 per year.

### NOTE 8 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, 2005:

| June 30, | Amount |
|---|---|
| 2006 | 4,951 |
| 2007 | 4,951 |
| 2008 | 1,238 |
| Total minimum lease payments | $ 11,140 |
| Less: Amount Representing Interest | (1,590) |
| Present value of future minumum lease payments | $ 9,550 |

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

## June 30, 2005

### NOTE 9 CHANGES IN NONCURRENT LIABILITIES

Changes in noncurrent liabilities for the year ended June 30, 2005 is summarized as follows:

| | Beginning Balance 7/1/2004 | Additions | Reductions | Ending Balance 6/30/2005 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Capital Leases Payable | $ 12,945 | $ - | $ (3,395) | $ 9,550 | $ 3,888 |
| Accrued Annual Leave | 75,113 | 6,846 | - | 81,959 | 798 |
| | $ 88,058 | $ 6,846 | $ (3,395) | $ 91,509 | $ 4,686 |

The SIB internal service fund generally liquidates the above liabilities.

### NOTE 10 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, 2005 and 2004, the number of participating employer units was 260 and 266 consisting of the following:

| | 2005 | 2004 |
|---|---|---|
| Public School Districts | 207 | 211 |
| County Superintendents | 15 | 15 |
| Special Education Units | 18 | 19 |
| Vocational Education Units | 4 | 4 |
| Other | 16 | 17 |
| Total | 260 | 266 |

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

## June 30, 2005

### NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT - Continued

TFFR's membership consisted of the following:

| | 2005 | 2004 |
|---|---|---|
| Retirees and beneficiaries currently receiving benefits | 5,586 | 5,373 |
| Terminated employees - vested | 1,377 | 1,346 |
| Terminated employees - nonvested | 168 | 175 |
| Total | 7,131 | 6,894 |
| Current employees: | | |
| Vested | 8,584 | 8,658 |
| Nonvested | 1,217 | 1,168 |
| Total | 9,801 | 9,826 |

**Investments**

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

**Realized Gains and Losses**

Realized gains and losses on sales of investments are components of net appreciation in fair value of investments and are computed as described in Note 1. For the year ended June 30, 2005, TFFR had net realized gains of $80,139,858.

**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

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

## June 30, 2005

### NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT - Continued

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.

**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.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

## June 30, 2005

### NOTE 11 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, 2005, 2004, and 2003, were $62,397, $59,134, and $58,218, equal to the required contributions for each year plus a 1% contribution for retiree health benefits.

### NOTE 12 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.

### NOTE 13 COMMITMENTS

RIO has entered into two contracts to implement a new pension administration software system for the North Dakota Teachers' Fund For Retirement. The contracts commenced March 1, 2004 and terminate October 31, 2005. The approximate costs under these contracts for implementation of the new software is $1,756,375. 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 $243,625. Fees paid under these contracts total $1,351,602 as of June 30, 2005.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Required Supplementary Information

## June 30, 2005

### 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 |
|---|---|---|---|---|---|---|
| 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 |
| 2005 | 1,469.7 | 1,965.2 | 495.5 | 74.8 | 386.6 | 128.2 |

### Schedule of Employer Contributions
### North Dakota Teachers' Fund for Retirement

| Fiscal Year | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 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 | 34,186,080 | 86.7% |
| 2005 | 44,471,740 | 68.3% |

See notes to required supplementary information.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Required Supplementary Information

## June 30, 2005

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, 2005 |
| **Actuarial Cost Method:** | Entry age normal |
| **Amortization Method:** | Level percentage of payroll |
| **Amortization Period for GASB 25 ARC*:** | 30-year open period |
| **Asset Valuation Method:** | 5 year smoothed market |
| **Actuarial Assumptions:** | |
| Investment Rate of Return (**) | 8.00% |
| Projected Salary Increases (**) | 4.50% to 14.00% |
| Cost-of-Living Adjustments | None |

(*) The GASB Annual Required Contribution (ARC) for this plan is defined as the larger of (a) the sum of (i) the employer normal costs, and (ii) an amount necessary to amortize the UAAL as a level percentage of payroll over an open 30-year amortization period, and (b) the 7.75% statutory employer contribution rate. Payroll is assumed to increase at 2.00% per annum.

(**) 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, 2005
## (With Comparative Totals for 2004)

| | 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 | 830,282,298 | 20,245,546 | 9,810,868 | 32,471,364 | 269,463,978 | 8,109,431 | 928,706 | 3,296,750 | 897,152 | - |
| Fixed income | - | - | - | - | - | - | - | - | - | 16,508,000 |
| Fixed income pool | 489,555,414 | 17,963,910 | 7,064,178 | 48,406,756 | 879,079,706 | 12,323,178 | 1,406,932 | 4,551,615 | 1,014,594 | - |
| Real estate pool | 75,144,363 | 1,189,978 | 902,334 | - | - | - | - | - | - | - |
| Private equity | 60,352,473 | 371,022 | 501,085 | - | - | - | - | - | - | - |
| Cash and cash pool | 17,857,934 | 497,608 | 197,212 | 451,414 | 11,520,586 | 2,293,743 | 254,366 | 1,349,283 | 1,058,689 | 1,849,068 |
| Total investments | 1,473,192,482 | 40,268,064 | 18,475,677 | 81,329,534 | 1,160,064,270 | 22,726,352 | 2,590,004 | 9,197,648 | 2,970,435 | 18,357,068 |
| Invested sec lending collateral | 121,527,394 | 4,083,485 | 1,631,348 | 10,564,632 | 325,421,591 | 4,883,718 | 562,973 | 1,831,895 | 421,996 | - |
| Investment income receivable | 3,631,806 | 64,198 | 39,883 | 170,656 | 8,763,879 | 133,558 | 30,157 | 62,709 | 9,024 | 224,136 |
| Due from other funds | 18,797 | - | - | - | 12,926 | 359 | 380 | 178 | 49 | 360 |
| Total assets | 1,598,370,479 | 44,415,747 | 20,146,908 | 92,064,822 | 1,494,262,666 | 27,743,987 | 3,183,514 | 11,092,430 | 3,401,504 | 18,581,564 |
| Liabilities: | | | | | | | | | | |
| Investment expenses payable | 1,141,451 | 26,825 | 14,223 | 47,512 | 643,579 | 14,592 | 1,842 | 5,737 | 1,417 | - |
| Securities lending collateral | 121,527,394 | 4,083,485 | 1,631,348 | 10,564,632 | 325,421,591 | 4,883,718 | 562,973 | 1,831,895 | 421,996 | - |
| Due to other funds | - | - | - | 2,001 | - | - | - | - | - | - |
| Total liabilities | 122,668,845 | 4,110,310 | 1,645,571 | 10,614,145 | 326,065,170 | 4,898,310 | 564,815 | 1,837,632 | 423,413 | - |
| Net assets held in trust for external investment pool participants | $1,475,701,634 | $ 40,305,437 | $18,501,337 | $81,450,677 | $1,168,197,496 | $ 22,845,677 | $ 2,618,699 | $ 9,254,798 | $ 2,978,091 | $18,581,564 |
| Each participant unit is valued at $1.00 | | | | | | | | | | |
| Participant units outstanding | 1,475,701,634 | 40,305,437 | 18,501,337 | 81,450,677 | 1,168,197,496 | 22,845,677 | 2,618,699 | 9,254,798 | 2,978,091 | 18,581,564 |

| 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 | 2005 | 2004 |
| $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $21,862,661 | $ 21,862,661 | $ 19,412,080 |
| - | 1,584,420 | 716,254 | 1,060,054 | 172,169 | 181,278 | - | 213,585 | 3,679,529 | - | 1,183,113,382 | 1,107,851,093 |
| - | - | - | - | - | - | - | - | - | 11,478,767 | 27,986,767 | 27,658,250 |
| - | 2,019,593 | 1,469,458 | 1,696,987 | 187,700 | 198,212 | - | 455,597 | 3,557,205 | - | 1,470,951,035 | 1,248,149,485 |
| - | - | - | - | - | - | - | - | - | - | 77,236,675 | 62,862,985 |
| - | - | - | - | - | - | - | - | - | - | 61,224,580 | 59,398,786 |
| 86,034 | 137 | 203,813 | 141,995 | 24,922 | 23,191 | 1,370,671 | 40,910 | 72,825 | - | 39,294,401 | 65,268,301 |
| 86,034 | 3,604,150 | 2,389,525 | 2,899,036 | 384,791 | 402,681 | 1,370,671 | 710,092 | 7,309,559 | 33,341,428 | 2,881,669,501 | 2,590,600,980 |
| - | 831,130 | 558,561 | 639,290 | 76,749 | 80,924 | - | 174,122 | 1,368,399 | - | 474,658,207 | 398,167,068 |
| - | 4,431 | 50,088 | 8,487 | 1,125 | 851 | - | 1,575 | 11,525 | 291,578 | 13,499,666 | 11,403,421 |
| - | - | 88 | 269 | - | - | - | - | - | - | 33,406 | 2,453 |
| 86,034 | 4,439,711 | 2,998,262 | 3,547,082 | 462,665 | 484,456 | 1,370,671 | 885,789 | 8,689,483 | 33,633,006 | 3,369,860,780 | 3,000,173,922 |
| - | 1,555 | 1,425 | 1,889 | 507 | 523 | 26 | 705 | 4,708 | 13,800 | 1,922,316 | 1,615,736 |
| - | 831,130 | 558,561 | 639,290 | 76,749 | 80,924 | - | 174,122 | 1,368,399 | - | 474,658,207 | 398,167,068 |
| 29 | 250 | - | - | - | - | 250 | - | - | 812 | 3,342 | 8,250 |
| 29 | 832,935 | 559,986 | 641,179 | 77,256 | 81,447 | 276 | 174,827 | 1,373,107 | 14,612 | 476,583,865 | 399,791,054 |
| $ 86,005 | $ 3,606,776 | $ 2,438,276 | $ 2,905,903 | $ 385,409 | $ 403,009 | $1,370,395 | $710,962 | $ 7,316,376 | $33,618,394 | $ 2,893,276,915 | $ 2,600,382,868 |
| 86,005 | 3,606,776 | 2,438,276 | 2,905,903 | 385,409 | 403,009 | 1,370,395 | 710,962 | 7,316,376 | 33,618,394 | 2,893,276,915 | 2,600,382,868 |

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, 2005
(With Comparative Totals for 2004)

| | Pension Pool Participants | | | | Insurance Pool Participants | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Public Employees Retirement System | City of Bismarck Employee Pension Plan | City of Bismarck 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 | $ 154,870,263 | $ 3,332,675 | $ 1,519,817 | $ 9,452,746 | $ 47,067,853 | $ 857,407 | $ 130,648 | $ 317,187 | $ 77,694 | $ - |
| Interest, dividends and other income | 34,148,529 | 649,709 | 346,503 | 1,682,114 | 34,684,534 | 730,323 | 123,768 | 289,064 | 54,367 | 1,075,658 |
| | 189,018,792 | 3,982,384 | 1,866,320 | 11,134,860 | 81,752,387 | 1,587,730 | 254,416 | 606,251 | 132,061 | 1,075,658 |
| Less investment expenses | 5,316,187 | 108,273 | 55,815 | 268,358 | 2,393,638 | 60,054 | 10,057 | 23,799 | 4,699 | 2,370 |
| Net investment income | 183,702,605 | 3,874,111 | 1,810,505 | 10,866,502 | 79,358,749 | 1,527,676 | 244,359 | 582,452 | 127,362 | 1,073,288 |
| Securities lending activity: | | | | | | | | | | |
| Securities lending income | 2,276,477 | 61,305 | 25,351 | 205,406 | 6,212,399 | 103,912 | 17,784 | 39,252 | 5,590 | - |
| Securities lending expenses | 2,016,404 | 56,257 | 22,978 | 187,850 | 5,723,329 | 93,764 | 16,041 | 35,347 | 4,980 | - |
| Net securities lending income | 260,073 | 5,048 | 2,373 | 17,556 | 489,070 | 10,148 | 1,743 | 3,905 | 610 | - |
| Net increase/(decrease) in net assets resulting from operations | 183,962,678 | 3,879,159 | 1,812,878 | 10,884,058 | 79,847,819 | 1,537,824 | 246,102 | 586,357 | 127,972 | 1,073,288 |
| Unit transactions at net asset value of $1 per unit: | | | | | | | | | | |
| Purchase of units | - | 10,071,655 | 3,880,783 | - | 21,000,000 | 3,250,000 | - | 135,000 | 2,025,000 | 10,000,000 |
| Redemption of units | (13,000,000) | - | - | (2,692,923) | (11,000,000) | (1,550,000) | (1,400,000) | (425,000) | (1,865,000) | (17,990,650) |
| Net increase (decrease) in net assets and units resulting from unit transactions | (13,000,000) | 10,071,655 | 3,880,783 | (2,692,923) | 10,000,000 | 1,700,000 | (1,400,000) | (290,000) | 160,000 | (7,990,650) |
| Total increase (decrease) in net assets | 170,962,678 | 13,950,814 | 5,693,661 | 8,191,135 | 89,847,819 | 3,237,824 | (1,153,898) | 296,357 | 287,972 | (6,917,362) |
| Net assets: | | | | | | | | | | |
| Beginning 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 |
| End of year | $1,475,701,634 | $ 40,305,437 | $18,501,337 | $ 81,450,677 | $1,168,197,496 | $ 22,845,677 | $ 2,618,699 | $ 9,254,798 | $ 2,978,091 | $18,581,564 |

| 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 | 2005 | 2004 |
| $ - | $ 279,146 | $ 144,646 | $ 68,035 | $ 20,629 | $ 18,684 | $ - | $ 28,817 | $ 274,460 | $ 1,833,279 | $ 220,293,986 | $ 232,942,174 |
| 1,956 | 57,769 | 79,971 | 64,068 | 10,059 | 10,661 | 135,190 | 24,078 | 192,967 | 920,850 | 75,282,138 | 74,938,084 |
| 1,956 | 336,915 | 224,617 | 132,103 | 30,688 | 29,345 | 135,190 | 52,895 | 467,427 | 2,754,129 | 295,576,124 | 307,880,258 |
| 13 | 7,310 | 5,961 | 6,125 | 1,941 | 1,996 | 1,064 | 2,769 | 17,144 | 62,164 | 8,349,737 | 7,077,592 |
| 1,943 | 329,605 | 218,656 | 125,978 | 28,747 | 27,349 | 134,126 | 50,126 | 450,283 | 2,691,965 | 287,226,387 | 300,802,666 |
| - | 16,191 | 11,825 | 9,285 | 1,458 | 1,546 | | 3,631 | 27,969 | - | 9,019,381 | 2,980,052 |
| - | 15,107 | 10,825 | 8,538 | 1,314 | 1,394 | - | 3,282 | 25,633 | - | 8,223,043 | 2,390,792 |
| - | 1,084 | 1,000 | 747 | 144 | 152 | - | 349 | 2,336 | - | 796,338 | 589,260 |
| 1,943 | 330,689 | 219,656 | 126,725 | 28,891 | 27,501 | 134,126 | 50,475 | 452,619 | 2,691,965 | 288,022,725 | 301,391,926 |
| 12,959 | 2,000,000 | - | 2,000,000 | 50,000 | 50,000 | 112,200,000 | - | 1,000,000 | 1,084,500 | 168,759,897 | 156,663,183 |
| - | (65,000) | (750,000) | (1,900,000) | - | - | (111,250,000) | - | - | - | (163,888,573) | (161,165,187) |
| 12,959 | 1,935,000 | (750,000) | 100,000 | 50,000 | 50,000 | 950,000 | - | 1,000,000 | 1,084,500 | 4,871,324 | (4,502,004) |
| 14,902 | 2,265,689 | (530,344) | 226,725 | 78,891 | 77,501 | 1,084,126 | 50,475 | 1,452,619 | 3,776,465 | 292,894,049 | 296,889,922 |
| 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 |
| $ 86,005 | $ 3,606,776 | $ 2,438,276 | $ 2,905,903 | $ 385,409 | $ 403,009 | $ 1,370,395 | $ 710,962 | $ 7,316,376 | $ 33,618,394 | $ 2,893,276,915 | $ 2,600,382,866 |

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, 2005 and 2004

| | 2005 | 2004 |
|---|---|---|
| Salaries and wages: | | |
| Salaries and wages | $693,545 | $655,710 |
| Fringe benefits | 212,791 | 204,547 |
| Total salaries and wages | 906,336 | 860,257 |
| Operating expenses: | | |
| Information services | 227,833 | 86,315 |
| Intergovernmental services | 7,798 | 3,265 |
| Professional services | 249,545 | 249,872 |
| Rent of building space | 70,996 | 70,961 |
| Lease/rent of office equipment | 287 | 1,693 |
| Mailing services and postage | 35,983 | 33,384 |
| Travel and lodging | 27,183 | 42,566 |
| Printing | 23,187 | 14,549 |
| Office supplies | 11,249 | 6,077 |
| Professional development | 14,356 | 12,424 |
| Outside services | 10,411 | 10,665 |
| Small office equipment expense | 6,311 | 60 |
| Miscellaneous fees | 3,537 | 4,061 |
| Resource and reference materials | 3,946 | 1,469 |
| Service contracts - office equipment | 150 | 331 |
| IT contractual services | 271,766 | 69,851 |
| Repairs - office equipment | 212 | 230 |
| Insurance | 2,584 | 2,572 |
| Non-capitalized equipment purchases | 2,965 | 21,536 |
| Total operating expenses | 970,299 | 631,881 |
| Depreciation | 5,224 | 4,616 |
| Capital Assets | 595,000 | 410,000 |
| Capital lease payments - principal | 3,396 | 1,645 |
| Capital lease payments - interest | 1,555 | 1,416 |
| Less - nonappropriated items: | | |
| Professional fees | 249,545 | 249,872 |
| Depreciation | 5,224 | 4,616 |
| Accrual adjustments to employee benefits | 6,845 | 8,400 |
| Total nonappropriated items | 261,614 | 262,888 |
| Total appropriated administrative expenditures | $ 2,220,196 | $ 1,646,927 |

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Pension Trust Fund – Schedule of Administrative Expenses

For the Years Ended June 30, 2005 and 2004

| | 2005 | 2004 |
|---|---|---|
| Salaries and wages: | | |
| Salaries and wages | $475,850 | $442,302 |
| Fringe benefits | 147,458 | 138,277 |
| Total salaries and wages | 623,308 | 580,579 |
| Operating expenses: | | |
| Information services | 221,264 | 79,512 |
| Intergovernmental services | 5,848 | 2,449 |
| Professional services | 192,002 | 189,618 |
| Rent of building space | 50,087 | 50,052 |
| Lease/rent of office equipment | 2,709 | 2,493 |
| Mailing services and postage | 33,275 | 31,180 |
| Travel and lodging | 24,472 | 35,969 |
| Printing | 21,604 | 13,332 |
| Office supplies | 9,206 | 5,012 |
| Professional development | 13,606 | 11,290 |
| Outside services | 8,400 | 8,473 |
| Small office equipment expense | 5,132 | 30 |
| Miscellaneous fees | 2,334 | 2,931 |
| Resource and reference materials | 3,068 | 760 |
| Service contracts - office equipment | 112 | 239 |
| IT contractual services | 271,599 | 69,514 |
| Repairs - office equipment | 160 | 208 |
| Insurance | 1,938 | 1,800 |
| Non-capitalized equipment purchases | 2,347 | 18,553 |
| Total operating expenses | 869,163 | 523,415 |
| Capital assets | 595,000 | 410,000 |
| Less: charges for services reduced by income | (622) | (206) |
| Total administrative expenditures | $ 2,086,849 | $ 1,513,788 |

## 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 | Fiscal 2005 Expenses | Unexpended Appropriations |
|---|---|---|---|---|---|
| All Fund Types: | | | | | |
| Salaries and wages | $ 1,774,885 | $ 1,774,885 | $ 851,857 | $ 899,491 | $ 23,537 |
| Operating expenses | 986,444 | 986,444 | 308,515 | 320,959 | 356,970 |
| Contracted services | 2,000,000 | 2,000,000 | 486,555 | 999,746 | 513,699 |
| Contingency | 82,000 | 82,000 | - | - | 82,000 |
| Total | $ 4,843,329 | $ 4,843,329 | $ 1,646,927 | $ 2,220,196 | $ 976,206 |

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

### Reconciliation of Administrative Expenses to Appropriated Expenditures

| | 2005 | 2004 |
|---|---|---|
| Administrative expenses as reflected in the financial statements | $1,881,859 | $1,496,754 |
| Plus: | | |
| Capital assets | 595,000 | 410,000 |
| Capital lease payments - principal | 3,396 | 1,645 |
| Capital lease payments - interest | 1,555 | 1,416 |
| Less: | | |
| Professional fees | (249,545) | (249,872) |
| Depreciation expense | (5,224) | (4,616) |
| Changes in annual leave and FICA payments | (6,845) | (8,400) |
| Total appropriated expenses | $2,220,196 | $1,646,927 |

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Pension Trust Fund - Schedule of Investment Expenses

## For the Years Ended June 30, 2005 and 2004

| | 2005 | 2004 |
|---|---|---|
| Investment managers' fees: | | |
| Domestic large cap equity managers | $ 1,048,750 | $ 1,020,824 |
| Domestic small cap equity managers | 1,162,583 | 1,098,160 |
| International equity managers | 1,526,932 | 1,373,251 |
| Emerging markets equity managers | 501,406 | 444,565 |
| Domestic fixed income managers | 325,746 | 272,028 |
| High yield fixed income managers | 496,671 | 223,887 |
| International fixed income managers | 304,026 | 263,672 |
| Real estate managers | 1,170,521 | 1,131,313 |
| Private equity managers | 4,195,757 | 3,008,399 |
| Cash & equivalents managers | 55,827 | 49,022 |
| Total investment managers' fees | 10,788,219 | 8,885,121 |
| Custodian fees | 384,777 | 292,937 |
| Investment consultant fees | 86,892 | 94,187 |
| State Investment Board admin fees | 128,690 | 127,235 |
| Total investment expenses | $ 11,388,578 | $ 9,399,480 |
| Securities lending fees | $ 1,535,720 | $ 499,972 |

**Reconciliation of Investment Expenses to Financial Statements**

| | 2005 | 2004 |
|---|---|---|
| Investment expenses as reflected in the financial statements | $ 6,137,707 | $ 4,827,788 |
| Plus investment management fees included in investment income | | |
| Domestic large cap equity | 1,962 | 1,646 |
| Domestic small cap equity | 749,963 | 714,201 |
| International equity | 19,543 | 34,238 |
| Emerging markets equity | 501,406 | 444,565 |
| Domestic fixed income | - | 145,640 |
| Real estate | 71,166 | 524,599 |
| Private equity | 3,851,004 | 2,657,781 |
| Cash equivalents | 55,827 | 49,022 |
| Investment expenses per schedule | $ 11,388,578 | $ 9,399,480 |

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

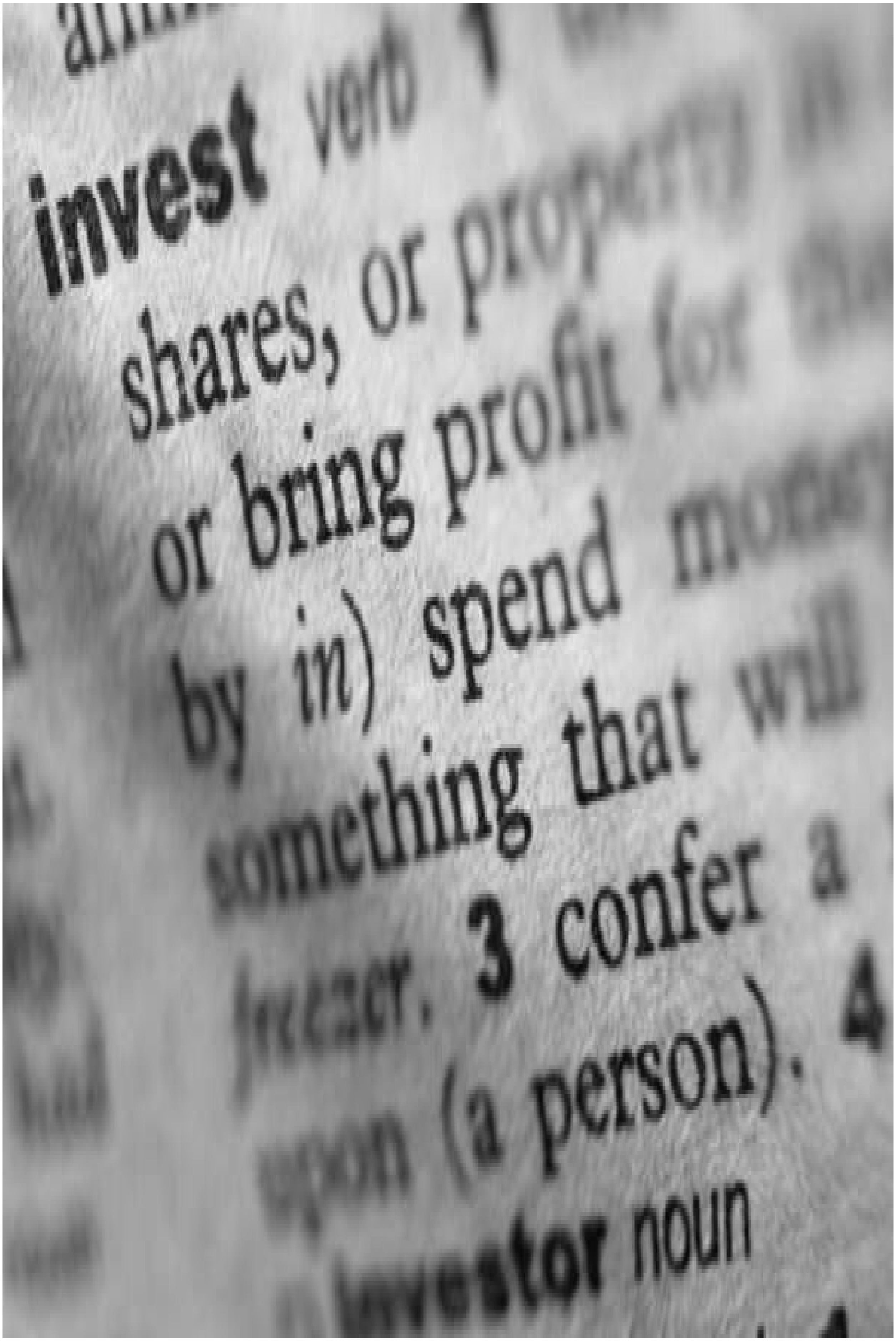
## Pension Trust Fund - Schedule of Consultant Expenses

## For the Years Ended June 30, 2005 and 2004

| | 2005 | 2004 |
|---|---|---|
| Actuary fees: | | |
| Gabriel, Roeder, Smith & Co. | $ 160,453 | $ 123,615 |
| Consulting fees: | | |
| Brady Martz & Associates, P.C. | 27,225 | 26,675 |
| CPAS Systems Inc. | 633,660 | 410,000 |
| MSI Systems Integrators | 210,442 | 66,237 |
| Total consulting fees: | 871,327 | 502,912 |
| Disability consulting fees: | | |
| Dr. G.M. Lunn | 350 | 300 |
| Legal fees: | | |
| ND Attorney General | 3,624 | 11,916 |
| Calhoun Law Group, P.C. | 350 | 875 |
| Total legal fees | 3,974 | 12,791 |
| Total consultant expenses | $ 1,036,104 | $ 639,618 |

**Reconciliation of Consultant Expenses to Schedule of Administrative Expenses**

| | 2005 | 2004 |
|---|---|---|
| Total professional services on schedule | $ 192,002 | $ 189,618 |
| Plus capitalized expenses paid to CPAS | 595,000 | 410,000 |
| Plus IT contractual services from CPAS | 38,660 | - |
| Plus IT contractual services from MSI | 210,442 | 40,000 |
| Total consultant expenses | $ 1,036,104 | $ 639,618 |


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

# Investment

**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 15, 2005

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, 2005.

**Introduction**

For the fiscal year ended June 30, 2005, the $3.1 billion North Dakota Pension investment pool portfolio experienced a total return of 14.13%. The Teachers' Fund for Retirement, a participant in the Pension pool, grew by 13.36% for the year. The Insurance investment pool, valued at $1.2 billion on June 30, 2005, returned 7.42% during the same time frame. The investment return calculations were prepared using a monthly time-weighted rate of return methodology in accordance with Association of Investment Management and Research (AIMR) Performance Presentation Standards.

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

Our investment program's cost effectiveness as measured by expense ratio is 63.0 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, 2005, as measured by standard deviation has been 12.25% for the Pension Trust and 6.26% 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's federal funds target rate ended the June 30, 2005, fiscal year at 3.25%, 2.25% higher than a year ago. Gross Domestic Product ("GDP") grew at an average pace of 3.8% throughout the fiscal year. Various measures of the economy—profits, the job market, final sales, capital spending and capacity utilization—all posted solid gains during the year. The economy and financial markets are faring better than many expected, with strong economic growth and mild inflation. Job growth has continued at a measured rate, while the unemployment set a new cyclical low of 5% in June. The housing market has become the hot topic, being compared to the stock market bubble in the late 1990s. At this point, long-term yields remain low caused by surplus savings worldwide and central banks' attempts to manage their currency appreciation against the dollar. The U.S. dollar has appreciated 8.5% for the year—a sharp reversal from recent years—as foreign investors have increasingly looked to the U.S. as an attractive source of strong economic growth with low inflation.

**Domestic Equity Overview**

The domestic equity markets ended the fiscal year with strong results. The S&P 1500, a broad equity market indicator, finished the year up 7.23%, despite two quarters of negative returns. The fourth quarter 2004 return of 9.62% is responsible. The price of oil and rising interest rates continued to dominate investor interest. Crude oil jumped more than 60% from a year ago and short-term interest rates continued to rise. Small and mid-cap stocks outpaced large cap stocks by a wide margin with the S&P Small Cap 600 posting a 13.45% fiscal year return and the S&P MidCap 400 even better at 14.03%. Value investors outperformed their growth counterparts for the fiscal year, but growth pulled ahead in the quarter ended June 30, 2005.

**International Equity Overview**

After continuing to weaken through the end of calendar-year 2004, the U.S. dollar strengthened slightly in the 1st quarter of 2005 and again in the quarter ended June 30, 2005. The MSCI EAFE index was in the black at 13.65%, which was slightly worse than the local return for the EAFE of 14.26% over the same period. Japan posted a slight gain in local currency terms but a loss of 1.48% for the year in U.S. dollar terms. The Pacific Basin was almost unaffected by currency changes posting 6.01% return in local currency terms and 6.64% for U.S. investors. Compared to the returns for the previous fiscal year, over 40% for both Japan and the Pacific Basin, the current year's returns leave something to be desired. Europe's MSCI index managed to post a 16.87% return over the fiscal year despite a political turmoil threatening the long-term stability of the EU and the continued economic malaise that is plaguing the continent. The Emerging Markets Index considerably outperformed EAFE over the fiscal year (34.89%), benefiting from currency changes in the fourth quarter of 2004.

**Domestic Fixed-Income Overview**

The bond market, as measured by the Lehman Aggregate Bond index, generated 6.8% return for the fiscal year ending June 30, 2005. The Fed raised the fed funds rate again to end the 2nd quarter of 2005 at 3.25%. The language associated with the Fed's rate increase at the end of the June quarter did not hint towards an imminent end to the tightening regime. At the end of June, only 55 basis points separated two-year and 30-year Treasury rates, 2.06% narrower than a year prior. A drop in long-term inflation expectations was a main driver of the continued flattening of the yield curve. Longer-term bond investors gained despite the continued rise in interest rates as shown by the 16.88% return of the Lehman Government Credit Long index over the fiscal year ended June 30, 2005. Corporate bond investors fared well also, with the Lehman Credit index returning 8.15% over the fiscal year.

The high yield markets returned 10.86% as measured by the Lehman High Yield index. The downgrade of colossal debt issuers, Ford and GM, to below investment grade continued to jostle the credit market. These downgrades led to an increase in bond-specific, idiosyncratic risk, and had particular impact on the lower-rated markets. High yield outperformed the Lehman Aggregate Bond index over the fiscal year by 4% but struggled in the second quarter of 2005, failing to outperform the Treasury market.

**International Fixed-Income Overview**

The international bond market produced positive returns for the fiscal year, but lost ground during the first two quarters of 2005 because of the appreciation of the dollar. The Citi Euro Government Bond index was up 10.39%. The economic recovery, coupled with low inflation and expectations of moderate Fed tightening, bolstered foreigners' willingness to hold dollars. The JP Morgan EMBI index ended the fiscal year with a gain of 21.37%. Investors found the spread widening attractive and bid bonds higher in the emerging markets debt arena, after a rare drop in the first quarter for the JP Morgan EMBI.

**Real Estate Overview**

There is still no shortage of investor interest in either the public or private real estate markets. Despite the index falling 7% in the first quarter of 2005 and the chants of "mean reversion", the index is in the black thus far in 2005 and for the fiscal year ended June the NAREIT Equity index has returned 32.72%. Despite rising short-term interest rates, long-term rates have declined since the start of the year. The low interest rate environment has fueled the relative attractiveness of real estate for institutional capital chasing income yield. The demand for stable assets continues to foster increased interest in non-core assets that may provide attractive risk-adjusted returns in a less competitive environment. The NCREIF Total Property index was up 18.02% for the fiscal year producing consistent, and positive, returns every quarter. Vacancy rates are mildly improving and demand for U.S. real estate remains strong for all property types.

**Private Equity Overview**

Concerns by limited partners that too much money in private equity is chasing too few deals appears to be subsiding with the solidification of the market turnaround in the 4th quarter of 2004 and strong fundraising thus far in 2005. Due to the nature of private equity performance measurement, relative comparisons of fund performance with benchmarks are inherently ambiguous. Instead of recognizing any particular index as representative of the opportunity for the fiscal year ended June 30, 2005, it is worth noting that the Pension Trust's percent allocation to alternatives in the total fund rose 17.14% over the period.

**Summary**

Fiscal year 2005 continued the trend from 2004 in providing the funds with good performance on both an absolute and relative basis sensitive to their investment parameters and constraints. The State Investment Board continues its effort to further diversify the funds for risk control purposes and to create additional investment exposures for the purpose of enhancing returns.

Sincerely,

STEVE COCHRANE, CFA
Executive Director/CIO

# INVESTMENT PERFORMANCE SUMMARY
# JUNE 30, 2005

| | Market Value | % Of Pool | Rates of Return (net of fees) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | For Fiscal Year Ended 6/30 | | | | | Annualized | |
| **PENSION POOL PARTICIPANTS** | | | 2005 | 2004 | 2003 | 2002 | 2001 | 3 Years | 5 Years |
| Teachers' Fund for Retirement | $1,515,854,694 | 48.4% | 13.36% | 19.30% | 2.28% | -8.88% | -7.00% | 11.42% | 3.23% |
| Public Employees Retirement System | 1,476,824,288 | 47.1% | 14.07% | 16.66% | 5.46% | -6.83% | -3.95% | 11.96% | 4.66% |
| Bismarck City Employee Pension Fund | 40,332,262 | 1.3% | 13.81% | 14.85% | 6.14% | -6.37% | -1.99% | 11.53% | 4.95% |
| Bismarck City Police Pension Fund | 18,515,560 | 0.6% | 13.45% | 15.99% | 5.32% | -7.25% | -3.18% | 11.49% | 4.47% |
| Job Service of North Dakota | 81,500,190 | 2.6% | 14.72% | 12.57% | 5.70% | -7.00% | -3.05% | 10.93% | 4.24% |
| Subtotal Pension Pool Participants | 3,133,026,994 | 100.0% | | | | | | | |
| **INSURANCE POOL PARTICIPANTS** | | | | | | | | | |
| Workforce Safety & Insurance Fund | 1,168,828,149 | 93.9% | 7.18% | 9.62% | 8.96% | -1.68% | 1.38% | 8.58% | 5.00% |
| State Fire and Tornado Fund | 22,859,910 | 1.8% | 6.55% | 7.25% | 7.25% | -2.24% | 0.38% | 7.02% | 3.76% |
| State Bonding Fund | 2,620,161 | 0.2% | 6.51% | 7.52% | 7.52% | -2.74% | 0.43% | 7.18% | 3.76% |
| Petroleum Tank Release Fund | 9,260,357 | 0.7% | 6.40% | 7.05% | 7.05% | -2.41% | -0.81% | 6.83% | 3.37% |
| Insurance Regulatory Trust Fund | 2,979,459 | 0.2% | 5.34% | 6.74% | 6.74% | -1.92% | 0.60% | 6.27% | 3.44% |
| Health Care Trust Fund | 18,581,204 | 1.5% | 4.34% | 2.91% | -0.95% | -2.24% | * | 2.08% | * |
| State Risk Management Fund | 2,439,613 | 0.2% | 5.85% | 8.09% | 8.86% | -2.56% | 0.33% | 7.59% | 4.02% |
| State Risk Management Workers Comp | 2,907,523 | 0.2% | 5.76% | * | * | * | * | * | * |
| Veterans Cemetery Trust Fund | 86,034 | 0.0% | 2.46% | 1.20% | 1.57% | 2.41% | 5.85% | 1.74% | 2.68% |
| Veterans Post War Trust Fund | 3,608,581 | 0.3% | 10.02% | 20.47% | -0.46% | -16.82% | -9.82% | 9.68% | -0.21% |
| ND Assoc. of Counties (NDACo) Fund | 385,916 | 0.0% | 7.09% | 12.43% | 6.76% | -4.69% | -2.37% | 8.73% | 3.65% |
| NDACo Program Savings Fund | 403,532 | 0.0% | 7.08% | 12.42% | 6.75% | -4.57% | -1.97% | 8.72% | 3.75% |
| City of Bismarck Deferred Sick Leave | 711,667 | 0.1% | 6.61% | 8.91% | 8.77% | -1.16% | 1.85% | 8.09% | 4.92% |
| PERS Group Insurance | 1,370,671 | 0.1% | 2.46% | 1.20% | 1.57% | 2.41% | 5.85% | 1.74% | 2.68% |
| City of Fargo FargoDome Permanent Fund | 7,321,084 | 0.6% | 7.10% | 12.38% | * | * | * | * | * |
| Subtotal Insurance Pool Participants | 1,244,363,860 | 100.0% | | | | | | | |
| **INDIVIDUAL INVESTMENT ACCOUNT** | | | | | | | | | |
| Retiree Health Insurance Credit Fund | 33,633,006 | 100.0% | 8.74% | 15.24% | 3.39% | -7.33% | -7.65% | 9.02% | 2.09% |
| TOTAL | $4,411,023,860 | | | | | | | | |
| **BENCHMARKS** | | | | | | | | | |
| S&P 500 | | | 6.32% | 19.11% | 0.24% | -17.99% | -14.83% | 8.28% | -2.38% |
| Lehman Brothers Aggregate | | | 6.80% | 0.32% | 10.39% | 8.63% | 11.22% | 5.75% | 7.40% |
| 90 Day T-Bills | | | 2.15% | 0.98% | 1.52% | 2.63% | 5.88% | 1.55% | 2.62% |
| Callan Public Plan Sponsors Database (Median) | | | 9.22% | 15.10% | 4.16% | -5.05% | -3.51% | 9.40% | 3.71% |

* 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, 2005

| | 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 | $ 137,887,738 | 8.39% | * | * |
| Los Angeles Capital Management | Enhanced Russell 1000 | 08/2000 | 185,535,643 | 7.61% | 9.01% | * |
| LSV Asset Management | Structured Value | 06/1998 | 154,465,666 | 18.71% | 14.89% | 15.16% |
| Northern Trust Global Investments | Enhanced S&P 500 | 08/2000 | 183,639,778 | 6.28% | 8.41% | * |
| State Street Global Advisors | S&P 500 Index | 06/1987 | 90,747,605 | 6.36% | 8.32% | -2.32% |
| Westridge Capital Management, Inc. | Enhanced S&P 500 | 08/2000 | 183,523,917 | 6.95% | 8.90% | * |
| **TOTAL DOMESTIC LARGE CAP EQUITY** | | | 935,800,347 | 8.91% | 9.80% | -0.50% |
| **Standard & Poor's 500 Index** | | | | 6.32% | 8.28% | -2.37% |
| **DOMESTIC SMALL CAP EQUITY:** | | | | | | |
| SEI Investments Management Co. | Mgr of Managers | 06/2001 | 320,898,033 | 10.20% | 14.47% | * |
| **TOTAL DOMESTIC SMALL CAP EQUITY** | | | 320,898,033 | 10.20% | 14.47% | 6.45% |
| **Russell 2000 Index** | | | | 9.45% | 12.81% | 5.71% |
| **INTERNATIONAL EQUITY:** | | | | | | |
| Bank of Ireland Asset Management | Concentrated Core | 03/2002 | 46,515,826 | 12.99% | 8.33% | * |
| Capital Guardian Trust Company | Core | 03/1992 | 141,036,510 | 11.73% | 7.81% | -2.46% |
| Lazard Asset Management | Small Cap Value | 03/2002 | 47,607,956 | 20.68% | 19.90% | * |
| LSV Asset Management | Core | 11/2004 | 139,634,283 | * | * | * |
| State Street Global Advisors | Core | 03/1987 | 47,579,763 | 7.89% | 7.57% | -1.91% |
| Wellington Trust Company, NA | Small Cap Growth | 03/2002 | 47,234,512 | 13.01% | 20.03% | * |
| **TOTAL INTERNATIONAL EQUITY** | | | 469,608,850 | 13.70% | 10.82% | -0.03% |
| **MSCI EAFE 50% Hedged Index** | | | | 17.60% | 9.49% | -1.67% |
| **EMERGING MARKETS EQUITY:** | | | | | | |
| Capital Guardian Trust Company | Core | 08/1996 | 172,959,978 | 35.07% | 23.27% | 4.82% |
| **MSCI Emerging Markets Index** | | | | 34.89% | 24.42% | 7.68% |
| **DOMESTIC FIXED INCOME:** | | | | | | |
| Bank of North Dakota | LB G/C Index | 01/1988 | 98,314,666 | 7.29% | 6.18% | 7.83% |
| Bank of North Dakota - CDs | Cert. of Deposit | 02/1994 | 33,181,267 | 5.11% | 5.73% | 5.78% |
| Prudential | Private Debt | 06/2005 | 5,000,030 | * | * | * |
| RMK Timberland Group | Timberland | 06/2001 | 62,054,252 | 15.58% | 13.38% | * |
| Timberland Investment Resources | Timberland | 09/2004 | 160,553,043 | * | * | * |
| Trust Company of the West | Convertibles | 06/1999 | 42,613,888 | 0.24% | 9.18% | -2.18% |
| Wells Capital Management, Inc. | Baa Average | 11/1998 | 64,010,367 | 12.30% | 9.48% | 9.07% |
| Western Asset Management Co. | Core Bonds | 02/1986 | 55,437,356 | 7.48% | 7.67% | 9.13% |
| **TOTAL DOMESTIC FIXED INCOME** | | | 521,164,869 | 19.64% | 12.19% | 9.23% |
| **Lehman Brothers Aggregate Index** | | | | 6.80% | 5.76% | 7.40% |
| **HIGH YIELD FIXED INCOME:** | | | | | | |
| Loomis Sayles | High Yield | 04/2004 | 90,013,108 | 16.53% | * | * |
| Wells Capital Management, Inc. | High Yield | 04/2004 | 86,647,759 | 10.16% | * | * |
| **TOTAL HIGH YIELD FIXED INCOME** | | | 176,660,867 | 13.32% | 13.73% | 5.82% |
| **Lehman Brothers High Yield Index** | | | | 10.86% | 14.51% | 7.47% |

# SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
# PENSION POOL PARTICIPANTS (CONTINUED)
# FOR PERIODS ENDED JUNE 30, 2005

| | | Date | | Annualized Rates of Return | | |
|---|---|---|---|---|---|---|
| | Style | Initiated | Market Value | 1 Year | 3 Years | 5 Years |
| **INTERNATIONAL FIXED INCOME:** | | | | | | |
| UBS Global Asset Management | Core Non-U.S. | 03/1989 | 71,484,157 | 8.35% | 11.65% | 8.66% |
| Brandywine Asset Management | Core Non-U.S. | 05/2003 | 73,707,736 | 12.25% | * | * |
| **TOTAL INTERNATIONAL FIXED INCOME** | | | 145,191,893 | 10.30% | 12.52% | 9.16% |
| **Citigroup Non-US Gov't Bond Index** | | | | 7.75% | 10.98% | 7.93% |
| **REAL ESTATE:** | | | | | | |
| INVESCO Realty Advisors | Direct Equity | 08/1997 | 109,645,965 | 22.20% | 12.15% | 10.61% |
| J. P. Morgan Investment Mgmt. Inc. | Core Commingled | 10/1987 | 109,336,900 | 19.52% | 12.70% | 10.44% |
| **TOTAL REAL ESTATE** | | | 218,982,865 | 20.78% | 12.39% | 10.51% |
| **NCREIF Classic Index** | | | | 18.02% | 12.08% | 10.63% |
| **PRIVATE EQUITY** | | | | | | |
| Adams Street Partners (I.V.C.F. II) | Diversified | 03/1989 | 170,179 | 0.89% | 0.37% | -13.07% |
| Adams Street Partners (I.V.C.F. III) | Diversified | 01/1993 | 1,190,887 | 15.66% | 7.39% | 10.64% |
| Adams Street Partners (1998 Fund) | Diversified | 01/1998 | 2,982,591 | 19.63% | 3.73% | -1.63% |
| Adams Street Partners (1999 Fund) | Diversified | 01/1999 | 4,960,599 | 9.29% | 1.60% | -4.61% |
| Adams Street Partners (2000 Fund) | Diversified | 10/1999 | 10,255,773 | 14.96% | 3.21% | -0.80% |
| Adams Street Partners (2001 Fund) | Diversified | 12/2000 | 6,210,611 | 4.07% | 1.24% | * |
| Adams Street Partners (2002 Fund) | Diversified | 03/2002 | 3,446,004 | -4.22% | 6.14% | * |
| Adams Street Partners (2003 Fund) | Diversified | 04/2003 | 745,924 | 1.71% | * | * |
| Adams Street Partners (1999 Non-U.S. Fund) | Diversified | 01/1999 | 2,845,157 | 34.89% | 22.70% | 12.35% |
| Adams Street Partners (2000 Non-U.S. Fund) | Diversified | 01/2000 | 3,377,691 | 15.57% | 13.44% | 5.45% |
| Adams Street Partners (2001 Non-U.S. Fund) | Diversified | 02/2001 | 2,818,586 | 9.20% | 8.24% | * |
| Adams Street Partners (2002 Non-U.S. Fund) | Diversified | 05/2002 | 5,296,757 | 12.59% | 12.33% | * |
| Adams Street Partners (2003 Non-U.S. Fund) | Diversified | 04/2003 | 1,896,476 | 2.53% | * | * |
| Adams Street Partners (2004 Non-U.S. Fund) | Diversified | 04/2004 | 607,657 | 0.43% | * | * |
| Adams Street Partners (B.V.C.F. IV) | Diversified | 05/1999 | 15,290,907 | 6.08% | 3.14% | -7.08% |
| Coral Partners, Inc. (V.P. II) | Direct | 06/1990 | 123,675 | 1.14% | 8.47% | -21.20% |
| Coral Partners, Inc. (Fund V) | Direct | 03/1998 | 9,031,792 | -18.97% | -24.36% | -22.50% |
| Coral Partners, Inc. (Supplemental Fund V) | Direct | 08/2001 | 1,191,526 | -6.85% | -4.52% | * |
| Coral Partners, Inc. (Fund VI) | Direct | 07/2002 | 8,676,249 | -1.17% | * | * |
| Hearthstone Homebuilding Investors (MSII) | Home Building | 10/1999 | 1 | 1214.92% | 179.73% | 90.15% |
| Hearthstone Homebuilding Investors (MSIII) | Home Building | 09/2003 | 14,871,022 | 16.51% | * | * |
| Invest America (Lewis and Clark) | Direct | 02/2002 | 2,631,694 | -18.87% | -13.15% | * |
| Matlin Patterson Global Opportunities Fund I | Distressed Debt | 07/2002 | 16,972,468 | 108.30% | * | * |
| Matlin Patterson Global Opportunities Fund II | Distressed Debt | 10/2004 | 8,203,082 | * | * | * |
| **TOTAL PRIVATE EQUITY** | | | 123,797,308 | 17.14% | 2.78% | -4.47% |
| **CASH EQUIVALENTS:** | | | | | | |
| The Northern Trust Company | STIF/STEP | 07/1994 | 47,961,984 | 2.19% | 1.89% | 2.85% |
| **90 Day T-Bills** | | | | 2.15% | 1.55% | 2.62% |
| **TOTAL PENSION POOL** | | | $ 3,133,026,994 | 14.13% | 12.07% | 4.22% |
| **Policy Target** | | | | 11.28% | 10.21% | 2.77% |

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

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

# SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
## INSURANCE POOL PARTICIPANTS
## FOR PERIODS ENDED JUNE 30, 2005

| | 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 | $ 20,554,823 | 7.79% | * | * |
| Los Angeles Capital Management | Enhanced Russell 1000 | 04/2004 | 40,671,721 | 8.17% | * | * |
| LSV Asset Management | Structured Value | 06/1998 | 20,776,495 | 18.82% | 15.18% | 15.24% |
| State Street Global Advisors | S&P 500 Index | 10/1996 | 13,408,017 | 6.35% | 8.28% | -2.37% |
| Westridge Capital Management, Inc. | Enhanced S&P 500 | 04/2004 | 40,447,852 | 6.88% | * | * |
| **TOTAL DOMESTIC LARGE CAP EQUITY** | | | 135,858,908 | 9.15% | 9.79% | -0.09% |
| **Standard & Poor's 500 Index** | | | | 6.32% | 8.28% | -2.37% |
| **DOMESTIC SMALL CAP EQUITY:** | | | | | | |
| SEI Investments Management Co. | Mgr of Managers | 06/2001 | 49,812,223 | 10.20% | 14.16% | |
| **TOTAL DOMESTIC SMALL CAP EQUITY** | | | 49,812,223 | 10.20% | 14.16% | 5.05% |
| **Russell 2000 Index** | | | | 9.45% | 12.81% | 5.71% |
| **INTERNATIONAL EQUITY:** | | | | | | |
| Capital Guardian Trust Company | Core | 04/1997 | 41,773,465 | 10.93% | 8.11% | -3.24% |
| Lazard Asset Management | Small Cap Value | 11/2002 | 10,275,694 | 19.01% | * | * |
| LSV Asset Management | Core | 11/2004 | 42,479,472 | * | * | * |
| The Vanguard Group | Small Cap Growth | 06/2003 | 10,348,368 | 24.86% | * | * |
| **TOTAL INTERNATIONAL EQUITY** | | | 104,876,999 | 16.01% | 11.22% | -1.58% |
| **MSCI EAFE 50% Hedged Index ** ** | | | | 17.60% | 9.49% | -2.26% |
| **CONVERTIBLE BONDS:** | | | | | | |
| Trust Company of the West | Sector Rotation | 07/1990 | 22,169 | -1.49% | 8.27% | -2.94% |
| **Merrill Lynch All Convertibles Index*** ** | | | | 0.76% | 9.92% | 0.49% |
| **DOMESTIC FIXED INCOME:** | | | | | | |
| Bank of North Dakota - CDs | Cert. of Deposit | 12/1996 | 31,909,591 | 3.95% | 3.70% | 4.46% |
| Bank of North Dakota | LB G/C Index | 07/1989 | 199,356,831 | 4.65% | 5.90% | 7.42% |
| Wells Capital | Baa Average Quality | 04/2002 | 214,365,960 | 9.39% | 9.46% | * |
| Western Asset Management Co. | Core Bond | 07/1990 | 215,419,841 | 7.37% | 7.57% | 8.81% |
| **TOTAL DOMESTIC FIXED INCOME** | | | 661,052,223 | 6.50% | 7.23% | 8.27% |
| **Lehman Brothers Government/Credit Index** | | | | 7.26% | 6.41% | 7.71% |
| **TREASURY INFLATION PROTECTED (TIPS):** | | | | | | |
| Northern Trust Global Investments | Index | 05/2004 | 136,228,505 | 9.27% | * | * |
| Western Asset Management Co. | Core | 05/2004 | 136,222,601 | 9.06% | * | * |
| **TOTAL TIPS** | | | 272,451,106 | 9.18% | * | * |
| **Lehman Brothers US TIPS Index** | | | | 9.33% | * | * |
| **CASH EQUIVALENTS:** | | | | | | |
| Bank of North Dakota | Enhanced MMDA | 07/1989 | 20,290,232 | 2.45% | 1.74% | 2.68% |
| **90 Day T-Bills** | | | | 2.15% | 1.55% | 2.62% |
| **TOTAL INSURANCE POOL** | | | $ 1,244,363,860 | 7.42% | 8.59% | 5.07% |
| **Policy Target** | | | | 8.09% | 7.99% | 5.01% |

* 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).

*** Prior to January 2005, the benchmark for convertible bonds was the First Boston Convertible Index.

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, 2005

## PENSION POOL PARTICIPANTS

| Shares | Stocks | Market Value |
|---|---|---|
| 658,487 | Microsoft Corporation | $ 16,356,817 |
| 258,640 | Exxon Mobile Corporation | 14,864,041 |
| 178,968 | Johnson & Johnson | 11,632,920 |
| 250,944 | Bank of America Corporation | 11,445,556 |
| 389,242 | Pfizer Incorporated | 10,735,294 |
| 307,160 | General Electric Company | 10,643,094 |
| 125,806 | TXU Corporation | 10,453,220 |
| 209,880 | Citigroup Incorporated | 9,702,753 |
| 155,755 | Chevron Corporation | 8,709,820 |
| 334,160 | Intel Corporation | 8,708,210 |

| Par | Bonds | Market Value |
|---|---|---|
| 6,600,000 | FNMA Note 4.00% 05-23-2007/05-23-2006 | $ 6,602,046 |
| 6,375,000 | FHLB Bond 4.00% 04-25-2007/04-25-2006 | 6,380,993 |
| 5,500,000 | US Treasury Notes Dated 02-15-2000 6.5% Due 02-15-2010 | 6,137,874 |
| 16,690,000 | Republic of Poland 5.00% Bonds Due 10-24-2013 | 5,130,927 |
| 4,800,000 | FNMA Single Family Mortgage 5.00% 30 Years | 4,800,000 |
| 4,350,000 | US Treasury Notes Dated 05-15-2002 4.375% Due 05-15-2007 | 4,407,942 |
| 3,220,000 | Fed Republic of Germany 5.25% Bonds 4-7-2010 | 4,392,986 |
| 6,955,000 | Government of Singapore 4.375% Bonds 10-15-2005 | 4,151,030 |
| 3,800,000 | GNMA TBA Pool 6.00% 30 Year | 3,918,750 |
| 2,700,000 | US Treasury Bonds 8.00% Due 11-15-2021/04-29-1999 | 3,890,425 |

## INSURANCE POOL PARTICIPANTS

| Shares | Stocks | Market Value |
|---|---|---|
| 89,987 | Microsoft Corporation | $ 2,235,277 |
| 21,225 | TXU Corporation | 1,763,585 |
| 25,683 | Johnson & Johnson | 1,669,395 |
| 35,194 | Bank of America Corporation | 1,605,198 |
| 27,532 | Exxon Mobile Corporation | 1,582,264 |
| 80,868 | Goodyear Tire & Rubber Company | 1,204,933 |
| 34,703 | Verizon Communications | 1,198,989 |
| 24,500 | Royal Dutch Petrol | 1,601,690 |
| 20,400 | BNP Paribas | 1,400,335 |
| 518,613 | Vodafone Group | 1,264,240 |

| Par | Bonds | Market Value |
|---|---|---|
| 10,820,000 | US Treasury Bonds Inflation Index Linked 3.875% 04-15-2029 | $ 17,997,387 |
| 13,480,000 | US Treasury Bonds Inflation Indexed 3.00% Due 07-15-2012 | 16,020,998 |
| 8,750,000 | US Treasury Bonds Inflation Indexed 3.625% Due 4-15-2028 | 14,142,241 |
| 13,150,000 | US Treasury Notes 3.00% Due 12-31-2006 | 13,029,283 |
| 10,400,000 | US Treasury Notes Inflation Indexed 3.5% Due 01-15-2011 | 12,884,929 |
| 13,000,000 | US Treasury Notes 2.25% Due 02-15-2007 | 12,721,215 |
| 9,000,000 | US Treasury Notes Inflation Index 3.625% Due 01-15-2008 | 11,468,932 |
| 11,000,000 | US Treasury Notes 3.375% Due 02-15-2008 | 10,920,074 |
| 9,900,000 | US Treasury Notes Inflation Indexed 2.00% Due 01-15-2014 | 10,737,236 |
| 10,235,000 | US Treasury Notes Inflation Indexed 0.9029475% Due 4-15-2010 | 10,251,641 |

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, 2005

| | Assets under management | Fees | Basis points |
|---|---|---|---|
| Investment managers' fees: | | | |
| Domestic large cap equity managers | $ 1,071,659,255 | $ 2,500,136 | 23 |
| Domestic small cap equity managers | 370,710,256 | 2,891,380 | 78 |
| International equity managers | 574,485,849 | 2,708,950 | 47 |
| Emerging markets equity managers | 172,959,978 | 976,495 | 56 |
| Convertibles managers | 22,169 | 292,953 | |
| Domestic fixed income managers | 1,182,217,092 | 2,476,497 | 21 |
| TIPS managers | 272,451,106 | 60,268 | 2 |
| High yield fixed income managers | 176,660,867 | 860,256 | 49 |
| International fixed income managers | 145,191,893 | 610,324 | 42 |
| Real estate managers | 218,982,865 | 1,831,960 | 82 |
| Private equity managers | 123,797,308 | 8,322,870 | 693 |
| Cash & equivalents managers | 68,252,216 | 92,149 | 14 |
| Balanced account managers | 33,633,006 | 65,534 | 19 |
| Total investment managers' fees | $ 4,411,023,860 | 23,689,772 | 54 |
| Custodian fees | | 928,471 | 2 |
| Investment consultant fees | | 318,997 | 1 |
| Administrative fees | | 381,696 | 1 |
| Total investment expenses | | $ 25,318,936 | 58 |
| Securities lending fees | | $ 9,758,762 | 22 |

## Reconciliation of Investment Expenses to Financial Statements

| | |
|---|---|
| Investment expenses as reflected in the financial statements | $ 14,487,444 |
| Plus investment management fees included in investment income | |
| Domestic large cap equity | 4,561 |
| Domestic small cap equity | 1,866,023 |
| International equity | 141,584 |
| Emerging markets equity | 976,495 |
| Domestic fixed income | - |
| Real estate | 106,296 |
| Private equity | 7,637,666 |
| Cash equivalents | 92,149 |
| Balanced fund | 6,718 |
| Investment expenses per schedule | $ 25,318,936 |

| Brokers | Number of shares traded | Total commissions | Commissions per share |
|---|---|---|---|
| Nomura Securities International Inc | 5,078,167 | $ 152,345 | $0.030 |
| Morgan Stanley & Co. Inc. New York | 4,989,688 | 137,239 | 0.028 |
| Goldman Sachs & Company | 5,171,917 | 96,073 | 0.019 |
| Citigroup Global Markets Inc/Smith Barney | 3,977,229 | 71,735 | 0.018 |
| BNY ESI Securities Co. | 1,592,000 | 47,760 | 0.030 |
| Investment Technology Group Inc. | 2,755,847 | 40,700 | 0.015 |
| JP Morgan Securities Inc | 2,241,870 | 38,246 | 0.017 |
| Sanford C. Bernstein & Co. | 741,863 | 22,256 | 0.030 |
| Jefferies & Company | 656,334 | 20,004 | 0.030 |
| UBS AG, London | 546,552 | 15,483 | 0.028 |
| Other 147 Brokers * | 45,710,572 | 347,123 | 0.008 |
| Gross commissions | 73,462,039 | $ 988,964 | $0.013 |
| Less commissions recaptured | | (35,377) | |
| Net commissions paid | | $ 953,587 | $0.013 |

* 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 2005 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%.

<u>Policy and Guidelines</u>

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.

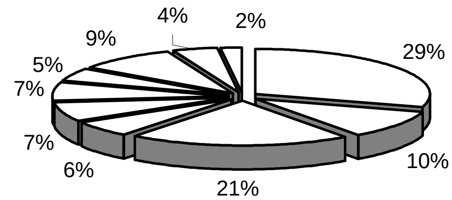
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

   (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, 2005

| Asset Allocation | Market Value | Percent of Total | One Year Return |
|---|---|---|---|
| Domestic Large Cap Equity | $ 450,199,401 | 29% | |
| Domestic Small Cap Equity | 155,139,747 | 10% | |
| International Equity | 311,781,418 | 21% | |
| Emerging Markets Equity | 88,653,437 | 6% | |
| Domestic Fixed Income | 104,246,980 | 7% | |
| High Yield Fixed Income | 101,768,547 | 7% | |
| International Fixed Income | 71,762,346 | 5% | |
| Real Estate | 140,780,246 | 9% | |
| Private Equity | 62,572,711 | 4% | |
| Cash Equivalents | 28,949,861 | 2% | |
| TOTAL FUND | $ 1,515,854,694 | 100% | 13.36% |



# 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:

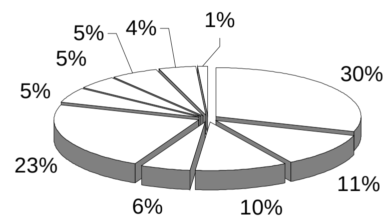
   1. The cost does not exceed the fair market value at the time of investment.
   2. The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
   3. Sufficient liquidity is maintained in the Fund to permit distributions 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, 2005**

| Asset Allocation | Market Value | Percent of Total | One Year Return |
|---|---|---|---|
| Domestic Large Cap Equity | $ 441,100,008 | 30% | |
| Domestic Small Cap Equity | 154,971,043 | 11% | |
| International Equity | 151,570,389 | 10% | |
| Emerging Markets Equity | 83,296,852 | 6% | |
| Domestic Fixed Income | 350,877,166 | 23% | |
| High Yield Fixed Income | 72,535,782 | 5% | |
| International Fixed Income | 68,174,714 | 5% | |
| Real Estate | 76,086,169 | 5% | |
| Private Equity | 60,352,447 | 4% | |
| Cash Equivalents | 17,859,718 | 1% | |
| TOTAL FUND | $ 1,476,824,288 | 100% | 14.07% |



# 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.

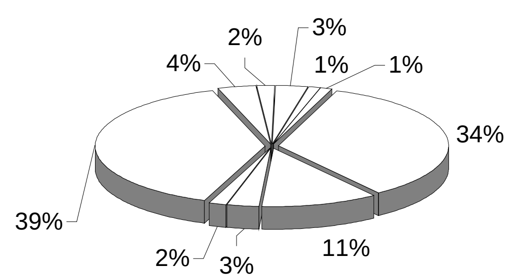
- The portfolio mix shall be in accordance with the asset allocation adopted and periodically revised by the NDSIB as approved by the BCEPP Board of Trustees.

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, 2005**

| **Asset Allocation** | **Market Value** | **Percent of Total** | **One Year Return** |
|---|---|---|---|
| Domestic Large Cap Equity | $ 13,874,922 | 34% | |
| Domestic Small Cap Equity | 4,530,370 | 11% | |
| International Equity | 1,217,798 | 3% | |
| Emerging Markets Equity | 624,149 | 2% | |
| Domestic Fixed Income | 15,810,030 | 39% | |
| High Yield Fixed Income | 1,438,458 | 4% | |
| International Fixed Income | 762,418 | 2% | |
| Real Estate | 1,203,551 | 3% | |
| Private Equity | 371,039 | 1% | |
| Cash Equivalents | 499,527 | 1% | |
| TOTAL FUND | $ 40,332,262 | 100% | 13.81% |



# 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.

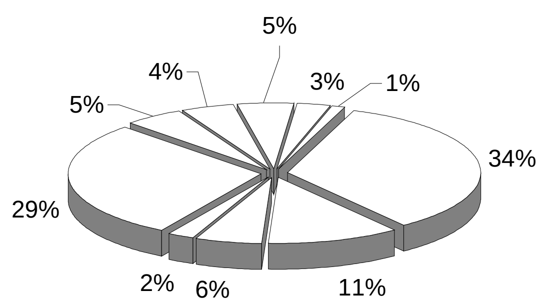
- The portfolio mix shall be in accordance with the asset allocation adopted and periodically revised by the NDSIB as approved by the BCPPP Board of Trustees.

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, 2005**

| Asset Allocation | Market Value | Percent of Total | One Year Return |
|---|---|---|---|
| Domestic Large Cap Equity | $ 6,316,191 | 34% | |
| Domestic Small Cap Equity | 2,087,967 | 11% | |
| International Equity | 1,022,423 | 6% | |
| Emerging Markets Equity | 385,540 | 2% | |
| Domestic Fixed Income | 5,375,759 | 29% | |
| High Yield Fixed Income | 918,079 | 5% | |
| International Fixed Income | 797,277 | 4% | |
| Real Estate | 912,899 | 5% | |
| Private Equity | 501,110 | 3% | |
| Cash Equivalents | 198,315 | 1% | |
| TOTAL FUND | $ 18,515,560 | 100% | 13.45% |



# 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 accordance 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

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 Plan 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 Plan'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.

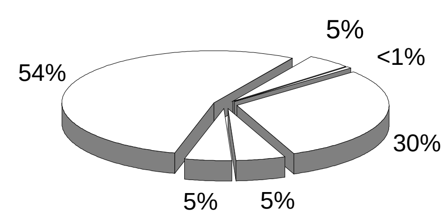
(2) The investment provides the Plan with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

(3) Sufficient liquidity is maintained in the Plan 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, 2005**

| Asset Allocation | Market Value | Percent of Total | One Year Return |
|---|---|---|---|
| Domestic Large Cap Equity | $ 24,309,824 | 30% | |
| Domestic Small Cap Equity | 4,168,907 | 5% | |
| International Equity | 4,016,823 | 5% | |
| Domestic Fixed Income | 44,854,934 | 54% | |
| International Fixed Income | 3,695,138 | 5% | |
| Cash Equivalents | 454,564 | 1% | |
| TOTAL FUND | $ 81,500,190 | 100% | 14.72% |



# 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 the organization,
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.

Responsibilities of the North Dakota State Investment Board (SIB)

The WSI 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 a manner consistent with the prudent investor rule as provided in NDCC 21-10-07. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment 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 appropriate to the prudent investor rule and the 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, 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 goal of WSI is to supplement premiums, through various investments, to accomplish its statutory obligations.

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.

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 domestic equity, international equity, real estate 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.

Standards of Investment Performance

The Fund'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 9.75% S&P 500 domestic stock index, 3.25% Russell 2000 domestic stock, 8% MSCI EAFE international stock index, 50% Lehman Aggregate bond index, 22% Lehman Treasury Inflation Protected bond index, 6% NCREIF Total real estate index, and 1% 90-day T-bills.

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 5.75% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 5.65%.

Policy and Guidelines

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 May, 2005, 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 |
|---|---|
| Large Cap Equity | 9.75% |
| Small Cap Equity | 3.25% |
| International Equity | 8.00% |
| Domestic Fixed Income | 50.00% |
| Real Estate | 6.00% |
| Cash Equivalents | 1.00% |
| Total | 100.00% |

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 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.

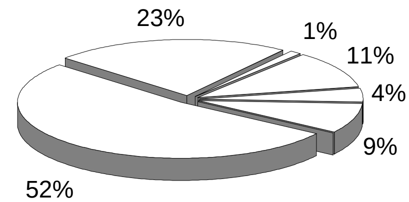
(3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.

(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.

## Workforce Safety & Insurance Fund
**Actual Asset Allocation – June 30, 2005**

| Asset Allocation | | Market Value | Percent of Total | One Year Return |
|---|---|---|---|---|
| Domestic Large Cap Equity | $ | 124,398,811 | 11% | |
| Domestic Small Cap Equity | | 44,863,242 | 4% | |
| International Equity | | 100,434,990 | 9% | |
| Convertible Bonds | | 22,169 | 0% | |
| Fixed Income | | 617,159,450 | 52% | |
| TIPS | | 270,428,901 | 23% | |
| Cash Equivalents | | 11,520,586 | 1% | |
| TOTAL FUND | $ | 1,168,828,149 | 100% | 7.18% |



# 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 2005-2007 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 2005-2007 biennium for appropriateness.

Responsibilities and Discretion 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.

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

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 18.75% S&P 500 domestic stock index, 6.25% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 55% Lehman Aggregate 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.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.14% rate of return based on 2005 market projections. Expected risk for the period, measured by standard deviation, is 7.00%.

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 | 18.75% |
| Small Cap Domestic Equity | 6.25% |
| International Equity | 10.00% |
| Fixed Income | 55.00% |
| Cash Equivalents | 10.00% |

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.
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 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:

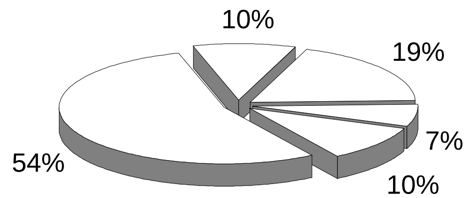
   (1) The cost does not exceed the fair market value at the time of investment.
   (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
   (3) Sufficient liquidity is maintained in the Fund to permit distributions 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 Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

## ■ State Fire and Tornado Fund
**Actual Asset Allocation – June 30, 2005**

| Asset Allocation | Market Value | Percent of Total | One Year Return |
|---|---|---|---|
| Domestic Large Cap Equity | $ 4,297,020 | 19% | |
| Domestic Small Cap Equity | 1,510,432 | 7% | |
| International Equity | 2,305,592 | 10% | |
| Fixed Income | 12,453,123 | 54% | |
| Cash Equivalents | 2,293,743 | 10% | |
| TOTAL FUND | $ 22,859,910 | 100% | 6.55% |



# 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 2005-2007 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 2005-2007 biennium for appropriateness.

Responsibilities and Discretion 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 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.

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

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 18.75% S&P 500 domestic stock index, 6.25% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 55% 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.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.14% rate of return based on Callan Associates' 2005

market projections. Expected risk for the period, measured by standard deviation, is 7.00%.

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 | 18.75% |
| Small Cap Domestic Equity | 6.25% |
| International Equity | 10.00% |
| Fixed Income | 55.00% |
| Cash Equivalents | 10.00% |

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.
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 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.

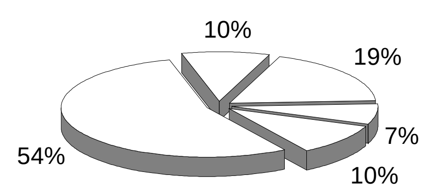
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

   (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 Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

**■ State Bonding Fund**
**Actual Asset Allocation – June 30, 2005**

| Asset Allocation | Market Value | Percent of Total | One Year Return |
|---|---|---|---|
| Domestic Large Cap Equity | $ 491,077 | 19% | |
| Domestic Small Cap Equity | 170,482 | 7% | |
| International Equity | 269,229 | 10% | |
| Fixed Income | 1,435,007 | 54% | |
| Cash Equivalents | 254,366 | 10% | |
| TOTAL FUND | $ 2,620,161 | 100% | 6.51% |



# 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 $321,000 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. The Fund's asset allocation will need to be reviewed at the end of the 2005-2007 biennium for appropriateness.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under Chapter 285 of the 1993 Session Laws 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 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.

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

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 18.75% S&P 500 domestic stock index, 6.25% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 50% Lehman Aggregate 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.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.06% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 6.87%

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 | 18.75% |
| Small Cap Domestic Equity | 6.25% |
| International Equity | 10.00% |
| Fixed Income | 50.00% |
| Cash Equivalents | 15.00% |

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.
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 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.

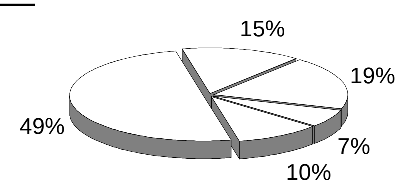
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

   (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 Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

## ■ Petroleum Tank Release Compensation Fund Actual Asset Allocation – June 30, 2005

| Asset Allocation | Market Value | Percent of Total | One Year Return |
|---|---|---|---|
| Domestic Large Cap Equity | $ 1,746,816 | 19% | |
| Domestic Small Cap Equity | 603,224 | 7% | |
| International Equity | 947,767 | 10% | |
| Fixed Income | 4,613,267 | 49% | |
| Cash Equivalents | 1,349,283 | 15% | |
| TOTAL FUND | $ 9,260,357 | 100% | 6.40% |



# 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 2005-2007 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 2005-2007 biennium for appropriateness.

Responsibilities and Discretion 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 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.

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

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 15% S&P 500 domestic stock index, 5% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 35% Lehman Aggregate 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.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 5.55% rate of return based on Callan Associates' 2005

market projections. Expected risk for the period, measured by standard deviation, is 5.70%.

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% |
| International Equity | 10% |
| Fixed Income | 35% |
| 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.
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 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.

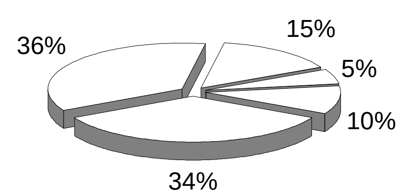
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

   (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 Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

**■ Insurance Regulatory Trust Fund**
**Actual Asset Allocation – June 30, 2005**

| Asset Allocation | Market Value | Percent of Total | One Year Return |
|---|---|---|---|
| Domestic Large Cap Equity | $ 439,429 | 15% | |
| Domestic Small Cap Equity | 157,217 | 5% | |
| International Equity | 300,362 | 10% | |
| Fixed Income | 1,023,762 | 34% | |
| Cash Equivalents | 1,058,689 | 36% | |
| TOTAL FUND | $ 2,979,459 | 100% | 5.34% |



# 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 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.

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

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:

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.
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 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 Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

## ■ North Dakota Health Care Trust Fund Actual Asset Allocation – June 30, 2005

| Asset Allocation | Market Value | Percent of Total | One Year Return |
|---|---|---|---|
| Cash Equivalents & CD's | 18,581,204 | 100% | |
| TOTAL FUND | $ 18,581,204 | 100% | 4.34% |

# 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.

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.

The Risk Management Division's operating expenses including loss control activities are paid from the Fund as incurred.

The Fund's asset allocation will need to be reviewed at the end of the 2005-2007 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.

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

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 22.5% S&P 500 domestic stock index, 7.5% Russell 2000 domestic small cap index, 65% Lehman Aggregate 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.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 5.98% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 6.59%.

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 | 22.5% |
| Small Cap Domestic Equity | 7.5% |
| Fixed Income | 65.0% |
| Cash Equivalents | 5.0% |

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.
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 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.

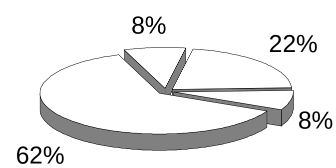
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

   (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 Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

## ■ State Risk Management Fund
## Actual Asset Allocation – June 30, 2005

| Asset Allocation | | Market Value | Percent of Total | One Year Return |
|---|---|---|---|---|
| Domestic Large Cap Equity | $ | 529,865 | 22% | |
| Domestic Small Cap Equity | | 186,376 | 8% | |
| Fixed Income | | 1,519,559 | 62% | |
| Cash Equivalents | | 203,813 | 8% | |
| TOTAL FUND | $ | 2,439,613 | 100% | 5.85% |



# 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 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 premiums.

The Fund's asset allocation will need to be reviewed at the end of the 2005-2007 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.

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

### 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 27.75% S&P 500 domestic stock index, 9.25% Russell 2000 domestic small cap index, 60% Lehman Aggregate domestic bond index, and 3% 90-day Treasury bills.

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 6.31% rate of return based on Callan Associates' 2005

market projections. Expected risk for the period, measured by standard deviation, is 7.57%.

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 | 27.75% |
| Small Cap Domestic Equity | 9.25% |
| Fixed Income | 60.00% |
| Cash Equivalents | 3.00% |

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.
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 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.

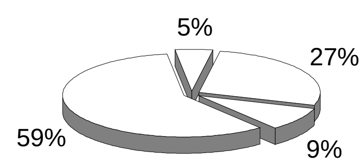
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

(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 Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

## ■ State Risk Management WC Fund
## Actual Asset Allocation – June 30, 2005

| Asset Allocation | Market Value | Percent of Total | One Year Return |
|---|---|---|---|
| Domestic Large Cap Equity | $ 789,537 | 27% | |
| Domestic Small Cap Equity | 271,627 | 9% | |
| Fixed Income | 1,704,364 | 59% | |
| Cash Equivalents | 141,995 | 5% | |
| TOTAL FUND | $ 2,907,523 | 100% | 5.76% |



# 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 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. 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.

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

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.
c. Over 10 year and longer time periods the Fund should match or exceed the expected 3.25% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 0.80%.

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. 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 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 Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

■ **Veterans Cemetery Trust Fund**
**Actual Asset Allocation – June 30, 2005**

| Asset Allocation | Market Value | Percent of Total | One Year Return |
|---|---|---|---|
| Cash Equivalents | $86,034 | 100% | 2.46% |

# VETERANS POST WAR TRUST FUND

■ **Veterans Post War Trust Fund**
**Investment Objectives and Policy Guidelines**

Fund Characteristics and Constraints

The Veteran's Postwar Trust Fund (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 for the total fund. Expenditures from the Fund are met through investment income. Approximately 75% of the total fund has been invested with the State Investment Board (SIB). This document pertains only to that 75%.

Responsibilities and Discretion of the State Investment Board

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 and fixed income 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 portfolio policy index will consist of S&P 500 domestic stock index (large cap domestic equity); Russell 2000 stock index (small cap domestic equity); EAFE 50% Hedged Index (International Equity) and Lehman US TIPS Index (TIPS). Actual calculations of the policy index will vary as described in the asset allocation below.

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 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:

A minimum balance of $2,000,000 will be maintained in Treasury Inflation-Protected Securities (TIPS) with the balance of the Fund being allocated as follows:

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

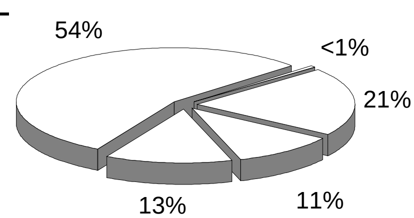
Because of the dollar balance requirement in the TIPS allocation, rebalancing of the Fund to this target will be done every six months (approximately June and December) based on cash flow needs at that time.

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, 2005**

| Asset Allocation | Market Value | Percent of Total | One Year Return |
|---|---|---|---|
| Domestic Large Cap Equity | $ 736,154 | 20% | |
| Domestic Small Cap Equity | 381,079 | 11% | |
| International Equity | 469,006 | 13% | |
| TIPS | 2,022,205 | 55% | |
| Cash Equivalents | 137 | 1% | |
| TOTAL FUND | $ 3,608,581 | 100% | 10.02% |



# 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) (Funds) 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)

NDACo has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. It is the responsibility of NDACo to establish policies on investment goals and asset allocation of the Funds. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Funds 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.

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

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 26.25% S&P 500 domestic stock index, 8.75% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 50% Lehman Brothers Aggregate 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.
c. Over 10 year and longer time periods the Funds should match or exceed the expected 6.65% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 8.50%.

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 | 26.25% |
| Small Cap Domestic Equity | 8.75% |
| International Equity | 10.00% |
| Fixed Income | 50.00% |
| Cash Equivalents | 5.00% |

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.
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 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.

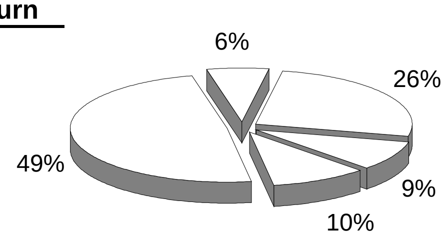
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

(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 Funds' policy favors investments which will have a positive impact on the economy of North Dakota.

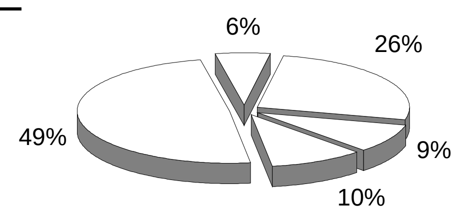
**■ ND Association of Counties (NDACo) Fund**
**Actual Asset Allocation – June 30, 2005**

| Asset Allocation | Market Value | Percent of Total | One Year Return |
|---|---|---|---|
| Domestic Large Cap Equity | $ 99,804 | 26% | |
| Domestic Small Cap Equity | 34,146 | 9% | |
| International Equity | 38,269 | 10% | |
| Fixed Income | 188,774 | 49% | |
| Cash Equivalents | 24,923 | 6% | |
| TOTAL FUND | $ 385,916 | 100% | 7.09% |




**■ NDACo Program Savings Fund**
**Actual Asset Allocation – June 30, 2005**

| Asset Allocation | Market Value | Percent of Total | One Year Return |
|---|---|---|---|
| Domestic Large Cap Equity | $ 104,916 | 26% | |
| Domestic Small Cap Equity | 35,977 | 9% | |
| International Equity | 40,340 | 10% | |
| Fixed Income | 199,108 | 49% | |
| Cash Equivalents | 23,191 | 6% | |
| TOTAL FUND | $ 403,532 | 100% | 7.08% |



# 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)

The City of Bismarck (Client) has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. It is the responsibility of the Client to establish 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 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.

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

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 15% S&P 500 domestic stock index, 5% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 65% Lehman Aggregate 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.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.00% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 6.50%.

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 | 15% |
| Small Cap Domestic Equity | 5% |
| International Equity | 10% |
| Fixed Income | 65% |
| 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.
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 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.

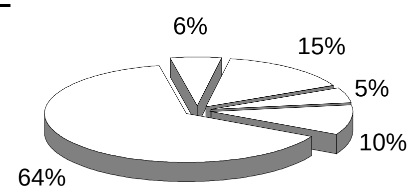
   For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

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 Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

## ■ City of Bismarck Deferred Sick Leave Actual Asset Allocation – June 30, 2005

| Asset Allocation | | Market Value | Percent of Total | One Year Return |
|---|---|---|---|---|
| Domestic Large Cap Equity | $ | 105,848 | 15% | |
| Domestic Small Cap Equity | | 36,278 | 5% | |
| International Equity | | 71,443 | 10% | |
| Fixed Income | | 457,189 | 64% | |
| Cash Equivalents | | 40,909 | 6% | |
| TOTAL FUND | $ | 711,667 | 100% | 6.61% |



# 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, 2005

| Asset Allocation | Market Value | Percent of Total | One Year Return |
|---|---|---|---|
| Cash Equivalents | $1,370,671 | 100% | 2.46% |

# 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 | 29 % |
| Small Cap Domestic Equity | 21 % |
| 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.

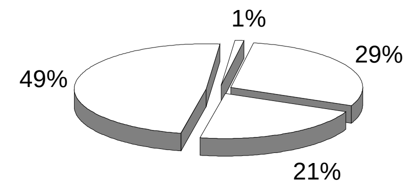
c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.

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, 2005

| Asset Allocation | Market Value | Percent of Total | One Year Return |
|---|---|---|---|
| Domestic Large Cap Equity | $ 2,119,632 | 29% | |
| Domestic Small Cap Equity | 1,562,143 | 21% | |
| Fixed Income | 3,566,484 | 49% | |
| Cash Equivalents | 72,825 | 1% | |
| TOTAL FUND | $ 7,321,084 | 100% | 7.10% |



# 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% |

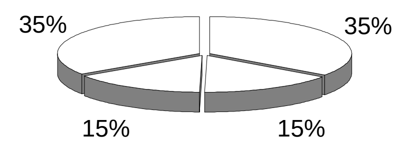
Rebalancing of the Plan to this target will be done in accordance with the SIB's rebalancing policy.

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, 2005

| Asset Allocation | Market Value | Percent of Total | One Year Return |
|---|---|---|---|
| Domestic Large Cap Equity | $ 11,784,171 | 35% | |
| Domestic Small Cap Equity | 5,108,463 | 15% | |
| International Equity | 5,089,722 | 15% | |
| Fixed Income | 11,650,650 | 35% | |
| TOTAL FUND | $33,633,006 | 100% | 8.74% |



# Actuarial

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

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October 17, 2005

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

**Subject: Actuarial Valuation as of July 1, 2005**

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, 2005.

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 30 years from the valuation date. The amortization period used in the previous valuation was 20 years, but it was increased by the Board effective for this valuation. A thirty-year period is the maximum amortization period allowed by GASB 25 in computing the Annual Required Contribution (ARC). The thiry-year period is in common use for public-sector plans and is considered reasonable by the actuary.

Board of Trustees
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***Progress Toward Realization of Financing Objectives***

In order to determine the adequacy of the 7.75% statutory employer contribution rate, it is compared to the GASB 25 ARC. The ARC is equal to the sum of (a) the employer normal cost rate, and (b) the level percentage of pay required to amortize the UAAL over a 30 year period. For this calculation, payroll is assumed to increase 2.00% per annum. As of July 1, 2005, the ARC is 12.12%. This is greater than the 7.75% rate currently required by law. The shortfall (the negative margin) between the rate mandated by law and the rate necessary to fund the UAAL in 30 years is -4.37%.

The GASB ARC increased from 11.34% last year. The increase was due principally to two factors:

- the recognition of another 20% of the actuarial investment losses from FY 2001, FY 2002 and FY 2003 (offset by 20% of the actuarial investment gains from FY 2004 and FY 2005)
- the changes made to the actuarial assumptions, discussed below, offset by the effect of the changes in the amortization procedures

The increase in the ARC would have been even larger if not for the 13.3% market asset return in FY 2005.

If the 7.75% contribution rate remains unchanged, and all actuarial assumptions are exactly realized, including an 8.00% investment return on the actuarial value of assets, then the UAAL will never be amortized. 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, 2004 was 80.3%, while it is 74.8% as of July 1, 2005. This decrease is due to the two factors cited above. Based on market values rather than actuarial values of assets, the funded ratio improved to 77.9% from 76.4% last year.

***Reporting Consequences***

TFFR is required to report in its Comprehensive Annual Financial Report (CAFR) for the current fiscal year ending June 30, 2005 that actual contributions received in FY 2005 were less than the ARC. The 7.75% statutory rate was 68.3% of the 11.34% ARC determined by the last valuation. Next year, the CAFR for FY 2006 will show that the 7.75% statutory rate was only 63.9% of the 12.12% ARC for FY 2006. 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.

***Benefit Provisions***

The actuarial valuation reflects the benefit and contribution provisions set forth in the North Dakota Century Code. The legislature made no material changes to these provisions since the last actuarial valuation.

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Board of Trustees
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Page 3

***Assumptions and Methods***

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. On March 10, 2005, the Board adopted new assumptions and new amortization procedures, effective for this valuation. These new assumptions and procedures were recommended by the actuary, following an analysis of plan experience for the five-year period ending June 30, 2004. We believe the assumptions are internally consistent and are reasonable, based on the actual experience of TFFR. These actuarial assumptions and methods comply with the parameters for disclosure in GASB 25.

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.

***Data***

Member data for retired, active, and inactive participants was supplied as of July 1, 2005, 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 | 2005 | 2004 |
|---|---|---|
| Membership | | |
| • Number of | | |
| - Active Members | 9,801 | 9,826 |
| - Retirees and Beneficiaries | 5,586 | 5,373 |
| - Inactive, Vested | 1,377 | 1,346 |
| - Inactive, Nonvested | 168 | 175 |
| - Total | 16,932 | 16,720 |
| • Payroll | $386.6 million | $376.5 million |
| Statutory contribution rate | | |
| • Employer | 7.75% | 7.75% |
| • Member | 7.75% | 7.75% |
| Assets | | |
| • Market value | $1,530.2 million | $1,374.7 million |
| • Actuarial value | 1,469.7 million | 1,445.6 million |
| • Return on market value | 13.3 % | 18.9 % |
| • Return on actuarial value | 3.3 % | 1.9 % |
| • Ratio - actuarial value to market value | 96.0 % | 105.2 % |
| • External cash flow % | (1.6)% | (1.5)% |
| Actuarial Information | | |
| • Normal cost % | 11.31% | 10.29% |
| • Unfunded actuarial accrued liability (UAAL) | $495.5 million | $354.8 million |
| • Funded ratio | 74.8% | 80.3% |
| • Funding period | Infinite | Infinite |
| GASB 25 ARC | | |
| • Amortization period | 30 years | 20 years |
| • Amortization method | Level % (2.00%) | Level dollar |
| • Calculated contribution rate | 12.12% | 11.34% |
| • Margin | (4.37)% | (3.59)% |
| Gains/(Losses) | | |
| • Asset experience | $(67.4) million | $(87.8) million |
| • Liability experience | (5.8) million | (19.7) million |
| • Benefit changes | 0.0 million | 0.0 million |
| • Assumption/method changes | (63.3) million | N/A |
| • Total | $(136.5) million | $(107.5) 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 (or 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 GASB Annual Required Contribution (ARC) 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 rate is determined as a level percentage of payroll for a hypothetical group of new entrants, based on the characteristics (age at hire, sex, pay at hire) of actual new members joining TFFR during FY 2000 through FY 2004. 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.

## AMORTIZATION PERIOD AND METHOD

The GASB Annual Required Contribution (ARC) is determined as the sum of (a) the employer normal cost rate, and (b) a level percentage of payroll required to amortize the unfunded actuarial accrued liability over 30 years. If the calculated ARC is less than the 7.75% statutory employer contribution rate, the 7.75% rate will be treated as the ARC. The 30-year period is an open period, and does not decrease in subsequent valuations.

## 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. Post Retirement Non-Disabled—1994 Uninsured Pensioner Mortality Table set back three years for males and two years for females. (Adopted July 1, 2005.)

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

   c. Active Mortality—65% of non-disabled post-retirement mortality rates.

Deaths per 100 Lives

| | Male Participants | | Female Participants | |
|---|---|---|---|---|
| Age | Non-Disabled | Disabled | Non-Disabled | Disabled |
| 20 | .0463 | 4.83 | .0293 | 2.63 |
| 25 | .0598 | 4.83 | .0313 | 2.63 |
| 30 | .0782 | 3.62 | .0338 | 2.37 |
| 35 | .0902 | 2.78 | .0454 | 2.14 |
| 40 | .0958 | 2.82 | .0643 | 2.09 |
| 45 | .1346 | 3.22 | .0943 | 2.24 |
| 50 | .2042 | 3.83 | .1297 | 2.57 |
| 55 | .3455 | 4.82 | .2051 | 2.95 |
| 60 | .6001 | 6.03 | .3612 | 3.31 |
| 65 | 1.0911 | 6.78 | .7179 | 3.70 |
| 70 | 1.9391 | 7.39 | 1.2648 | 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, 2005.)

Retirements per 100 Members

| | Unreduced Retirement Ultimate Rate* | | Reduced Retirement | |
|---|---|---|---|---|
| Age | Male | Female | Male | Female |
| 50 | 20.0% | 25.0% | 0.0% | 0.0% |
| 51 | 20.0% | 25.0% | 0.0% | 0.0% |
| 52 | 20.0% | 25.0% | 0.0% | 0.0% |
| 53 | 20.0% | 25.0% | 0.0% | 0.0% |
| 54 | 20.0% | 25.0% | 0.0% | 0.0% |
| 55 | 20.0% | 25.0% | 2.0% | 1.5% |
| 56 | 20.0% | 25.0% | 2.0% | 1.5% |
| 57 | 20.0% | 25.0% | 2.0% | 1.5% |
| 58 | 20.0% | 25.0% | 2.0% | 1.5% |
| 59 | 20.0% | 20.0% | 2.0% | 1.5% |
| 60 | 25.0% | 25.0% | 5.0% | 2.0% |
| 61 | 30.0% | 30.0% | 5.0% | 2.0% |
| 62 | 30.0% | 50.0% | 20.0% | 10.0% |
| 63 | 25.0% | 25.0% | 5.0% | 5.0% |
| 64 | 20.0% | 50.0% | 25.0% | 20.0% |
| 65 | 65.0% | 50.0% | - - | - - |
| 66 | 35.0% | 30.0% | - - | - - |
| 67 | 35.0% | 30.0% | - - | - - |
| 68 | 35.0% | 30.0% | - - | - - |
| 69 | 35.0% | 30.0% | - - | - - |
| 70 | 100.0% | 100.0% | - - | - - |

* If a member reaches eligibility for unreduced retirement under the rule of 85 before age 65, a retirement rate of 50.0% (for males) or 65.0% (for females) is used for that age only.

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

80% of the following withdrawal rates are used based on age and service, for causes other than death, disability, or retirement. (Adopted July 1, 2005.)

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 1.50%, plus step-rate/promotional increase as shown below. (Adopted July 1, 2005.)

| Years of Service | Annual Step-Rate/ Promotional Component | Annual Total Salary Increase |
|---|---|---|
| 0 | 9.50% | 14.00% |
| 1 | 3.50% | 8.00% |
| 2 | 3.25% | 7.75% |
| 3 | 3.00% | 7.50% |
| 4 | 2.75% | 7.25% |
| 5 | 2.50% | 7.00% |
| 6 | 2.25% | 6.75% |
| 7 | 2.00% | 6.50% |
| 8 | 1.75% | 6.25% |
| 9 | 1.50% | 6.00% |
| 10 | 1.25% | 5.75% |
| 11 | 1.00% | 5.50% |
| 12 | 1.00% | 5.50% |
| 13 | 1.00% | 5.50% |
| 14 | 0.75% | 5.25% |
| 15 or more | 0.00% | 4.50% |

7. Payroll Growth Rate — 2.00% per annum. This assumption does not include any allowance for future increase in the number of members. (Adopted July 1, 2005.)

8. 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.)

9. 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.)

10. 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

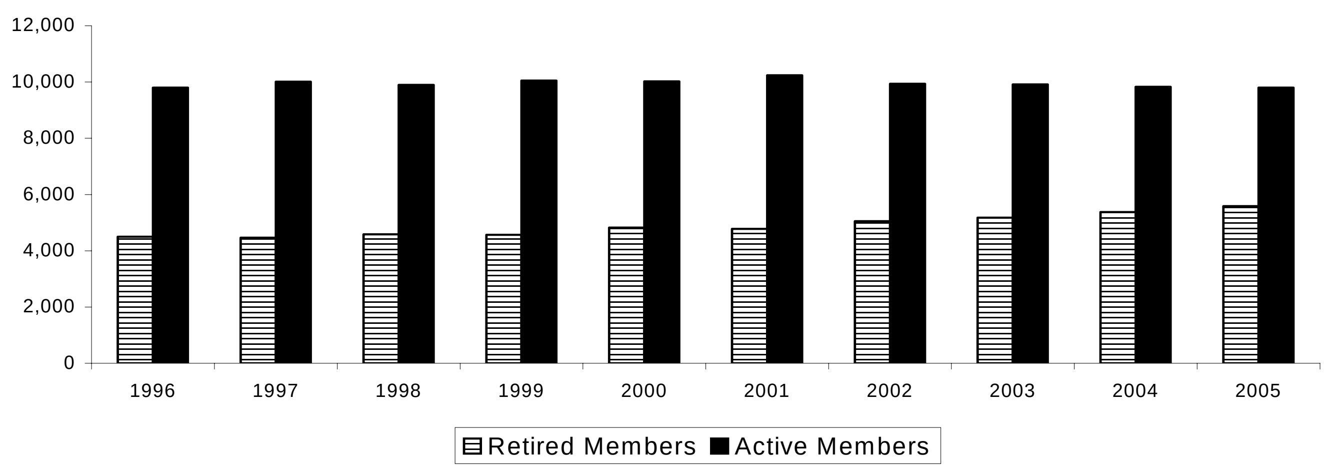
| Year Ending June 30 | Active Members: Number | Active Members: Percent Increase | Covered Payroll: Amount in $ Millions | Covered Payroll: Percent Increase | Average Salary: $ Amount | Average Salary: Percent Increase | Average Age | Average Service |
|---|---|---|---|---|---|---|---|---|
| 1996 | 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 |
| 2005 | 9,801 | (0.3) | 386.6 | 2.7 | 39,447 | 2.9 | 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 |
|---|---|---|---|---|---|---|---|---|
| 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 |
| 2005 | 385 | 8.9 | 172 | 1.8 | 5,586 | 15,708 | 84.5 | 9.5 |

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 GASB ANNUAL REQUIRED CONTRIBUTION (ARC)

| | 2005 | 2004 |
|---|---|---|
| Prior valuation | 11.34 % | 8.94 % |
| Increases/(decreases) due to: | | |
| Open amortization | (0.19)% | (0.14)% |
| Growth in covered payroll | (0.23)% | (0.15)% |
| Employer contributions received at 7.75%; rather than 11.34% or 8.94% | 0.29 % | 0.02 % |
| Liability experience | 0.14 % | 0.49 % |
| Investment experience | 1.63 % | 2.18 % |
| Assumption changes | 2.49 % | 0.00 % |
| Change in amortization method | (3.35)% | 0.00 % |
| Legislative changes | 0.00 % | 0.00 % |
| Total | 0.78 % | 2.40 % |
| Current valuation | 12.12 % | 11.34 % |
| Statutory employer contribution rate | 7.75 % | 7.75 % |
| Margin available | (4.37)% | (3.59)% |

## ANALYSIS OF CHANGE IN UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)

| | Unfunded Actuarial Accrued Liability ($ in millions) | |
|---|---|---|
| | 2005 | 2004 |
| Prior valuation | $ 354.8 | $ 251.9 |
| Increases/(decreases) due to: | | |
| Amortization payments | $ 4.2 | $ (4.6) |
| Investment experience | 67.4 | 87.8 |
| Assumption changes | 63.3 | - |
| Liability experience | 5.8 | 19.7 |
| Change in actuarial methods | - | - |
| Legislative changes | - | - |
| Total | $ 140.7 | $ 102.9 |
| Current valuation | $ 495.5 | $ 354.8 |

## 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) |
| 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 |
| 2005 | 498.2 | 820.8 | 646.2 | 1,469.7 | 100.0 | 100.0 | 23.3 |

# 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.

## 2005 Legislative Session:

There were no material changes made during the 2005 legislative session.

# 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 |
|---|---|---|---|---|---|---|
| 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 |
| 2005 | 30,388,650 | 30,388,265 | 7.75 | 180,763,780 | 3,292,441 | 244,833,136 |

## Expenses by Type

| Fiscal Year | Benefits Paid to Participants | Refunds | Administrative Charges | Total |
|---|---|---|---|---|
| 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 |
| 2005 | 84,498,130 | 2,733,407 | 2,086,849 | 89,318,386 |

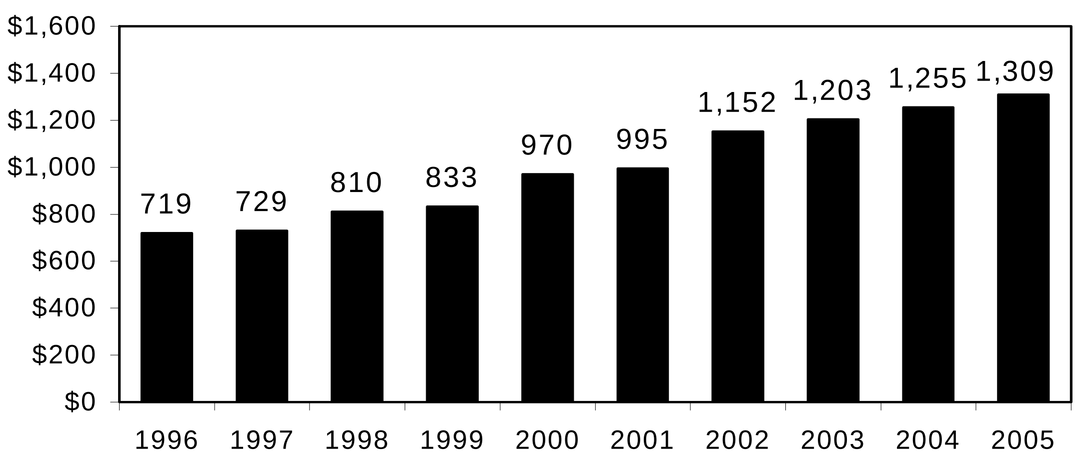
# SCHEDULE OF BENEFIT EXPENSES BY TYPE

| | Annuity Payments | | | | | Refunds * | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Service Retirements | PLSO Distributions | Disability Retirements | Beneficiaries | Total Annuity Payments | Separation | Death | Total Refunds | Total Benefit Expenses |
| 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 | 79,886,461 |
| 2005 | 77,838,622 | 372,761 | 890,333 | 5,396,414 | 84,498,130 | 2,581,112 | 152,295 | 2,733,407 | 87,231,537 |

* Detail not available for refunds for 1996.

# SCHEDULE OF AVERAGE BENEFIT PAYMENTS

| Fiscal Year | | Years of Service < 10 | 10 - 14 | 15 - 19 | 20 - 24 | 25 - 29 | 30 - 34 | > 34 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| 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 |
| 2005 | Number of Retirees | 230 | 431 | 403 | 615 | 1,182 | 1,612 | 1,113 | 5,586 |
| | Average Monthly Benefit | 272 | 377 | 577 | 887 | 1,281 | 1,722 | 1,833 | 1,309 |
| | Average Years of Service | 6 | 12 | 17 | 23 | 27 | 32 | 38 | 28 |



## SCHEDULE OF RETIREES BY BENEFIT AMOUNT

| Monthly Benefit Amount | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|---|---|---|---|---|
| Under $199 | 157 | 146 | 134 | 119 | 154 | 146 | 218 | 209 | 311 | 298 |
| 200 to 399 | 465 | 466 | 473 | 481 | 646 | 669 | 904 | 929 | 1,020 | 1,045 |
| 400 to 599 | 619 | 637 | 671 | 705 | 927 | 997 | 1,007 | 1,071 | 1,077 | 1,142 |
| 600 to 799 | 593 | 637 | 663 | 715 | 538 | 564 | 477 | 492 | 477 | 488 |
| 800 to 999 | 432 | 434 | 439 | 458 | 490 | 497 | 482 | 476 | 438 | 419 |
| 1,000 to 1,199 | 528 | 517 | 513 | 503 | 470 | 459 | 410 | 394 | 365 | 357 |
| 1,200 to 1,399 | 478 | 458 | 450 | 431 | 417 | 405 | 357 | 349 | 289 | 279 |
| 1,400 to 1,599 | 474 | 455 | 432 | 423 | 349 | 343 | 237 | 230 | 189 | 185 |
| 1,600 to 1,799 | 422 | 392 | 358 | 327 | 229 | 225 | 166 | 160 | 110 | 109 |
| 1,800 to 1,999 | 382 | 348 | 297 | 261 | 173 | 164 | 100 | 94 | 67 | 63 |
| 2,000 & Over * | | | 747 | 631 | 384 | 358 | 210 | 181 | 119 | 118 |
| 2,000 to 2,199 | 270 | 245 | | | | | | | | |
| 2,200 to 2,399 | 227 | 202 | | | | | | | | |
| 2,400 to 2,599 | 157 | 133 | | | | | | | | |
| 2,600 to 2,799 | 119 | 105 | | | | | | | | |
| 2,800 to 2,999 | 86 | 68 | | | | | | | | |
| 3,000 & Over | 177 | 130 | | | | | | | | |
| TOTAL | 5,586 | 5,373 | 5,177 | 5,054 | 4,777 | 4,827 | 4,568 | 4,585 | 4,462 | 4,503 |

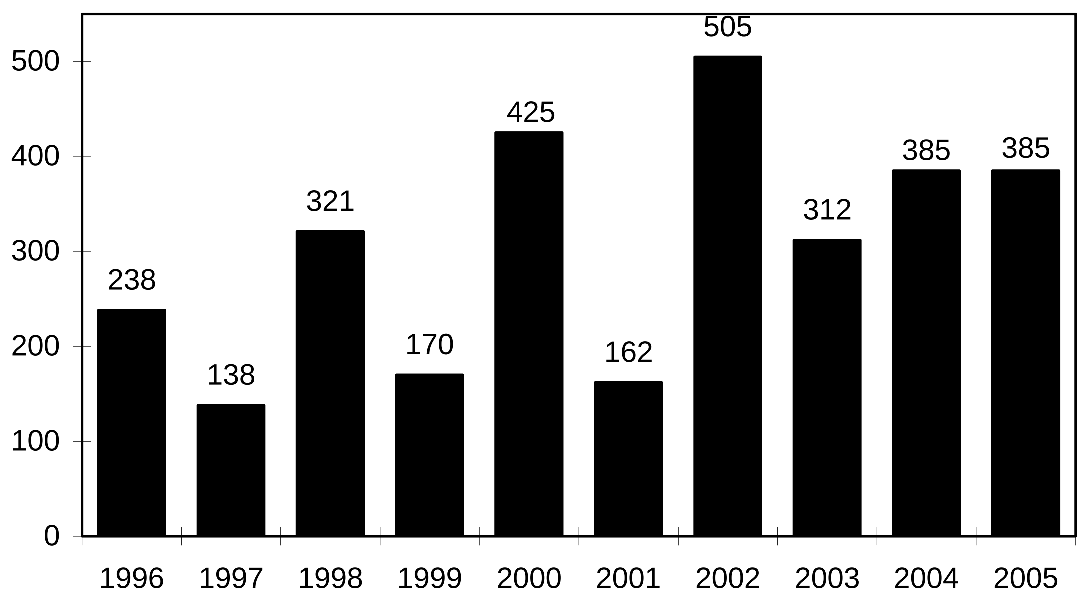
* Breakdown of data for monthly benefits > $2,000 is not available for fiscal years prior to 2004.

## SCHEDULE OF RETIREES BY BENEFIT TYPE

| Type of Benefit/ Form of Payment | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|---|---|---|---|---|
| Service: | | | | | | | | | | |
| Straight Life | 2,544 | 2,527 | 2,531 | 2,566 | 2,566 | 2,674 | 2,661 | 2,760 | 2,787 | 2,858 |
| 100% J&S | 1,361 | 1,243 | 1,128 | 1,030 | 872 | 862 | 719 | 675 | 591 | 591 |
| 50% J&S | 372 | 357 | 333 | 328 | 301 | 303 | 281 | 286 | 270 | 268 |
| 5 Years C&L | 34 | 35 | 34 | 32 | 31 | 33 | 31 | 31 | 30 | 28 |
| 10 Years C&L | 154 | 151 | 149 | 149 | 140 | 141 | 130 | 129 | 122 | 119 |
| 20 Years C&L | 16 | 8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Level | 539 | 495 | 458 | 422 | 354 | 335 | 279 | 256 | 211 | 196 |
| Subtotal | 5,020 | 4,816 | 4,633 | 4,527 | 4,264 | 4,348 | 4,101 | 4,137 | 4,011 | 4,060 |
| Disability: | | | | | | | | | | |
| Straight Life | 61 | 59 | 57 | 55 | 50 | 44 | 41 | 38 | 33 | 33 |
| 100% J&S | 9 | 10 | 11 | 10 | 10 | 10 | 7 | 5 | 5 | 3 |
| 50% J&S | 5 | 6 | 9 | 8 | 7 | 5 | 4 | 3 | 3 | 3 |
| 5 Years C&L | 2 | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 | 1 |
| 10 Years C&L | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 0 | 0 |
| 20 Years C&L | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Subtotal | 79 | 79 | 80 | 76 | 70 | 62 | 54 | 49 | 42 | 40 |
| Beneficiaries: | | | | | | | | | | |
| Straight Life | 466 | 457 | 442 | 439 | 431 | 407 | 404 | 394 | 403 | 396 |
| 5 Years C&L | 9 | 9 | 6 | 2 | 2 | 1 | 1 | 1 | 0 | 1 |
| 10 Years C&L | 12 | 12 | 16 | 10 | 10 | 9 | 8 | 4 | 6 | 6 |
| Subtotal | 487 | 478 | 464 | 451 | 443 | 417 | 413 | 399 | 409 | 403 |
| TOTAL | 5,586 | 5,373 | 5,177 | 5,054 | 4,777 | 4,827 | 4,568 | 4,585 | 4,462 | 4,503 |

# SCHEDULE OF NEW RETIREES BY TYPE

| Year Ended June 30 | Retirement | Disability | Beneficiary | Total |
|---|---|---|---|---|
| 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 |
| 2005 | 351 | 6 | 28 | 385 |



# SCHEDULE OF RETIREES RESIDING IN NORTH DAKOTA
# BY COUNTY

| County | Number | Average Benefit | County | Number | Average Benefit | County | Number | Average Benefit |
|---|---|---|---|---|---|---|---|---|
| Adams | 18 | $ 1,266 | Griggs | 24 | $ 970 | Richland | 100 | $ 1,289 |
| Barnes | 135 | 1,269 | Hettinger | 25 | 1,603 | Rolette | 51 | 1,206 |
| Benson | 28 | 1,262 | Kidder | 20 | 1,102 | Sargent | 30 | 1,055 |
| Billings | 2 | 1,464 | LaMoure | 42 | 1,277 | Sheridan | 15 | 1,116 |
| Bottineau | 78 | 1,184 | Logan | 24 | 1,070 | Sioux | 5 | 873 |
| Bowman | 39 | 1,408 | McHenry | 51 | 1,106 | Slope | 2 | 443 |
| Burke | 28 | 1,257 | McIntosh | 29 | 1,441 | Stark | 166 | 1,371 |
| Burleigh | 574 | 1,472 | McKenzie | 31 | 1,200 | Steele | 13 | 883 |
| Cass | 602 | 1,496 | McLean | 87 | 1,189 | Stutsman | 153 | 1,218 |
| Cavalier | 51 | 1,249 | Mercer | 50 | 1,316 | Towner | 23 | 1,133 |
| Dickey | 52 | 974 | Morton | 179 | 1,482 | Traill | 72 | 1,337 |
| Divide | 22 | 1,502 | Mountrail | 55 | 1,222 | Walsh | 108 | 1,401 |
| Dunn | 18 | 880 | Nelson | 54 | 1,230 | Ward | 413 | 1,412 |
| Eddy | 34 | 1,253 | Oliver | 14 | 1,484 | Wells | 51 | 1,182 |
| Emmons | 27 | 927 | Pembina | 63 | 1,114 | Williams | 149 | 1,325 |
| Foster | 30 | 1,299 | Pierce | 38 | 1,410 | Out-of-State | 1,060 | 1,095 |
| Golden Valley | 17 | 1,077 | Ramsey | 120 | 1,235 | | | |
| Grand Forks | 419 | 1,573 | Ransom | 50 | 1,217 | GRAND TOTALS: | 5,586 | $ 1,309 |
| Grant | 22 | 849 | Renville | 23 | 1,271 | | | |

## SCHEDULE OF PARTICIPATING EMPLOYERS AT JUNE 30, 2005

**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-Stanton
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
Larimore
Leeds
Lewis and Clark
Lidgerwood
Linton
Lisbon
Litchville-Marion
Little Heart Elementary
Lone Tree Elementary
Maddock
Mandan
Mandaree
Manning 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-Lansford-Sherwood
Montefiore
Montpelier
Mott-Regent
Mt. Pleasant
Munich
Napoleon
Nash Elementary
Naughton Rural
Neche
Nedrose
Nesson
New Elementary
New England
New Horizons ITV
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
Sheyenne
Sims Elementary
Solen – Cannonball
South Heart
South Prairie Elementary
Southern
Spiritwood Elementary
St. John's School
St. Thomas
Stanley
Starkweather
Steele – Dawson
Sterling Elementary
Strasburg
Surrey
Sweet Briar Elementary
Sykeston
Tappen
TGU
Thompson
Tioga
Turtle Lake – Mercer
Tuttle
Twin Buttes Elementary
Underwood
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 207**

**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.
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 18**

**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 Agencies & 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.
Valley City Teacher Center
**Total Other 5**

**Total Employers 260**

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

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **INVESTMENT MANAGERS** | | | | | |
| **Domestic Large Cap Equity:** | | | | | |
| AllianceBernstein Capital Management | $ - | $ 12,457 | $ 137,107 | $ 151,964 | $ 170,278 |
| Ark Asset Management Company, Inc. | - | - | - | - | 0 |
| Los Angeles Capital Management | 660,619 | 520,099 | 263,973 | 280,792 | 282,817 |
| LSV Asset Management | 590,168 | 533,657 | 448,581 | 294,418 | 324,269 |
| Northern Trust Global Investments | 402,732 | 291,741 | 250,046 | 279,447 | 262,719 |
| State Street Global Advisors | 17,541 | 16,857 | 22,707 | 35,858 | 45,034 |
| Wells Capital Management Co. | - | 262,974 | 208,778 | 256,989 | 364,056 |
| Westridge Capital Management, Inc. | 493,687 | 452,368 | 417,561 | 737,898 | 256,246 |
| **Total Domestic Large Cap Equity** | 2,164,747 | 2,090,153 | 1,748,753 | 2,037,366 | 1,705,419 |
| **Domestic Small Cap Equity:** | | | | | |
| Nicholas-Applegate Capital Management | - | - | - | - | 553,613 |
| SEI Investments Management Co. | 2,370,310 | 2,242,925 | 1,691,371 | 1,936,560 | - |
| UBS Global Asset Management | - | - | - | - | 1,408,427 |
| **Total Domestic Small Cap Equity** | 2,370,310 | 2,242,925 | 1,691,371 | 1,936,560 | 1,962,040 |
| **International Equity:** | | | | | |
| Bank of Ireland Asset Management | 322,720 | 291,873 | 227,016 | 86,262 | - |
| Capital Guardian Trust Company | 693,054 | 851,348 | 629,489 | 693,003 | 729,367 |
| Lazard Asset Management | 345,025 | 307,157 | 246,569 | 82,230 | - |
| LSV Asset Management | 416,411 | - | - | - | - |
| State Street Global Advisors | 114,231 | 245,192 | 170,764 | 368,456 | 508,852 |
| Wellington Trust Company, NA | 403,531 | 387,222 | 307,985 | 106,925 | - |
| **Total International Equity** | 2,294,972 | 2,082,792 | 1,581,823 | 1,336,876 | 1,238,219 |
| **Emerging Markets Equity:** | | | | | |
| Capital Guardian Trust Company | 976,495 | 886,004 | 644,587 | 675,677 | 674,300 |
| **Domestic Fixed Income:** | | | | | |
| Bank of North Dakota | 52,529 | 50,271 | 44,239 | 53,531 | 55,322 |
| RMK Timberland Investment Mgmt. | 567,599 | 736,627 | 423,603 | 176,129 | - |
| Timberland Investment Resources | 455,891 | - | - | - | - |
| Trust Company of the West | 218,650 | 242,297 | 255,695 | 335,802 | 404,831 |
| Wells Capital Management, Inc. | 134,936 | 117,820 | 150,395 | 228,669 | 265,279 |
| Western Asset Management Company | 111,449 | 101,180 | 106,155 | 145,338 | 183,831 |
| WestLB Asset Management | 82,413 | 130,429 | 146,821 | 196,555 | 226,269 |
| **Total Domestic Fixed Income** | 1,623,467 | 1,378,624 | 1,126,908 | 1,136,024 | 1,135,532 |
| **High Yield Fixed Income:** | | | | | |
| Loomis Sayles | 437,397 | 92,700 | - | - | - |
| Wells Capital Management, Inc. | 422,859 | 96,369 | - | - | - |
| Western Asset Management Company | - | 198,017 | 249,265 | 266,409 | 296,678 |
| **Total High Yield Fixed Income** | 860,256 | 387,086 | 249,265 | 266,409 | 296,678 |
| **International Fixed Income:** | | | | | |
| UBS Global Asset Management | 297,226 | 267,101 | 423,731 | 478,521 | 501,752 |
| Brandywine Asset Management | 313,098 | 273,526 | 39,940 | - | - |
| **Total International Fixed Income** | 610,324 | 540,627 | 463,671 | 478,521 | 501,752 |

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

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **INVESTMENT MANAGERS (continued)** | | | | | |
| **Real Estate:** | | | | | |
| Heitman/JMB Advisory Corp. | $ - | $ - | $ - | $ 23,141 | $ 26,691 |
| INVESCO Realty Advisors | 642,900 | 777,309 | 634,499 | 741,084 | 757,962 |
| J.P. Morgan Investment Management, Inc. | 1,189,060 | 1,009,926 | 944,537 | 874,910 | 1,090,524 |
| Westmark Realty Advisors L.L.C. | - | - | - | - | 2,501 |
| **Total Real Estate** | 1,831,960 | 1,787,235 | 1,579,036 | 1,639,135 | 1,877,678 |
| **Private Equity:** | | | | | |
| Adams Street Partners | 1,075,470 | 1,152,935 | 1,220,639 | 1,325,000 | 1,325,000 |
| Coral Partners, Inc. | 1,689,769 | 1,684,712 | 1,646,036 | 1,003,190 | 959,047 |
| Hearthstone Homebuilding Investors, LLC | 4,542,006 | 2,354,122 | 1,307,083 | 1,036,884 | 584,209 |
| InvestAmerica L&C, LLC | 375,000 | 375,000 | 348,772 | - | - |
| Matlin Patterson Global Opportunities, LLC | 640,625 | 437,500 | 943,322 | - | - |
| **Total Private Equity** | 8,322,870 | 6,004,269 | 5,465,852 | 3,365,074 | 2,868,256 |
| **Cash Equivalents:** | | | | | |
| The Northern Trust Company, Inc. | 92,149 | 75,054 | 48,678 | 75,064 | 54,463 |
| **Total Investment Manager Fees** | 21,147,550 | 7,866,558 | 16,512,708 | 12,545,711 | 12,667,830 |
| **INVESTMENT CUSTODIAN** | | | | | |
| The Northern Trust Company, Inc | 665,915 | 523,890 | 548,056 | 626,718 | 535,136 |
| **INVESTMENT CONSULTANT** | | | | | |
| Callan Associates Inc. | 178,389 | 193,175 | 140,195 | 131,463 | 182,032 |
| **SIB ADMINISTRATIVE FEES** | 270,288 | 277,786 | 272,871 | 252,997 | 265,243 |
| **SECURITIES LENDING FEES** | | | | | |
| Rebates | 3,556,742 | 1,107,164 | 1,674,462 | 3,002,217 | 10,347,230 |
| Bank Fees | 262,466 | 212,251 | 185,818 | 205,838 | 257,804 |
| **Total Securities Lending Fees** | 3,819,208 | 1,319,415 | 1,860,280 | 3,208,055 | 10,605,034 |

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

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **INVESTMENT MANAGERS** | | | | | |
| State Street Global Advisors | $ 65,534 | $ 56,210 | $ 47,599 | $ 50,380 | $ 53,036 |
| **INVESTMENT CUSTODIAN** | | | | | |
| The Northern Trust Company, Inc | 652 | 648 | 1,692 | 2,740 | 2,743 |
| **SIB ADMINISTRATIVE FEES** | 2,696 | 2,618 | 2,587 | 2,251 | 2,325 |

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

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **INVESTMENT MANAGERS** | | | | | |
| **Domestic Large Cap Equity:** | | | | | |
| AllianceBernstein Capital Management | $ - | $ 4,525 | $ 50,673 | $ 54,786 | $ 52,883 |
| Los Angeles Capital Management | 130,010 | 62,875 | - | - | - |
| LSV Asset Management | 84,484 | 85,026 | 73,011 | 96,428 | 108,130 |
| State Street Global Advisors | 10,000 | 33,648 | 38,949 | 41,842 | 38,089 |
| Westridge Capital Management, Inc. | 110,895 | 27,844 | - | - | - |
| **Total Domestic Large Cap Equity** | 335,389 | 213,918 | 162,633 | 193,056 | 199,102 |
| **Domestic Small Cap Equity:** | | | | | |
| Brinson Partners, Inc. | - | - | - | - | 253,112 |
| Nicholas-Applegate Capital Management | - | - | - | - | 164,218 |
| SEI Investments Management | 521,070 | 548,495 | 453,329 | 484,616 | - |
| **Total Domestic Small Cap Equity** | 521,070 | 548,495 | 453,329 | 484,616 | 417,330 |
| **International Equity:** | | | | | |
| Capital Guardian Trust Company | 199,852 | 356,373 | 344,834 | 392,190 | 358,164 |
| Lazard Asset Management | 66,902 | 83,289 | 44,755 | - | - |
| LSV Asset Management | 101,949 | - | - | - | - |
| The Vanguard Group | 45,275 | 91,048 | 2,891 | - | - |
| **Total International Equity** | 413,978 | 530,710 | 392,480 | 392,190 | 358,164 |
| **Convertible Bonds:** | | | | | |
| Trust Company of the West | 292,953 | 505,255 | 466,670 | 492,572 | 478,858 |
| **Domestic Fixed Income:** | | | | | |
| Bank of North Dakota | 142,950 | 109,926 | 94,786 | 134,261 | 145,520 |
| Wells Capital Management, Inc. | 298,661 | 301,395 | 272,484 | 68,273 | - |
| Western Asset Management Company | 411,419 | 535,966 | 524,407 | 572,893 | 609,483 |
| **Total Domestic Fixed Income** | 853,030 | 947,287 | 891,677 | 775,427 | 755,003 |
| **Treasury Inflation-Protected Securities (TIPS)** | | | | | |
| Northern Trust Global Investments | 60,268 | - | - | - | - |
| **Balanced Fund-State Street (Health Trust)** | - | - | 41,346 | - | - |
| **Total Investment Manager Fees** | 2,476,688 | 2,745,665 | 2,408,135 | 2,337,861 | 2,208,457 |
| **INVESTMENT CUSTODIAN** | | | | | |
| The Northern Trust Company, Inc | 261,904 | 247,232 | 337,768 | 366,837 | 321,958 |
| **INVESTMENT CONSULTANT** | | | | | |
| Callan Associates | 140,608 | 110,159 | 87,266 | 69,955 | 63,139 |
| **SIB ADMINISTRATIVE FEES** | 108,712 | 373,650 | 120,095 | 79,815 | 94,145 |
| **SECURITIES LENDING FEES** | | | | | |
| Rebates | 5,720,527 | 1,422,043 | 1,811,453 | 3,907,272 | 11,106,470 |
| Bank Fees | 219,027 | 149,306 | 141,667 | 249,189 | 239,062 |
| **Total Securities Lending Fees** | 5,939,554 | 1,571,349 | 1,953,120 | 4,156,461 | 11,345,532 |

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

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **Public Employees Retirement System** | | | | | |
| Net assets beginning of year | $ 1,304,738,956 | $ 1,126,095,333 | $ 1,080,040,861 | $ 1,170,179,844 | $ 1,232,890,945 |
| Net increase/(decrease) in fair value of investments | 154,870,263 | 156,289,529 | 22,232,141 | (115,940,983) | (96,066,919) |
| Interest, dividends and other income | 34,148,529 | 34,280,353 | 36,951,759 | 38,541,144 | 44,862,313 |
| Investment expenses | 5,316,187 | 4,043,903 | 3,575,041 | 3,727,939 | 4,108,479 |
| Net securities lending income | 260,073 | 218,294 | 195,613 | 238,795 | 301,984 |
| Net incr/(decr) in net assets resulting from unit transactions | (13,000,000) | (8,100,650) | (9,750,000) | (9,250,000) | (7,700,000) |
| Net assets end of year | $ 1,475,701,634 | $ 1,304,738,956 | $ 1,126,095,333 | $ 1,080,040,861 | $ 1,170,179,844 |
| **City of Bismarck Employees Pension Plan** | | | | | |
| Net assets beginning of year | $ 26,354,623 | $ 22,968,106 | $ 21,573,002 | $ 23,006,697 | $ 23,523,256 |
| Net increase/(decrease) in fair value of investments | 3,332,675 | 2,770,138 | 721,533 | (2,192,830) | (1,377,978) |
| Interest, dividends and other income | 649,709 | 683,552 | 735,176 | 827,200 | 937,911 |
| Investment expenses | 108,273 | 71,632 | 65,768 | 73,474 | 83,255 |
| Net securities lending income | 5,048 | 4,459 | 4,163 | 5,409 | 6,763 |
| Net incr/(decr) in net assets resulting from unit transactions | 10,071,655 | - | - | - | - |
| Net assets end of year | $ 40,305,437 | $ 26,354,623 | $ 22,968,106 | $ 21,573,002 | $ 23,006,697 |
| **City of Bismarck Police Pension Plan** | | | | | |
| Net assets beginning of year | $ 12,807,676 | $ 11,077,471 | $ 10,494,577 | $ 11,304,692 | $ 11,704,525 |
| Net increase/(decrease) in fair value of investments | 1,519,817 | 1,428,040 | 262,050 | (1,152,914) | (796,598) |
| Interest, dividends and other income | 346,503 | 340,580 | 354,978 | 380,805 | 438,908 |
| Investment expenses | 55,815 | 40,476 | 35,988 | 40,275 | 45,028 |
| Net securities lending income | 2,373 | 2,061 | 1,854 | 2,269 | 2,885 |
| Net incr/(decr) in net assets resulting from unit transactions | 3,880,783 | - | - | - | - |
| Net assets end of year | $ 18,501,337 | $ 12,807,676 | $ 11,077,471 | $ 10,494,577 | $ 11,304,692 |
| **Job Service of North Dakota** | | | | | |
| Net assets beginning of year | $ 73,259,542 | $ 67,303,290 | $ 60,847,741 | $ 62,062,970 | $ 60,815,829 |
| Net increase/(decrease) in fair value of investments | 9,452,746 | 6,536,599 | 2,153,287 | (6,167,057) | (4,125,395) |
| Interest, dividends and other income | 1,682,114 | 1,946,003 | 2,077,422 | 2,217,530 | 2,267,013 |
| Investment expenses | 268,358 | 184,664 | 181,548 | 191,608 | 200,498 |
| Net securities lending income | 17,556 | 15,958 | 15,388 | 17,906 | 20,021 |
| Net incr/(decr) in net assets resulting from unit transactions | (2,692,923) | (2,357,644) | 2,391,000 | 2,908,000 | 3,286,000 |
| Net assets end of year | $ 81,450,677 | $ 73,259,542 | $ 67,303,290 | $ 60,847,741 | $ 62,062,970 |
| **TOTAL PENSION INVESTMENT POOL** | | | | | |
| Net assets beginning of year | $ 1,417,160,797 | $ 1,227,444,200 | $ 1,172,956,181 | $ 1,266,554,203 | $ 1,328,934,555 |
| Net increase/(decrease) in fair value of investments | 169,175,501 | 167,024,306 | 25,369,011 | (125,453,784) | (102,366,890) |
| Interest, dividends and other income | 36,826,855 | 37,250,488 | 40,119,335 | 41,966,679 | 48,506,145 |
| Investment expenses | 5,748,633 | 4,340,675 | 3,858,345 | 4,033,296 | 4,437,260 |
| Net securities lending income | 285,050 | 240,772 | 217,018 | 264,379 | 331,653 |
| Net incr/(decr) in net assets resulting from unit transactions | (1,740,485) | (10,458,294) | (7,359,000) | (6,342,000) | (4,414,000) |
| Net assets end of year | $ 1,615,959,085 | $ 1,417,160,797 | $ 1,227,444,200 | $ 1,172,956,181 | $ 1,266,554,203 |

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

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **Workforce Safety & Insurance Fund** | | | | | |
| Net assets beginning of year | $ 1,078,349,677 | $ 980,192,555 | $ 906,570,883 | $ 924,957,230 | $ 899,472,385 |
| Net increase/(decrease) in fair value of investments | 47,067,853 | 59,516,744 | 44,052,887 | (51,653,135) | (27,760,213) |
| Interest, dividends and other income | 34,684,534 | 34,358,320 | 38,713,140 | 38,573,723 | 43,475,209 |
| Investment expenses | 2,393,638 | 2,552,501 | 2,461,558 | 2,344,928 | 2,566,986 |
| Net securities lending income | 489,070 | 334,559 | 317,203 | 537,993 | 536,835 |
| Net incr/(decr) in net assets resulting from unit transactions | 10,000,000 | 6,500,000 | (7,000,000) | (3,500,000) | 11,800,000 |
| Net assets end of year | $ 1,168,197,496 | $ 1,078,349,677 | $ 980,192,555 | $ 906,570,883 | $ 924,957,230 |
| **State Fire & Tornado Fund** | | | | | |
| Net assets beginning of year | $ 19,607,853 | $ 16,328,742 | $ 13,219,551 | $ 16,640,670 | $ 15,922,249 |
| Net increase/(decrease) in fair value of investments | 857,407 | 1,276,515 | 640,258 | (896,648) | (746,935) |
| Interest, dividends and other income | 730,323 | 596,671 | 578,844 | 603,477 | 777,494 |
| Investment expenses | 60,054 | 50,261 | 39,974 | 36,532 | 46,420 |
| Net securities lending income | 10,148 | 6,186 | 5,063 | 8,584 | 9,282 |
| Net incr/(decr) in net assets resulting from unit transactions | 1,700,000 | 1,450,000 | 1,925,000 | (3,100,000) | 725,000 |
| Net assets end of year | $ 22,845,677 | $ 19,607,853 | $ 16,328,742 | $ 13,219,551 | $ 16,640,670 |
| **State Bonding Fund** | | | | | |
| Net assets beginning of year | $ 3,772,597 | $ 5,136,038 | $ 4,781,300 | $ 4,909,606 | $ 4,900,394 |
| Net increase/(decrease) in fair value of investments | 130,648 | 264,390 | 181,129 | (303,555) | (201,129) |
| Interest, dividends and other income | 123,768 | 131,611 | 185,032 | 185,119 | 221,523 |
| Investment expenses | 10,057 | 10,792 | 13,044 | 12,508 | 13,867 |
| Net securities lending income | 1,743 | 1,350 | 1,621 | 2,638 | 2,685 |
| Net incr/(decr) in net assets resulting from unit transactions | (1,400,000) | (1,750,000) | - | - | - |
| Net assets end of year | $ 2,618,699 | $ 3,772,597 | $ 5,136,038 | $ 4,781,300 | $ 4,909,606 |
| **Petroleum Tank Release Compensation Fund** | | | | | |
| Net assets beginning of year | $ 8,958,441 | $ 8,574,000 | $ 8,317,667 | $ 8,632,780 | $ 8,706,803 |
| Net increase/(decrease) in fair value of investments | 317,187 | 653,442 | 278,199 | (484,206) | (342,226) |
| Interest, dividends and other income | 289,064 | 261,312 | 296,926 | 310,995 | 389,458 |
| Investment expenses | 23,799 | 22,988 | 21,392 | 21,265 | 25,890 |
| Net securities lending income | 3,905 | 2,675 | 2,600 | 4,363 | 4,635 |
| Net incr/(decr) in net assets resulting from unit transactions | (290,000) | (510,000) | (300,000) | (125,000) | (100,000) |
| Net assets end of year | $ 9,254,798 | $ 8,958,441 | $ 8,574,000 | $ 8,317,667 | $ 8,632,780 |
| **Insurance Regulatory Trust Fund** | | | | | |
| Net assets beginning of year | $ 2,690,119 | $ 2,763,062 | $ 2,280,579 | $ 2,327,671 | $ 2,717,188 |
| Net increase/(decrease) in fair value of investments | 77,694 | 87,813 | 37,155 | (142,511) | (53,790) |
| Interest, dividends and other income | 54,367 | 43,323 | 49,452 | 48,598 | 78,012 |
| Investment expenses | 4,699 | 4,500 | 4,572 | 3,734 | 4,421 |
| Net securities lending income | 610 | 421 | 448 | 555 | 682 |
| Net incr/(decr) in net assets resulting from unit transactions | 160,000 | (200,000) | 400,000 | 50,000 | (410,000) |
| Net assets end of year | $ 2,978,091 | $ 2,690,119 | $ 2,763,062 | $ 2,280,579 | $ 2,327,671 |

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

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **ND Health Care Trust Fund** | | | | | |
| Net assets beginning of year | $ 25,498,926 | $ 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 | 1,075,658 | 1,209,708 | 1,845,765 | 1,795,032 | - |
| Investment expenses | 2,370 | 3,664 | 47,908 | 134,190 | - |
| Net securities lending income | - | - | 1,823 | 24,468 | - |
| Net incr/(decr) in net assets resulting from unit transactions | (7,990,650) | (4,353,595) | (14,927,709) | 45,051,761 | - |
| Net assets end of year | $ 18,581,564 | $ 25,498,926 | $ 28,646,477 | $ 43,795,649 | $ - |
| **Veterans Cemetery Fund** | | | | | |
| Net assets beginning of year | $ 71,103 | $ 63,417 | $ 49,627 | $ 35,697 | $ 23,998 |
| Net increase/(decrease) in fair value of investments | - | - | - | - | - |
| Interest, dividends and other income | 1,956 | 811 | 846 | 999 | 1,618 |
| Investment expenses | 13 | 10 | 11 | 3 | 2 |
| Net securities lending income | - | - | - | - | - |
| Net incr/(decr) in net assets resulting from unit transactions | 12,959 | 6,885 | 12,955 | 12,934 | 10,083 |
| Net assets end of year | $ 86,005 | $ 71,103 | $ 63,417 | $ 49,627 | $ 35,697 |
| **Veterans Post War Trust Fund** | | | | | |
| Net assets beginning of year | $ 1,341,087 | $ 1,126,207 | $ 1,186,374 | $ 1,424,389 | $ 1,382,644 |
| Net increase/(decrease) in fair value of investments | 279,146 | 200,635 | (31,456) | (254,022) | (175,012) |
| Interest, dividends and other income | 57,769 | 18,286 | 18,832 | 19,106 | 20,381 |
| Investment expenses | 7,310 | 4,293 | 2,656 | 3,132 | 3,677 |
| Net securities lending income | 1,084 | 252 | 113 | 33 | 53 |
| Net incr/(decr) in net assets resulting from unit transactions | 1,935,000 | - | (45,000) | - | 200,000 |
| Net assets end of year | $ 3,606,776 | $ 1,341,087 | $ 1,126,207 | $ 1,186,374 | $ 1,424,389 |
| **Risk Management Fund** | | | | | |
| Net assets beginning of year | $ 2,968,620 | $ 2,538,517 | $ 3,298,707 | $ 3,532,523 | $ 5,327,748 |
| Net increase/(decrease) in fair value of investments | 144,646 | 60,323 | 102,735 | (205,527) | (177,198) |
| Interest, dividends and other income | 79,971 | 75,280 | 107,014 | 128,818 | 190,789 |
| Investment expenses | 5,961 | 6,181 | 5,623 | 8,943 | 11,172 |
| Net securities lending income | 1,000 | 681 | 684 | 1,836 | 2,356 |
| Net incr/(decr) in net assets resulting from unit transactions | (750,000) | 300,000 | (965,000) | (150,000) | (1,800,000) |
| Net assets end of year | $ 2,438,276 | $ 2,968,620 | $ 2,538,517 | $ 3,298,707 | $ 3,532,523 |
| **Risk Management Workers Comp Fund** | | | | | |
| Net assets beginning of year | $ 2,679,178 | $ - | $ - | $ - | $ - |
| Net increase/(decrease) in fair value of investments | 68,035 | 124,123 | - | - | - |
| Interest, dividends and other income | 64,068 | 61,166 | - | - | - |
| Investment expenses | 6,125 | 6,729 | - | - | - |
| Net securities lending income | 747 | 618 | - | - | - |
| Net incr/(decr) in net assets resulting from unit transactions | 100,000 | 2,500,000 | - | - | - |
| Net assets end of year | $ 2,905,903 | $ 2,679,178 | $ - | $ - | $ - |

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

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **ND Association of Counties Fund** | | | | | |
| Net assets beginning of year | $ 306,518 | $ 273,797 | $ 257,665 | $ 271,137 | $ 539,481 |
| Net increase/(decrease) in fair value of investments | 20,629 | 25,891 | 8,441 | (21,265) | (16,410) |
| Interest, dividends and other income | 10,059 | 8,525 | 9,280 | 9,323 | 14,042 |
| Investment expenses | 1,941 | 1,786 | 1,672 | 1,666 | 1,891 |
| Net securities lending income | 144 | 91 | 83 | 136 | 190 |
| Net incr/(decr) in net assets resulting from unit transactions | 50,000 | - | - | - | (264,275) |
| Net assets end of year | $ 385,409 | $ 306,518 | $ 273,797 | $ 257,665 | $ 271,137 |
| **ND Association of Counties Program Savings Fund** | | | | | |
| Net assets beginning of year | $ 325,508 | $ 290,719 | $ 273,574 | $ 287,382 | $ 1,402,703 |
| Net increase/(decrease) in fair value of investments | 18,684 | 27,475 | 8,916 | (22,143) | (15,308) |
| Interest, dividends and other income | 10,661 | 9,053 | 9,855 | 9,901 | 12,713 |
| Investment expenses | 1,996 | 1,835 | 1,714 | 1,709 | 1,857 |
| Net securities lending income | 152 | 96 | 88 | 143 | 156 |
| Net incr/(decr) in net assets resulting from unit transactions | 50,000 | - | - | - | (1,111,025) |
| Net assets end of year | $ 403,009 | $ 325,508 | $ 290,719 | $ 273,574 | $ 287,382 |
| **PERS Group Insurance Fund** | | | | | |
| Net assets beginning of year | $ 286,269 | $ 133,981 | $ 57,641 | $ 1,544,733 | $ 119,122 |
| Net increase/(decrease) in fair value of investments | - | - | - | - | - |
| Interest, dividends and other income | 135,190 | 53,303 | 58,525 | 95,512 | 191,229 |
| Investment expenses | 1,064 | 1,015 | 1,013 | 1,004 | 1,066 |
| Net securities lending income | - | - | - | - | - |
| Net incr/(decr) in net assets resulting from unit transactions | 950,000 | 100,000 | 18,828 | (1,581,600) | 1,235,448 |
| Net assets end of year | $ 1,370,395 | $ 286,269 | $ 133,981 | $ 57,641 | $ 1,544,733 |
| **City of Bismarck Deferred Sick Leave Fund** | | | | | |
| Net assets beginning of year | $ 660,487 | $ 607,608 | $ 559,779 | $ 566,032 | $ 558,682 |
| Net increase/(decrease) in fair value of investments | 28,817 | 33,526 | 26,238 | (27,731) | (17,621) |
| Interest, dividends and other income | 24,078 | 21,800 | 23,875 | 23,530 | 27,154 |
| Investment expenses | 2,769 | 2,673 | 2,491 | 2,397 | 2,529 |
| Net securities lending income | 349 | 226 | 207 | 345 | 346 |
| Net incr/(decr) in net assets resulting from unit transactions | - | - | - | - | - |
| Net assets end of year | $ 710,962 | $ 660,487 | $ 607,608 | $ 559,779 | $ 566,032 |
| **City of Fargo FargoDome Permanent Fund** | | | | | |
| Net assets beginning of year | $ 5,863,757 | $ 4,307,480 | $ - | $ - | $ - |
| Net increase/(decrease) in fair value of investments | 274,460 | 419,447 | 438,029 | - | - |
| Interest, dividends and other income | 192,967 | 149,299 | 95,346 | - | - |
| Investment expenses | 17,144 | 13,802 | 8,639 | - | - |
| Net securities lending income | 2,336 | 1,333 | 617 | - | - |
| Net incr/(decr) in net assets resulting from unit transactions | 1,000,000 | 1,000,000 | 3,782,127 | - | - |
| Net assets end of year | $ 7,316,376 | $ 5,863,757 | $ 4,307,480 | $ - | $ - |

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

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **TOTAL INSURANCE INVESTMENT POOL** | | | | | |
| Net assets beginning of year | $ 1,153,380,140 | $ 1,050,982,600 | $ 984,648,996 | $ 965,129,850 | $ 941,073,397 |
| Net increase/(decrease) in fair value of investments | 49,285,206 | 62,690,324 | 43,721,388 | (56,952,165) | (29,505,842) |
| Interest, dividends and other income | 37,534,433 | 36,998,468 | 41,992,732 | 41,804,133 | 45,399,622 |
| Investment expenses | 2,538,940 | 2,683,030 | 2,612,267 | 2,572,011 | 2,679,778 |
| Net securities lending income | 511,288 | 348,488 | 330,550 | 581,094 | 557,220 |
| Net incr/(decr) in net assets resulting from unit transactions | 5,527,309 | 5,043,290 | (17,098,799) | 36,658,095 | 10,285,231 |
| Net assets end of year | $ 1,243,699,436 | $ 1,153,380,140 | $ 1,050,982,600 | $ 984,648,996 | $ 965,129,850 |