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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For the Fiscal Year Ended June 30, 2006

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

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ND Retirement and Investment Office

Teachers' Fund for Retirement
State Investment Board

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Executive Director

Fay Kopp
Deputy Executive Director

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November 15, 2006

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, 2006, 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 over 9,500 teachers from 246 employer groups and pays benefits to more than 5,800 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 $4.9 billion in assets for five pension funds and 17 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 as of June 30, 2006:

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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
	Cultural Endowment Fund
PERS Retiree Health Insurance Credit Fund	Veterans Cemetery Trust Fund
	Budget Stabilization 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.
- The Veterans Cemetery Trust was added during the fiscal year ended June 30, 1998, in August 1997.
- 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.
- The Cultural Endowment Fund was added by the 2005 legislature and funded in July 2005.
- The Budget Stabilization Fund joined the pool in September 2005 upon reaching statutorily designated levels.

Three funds have left the insurance investment pool after having been included in it at some point during its existance - the Veterans' Home Improvement Fund was added in July 1996 and removed in August 1997, the National Guard Tuition Waiver Fund was added in June 1996 and removed in June 1999, and the Veterans Post War Trust Fund was added in December 1997 and left the pool in September 2005.

MAJOR INITIATIVES

- Retirement Program

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

Legislation - There were no material TFFR plan modifications made by the 2005 Legislative Assembly. However, after a comprehensive study, the TFFR Board is proposing statutory changes to the 2007 Legislative Assembly designed to improve TFFR's long-term financial condition without impairing legally protected contractual pension benefits.

Actuarial Audit - Periodically, the TFFR Board has an actuarial audit conducted to verify that the current actuary is performing the actuarial valuations correctly and that the methods and assumptions being used are reasonable. During the fiscal year, the Board hired an outside actuarial firm to conduct such a review. The audit found that the work being done by the current actuary is reasonable and is being performed in accordance with generally accepted actuarial principles and practices.

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 software went into production in September 2005, and was fully implemented during the 2005-06 year. During this time frame, the TFFR also migrated its current imaging system to a new one. The project was completed abut four months behind schedule, but was nearly $68,000 under budget. 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 2006. 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 most cases exceeded their respective total fund benchmarks. Investment details by trust fund can be found in the Investment Section.

Initiatives completed by the SIB during the year included:

Within the Pension Investment Pool

- ✓ Further diversified the real estate asset class by adding an allocation to alternative real estate.
- ✓ Added a second manager-of-managers within the small cap domestic equity asset class.
- ✓ Adjusted the EAFE index exposure to an enhanced exposure to improve return while continuing to control benchmark risk within the international equity asset class.
- ✓ Hired a small cap emerging markets equity manager.
- ✓ Made further adjustments to the emerging markets equity allocation by terminating one manager and adding four diversified and complementary managers.
- ✓ Added a direct co-investment fund within the private equity allocation.
- ✓ Retained a mezzanine debt fund manager within the high yield bond asset class to further diversify and improve the risk/return profile of the asset class.
- ✓ Added an alpha capture portfolio within the large cap domestic equity asset class.
- ✓ Adjusted the mandate of the existing large cap domestic equity index manager to a 130/30 strategy.
- ✓ Consolidated the management of all timberland properties under one management firm.

Within the Insurance Investment Pool

- ✓ Adjusted an existing TIPS portfolio mandate to a TIPS Plus mandate.
- ✓ Added an enhanced fixed income portfolio to the domestic fixed income asset class.
- ✓ Funded the real estate allocation commitment.

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, 2005. This was the eighth 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.

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

FINANCIAL INFORMATION

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

Brady Martz & Associates conducted the external audit under the direction of the North Dakota State Auditor. The auditor's opinion was unqualified for the agency for the year ended June 30, 2006.

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

Pension Trust Fund (TFFR)	June 30, 2006	June 30, 2005	Incr/(Decr) $	Incr/(Decr) %
Additions	$ 286,130,512	$ 244,833,136	$ 41,297,376	16.9%
Deductions	95,999,991	89,318,386	6,681,605	7.5%
Net Increase/(Decrease)	$ 190,130,521	$ 155,514,750	$ 34,615,771	22.3%

Additions increased due to an increase 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, 2006	June 30, 2005	Incr/(Decr) $	Incr/(Decr) %
Operating revenues	$ 1,899,762	$ 2,468,546	$ (568,784)	-23.0%
Operating expenses	1,891,075	1,881,859	$ 9,216	0.5%
Non-operating revenues (expenses)	898	(448)	$ 1,346	-300.4%
Net revenues (expenses)	$ 9,585	$ 586,239	$ (576,654)	-98.4%

Operating revenues decreased due to a decrease in the overall expenses flowing through the fund and being allocated to the programs; mostly due to the retirement administration software replacement project being completed near the beginning of the fiscal year. Operating expenses increased due to increased salaries and also due to an increase in depreciation expense as the retirement administration software was placed in production.

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. 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, 2006, the ARC is 12.29%. 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 -4.54%.

The GASB ARC increased from 12.12% last year. The increase in the ARC would have been even larger if not for the 14.6% market asset return in fiscal year 2006.

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) increased from last year. The funded ratio at July 1, 2005, was 74.8%, while it is 75.4% as of July 1, 2006. Based on market values rather than actuarial values of assets, the funded ratio improved to 83.0% from 77.9% 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, 2006 (in millions)	July 1, 2005 (in millions)
Actuarial value of assets	$ 1,564.0	$ 1,469.7
Unfunded actuarial accrued liability	509.9	495.5
Funded ratio	75.4%	74.8%

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 based upon market values and are subject to independent audit.

PROFESSIONAL SERVICES

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

Respectfully yours,

Fay Kopp

Connie L. Flanagan

STEVE COCHRANE, CFA
Executive Director/CIO

FAY KOPP
Deputy Executive Director

CONNIE L. FLANAGAN
Fiscal & Investment Officer

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Mission

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

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

Administrative Staff

Steve Cochrane, CFA
Executive Director/CIO

Fay Kopp
Deputy Executive Director

Supervisory Staff

Connie L. Flanagan
Fiscal Management

Shelly Schumacher
Retirement Services

Les Mason
Internal Audit

Bonnie Heit
Administrative Services

Gary Vetter
Information Services

NORTH DAKOTA STATE INVESTMENT BOARD

Investment Program

Investment Process

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

Asset allocation targets:

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

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

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

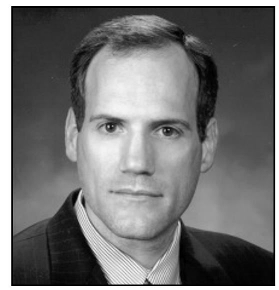
Board Members

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

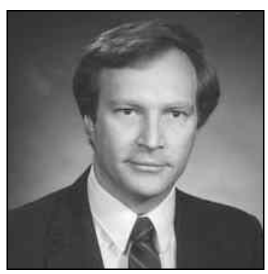
Howard Sage
Vice Chair
PERS Trustee
Term expires 6/30/08

Kelly Schmidt
State Treasurer
Term expires 12/31/08

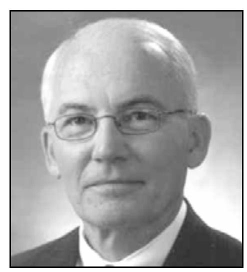
Jim Poolman
State Insurance Commissioner
Term expires 12/31/08



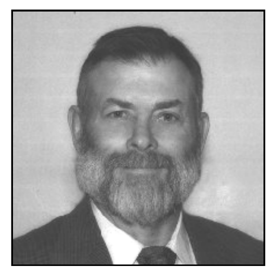
Sandy Blunt
Executive Director Workforce Safety & Insurance



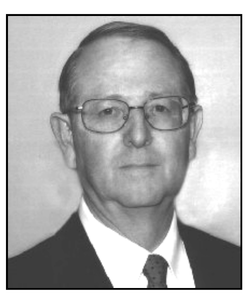
Gary Preszler
University and School Land Commissioner



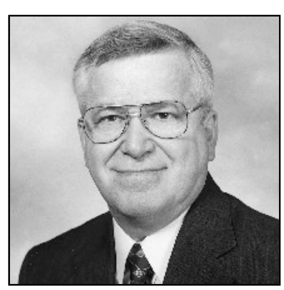
Mark Sanford
TFFR Trustee
Term expires 6/30/10



Mike Gessner
TFFR Trustee
Term expires 6/30/11



Clarence Corneil
TFFR Trustee
Term expires 6/30/07



Ron Leingang
PERS Trustee
Term expires 6/30/09

Rosey Sand
PERS Trustee
Term expires 6/30/09

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

Retirement Program

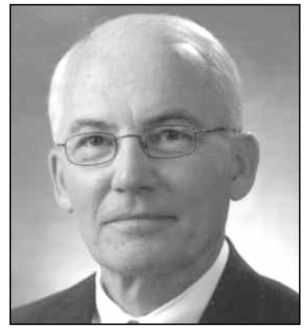
Mission

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

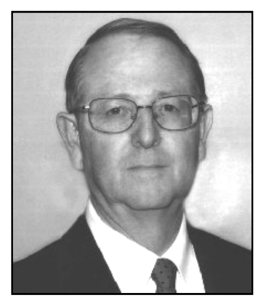


Mark Sanford
President
(represents administrators)
Term expires 6/30/10

Mike Gessner
Vice President
(represents active teachers)
Term expires 6/30/11

Kim Franz
Trustee
(represents active teachers)
Term expires 6/30/09

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



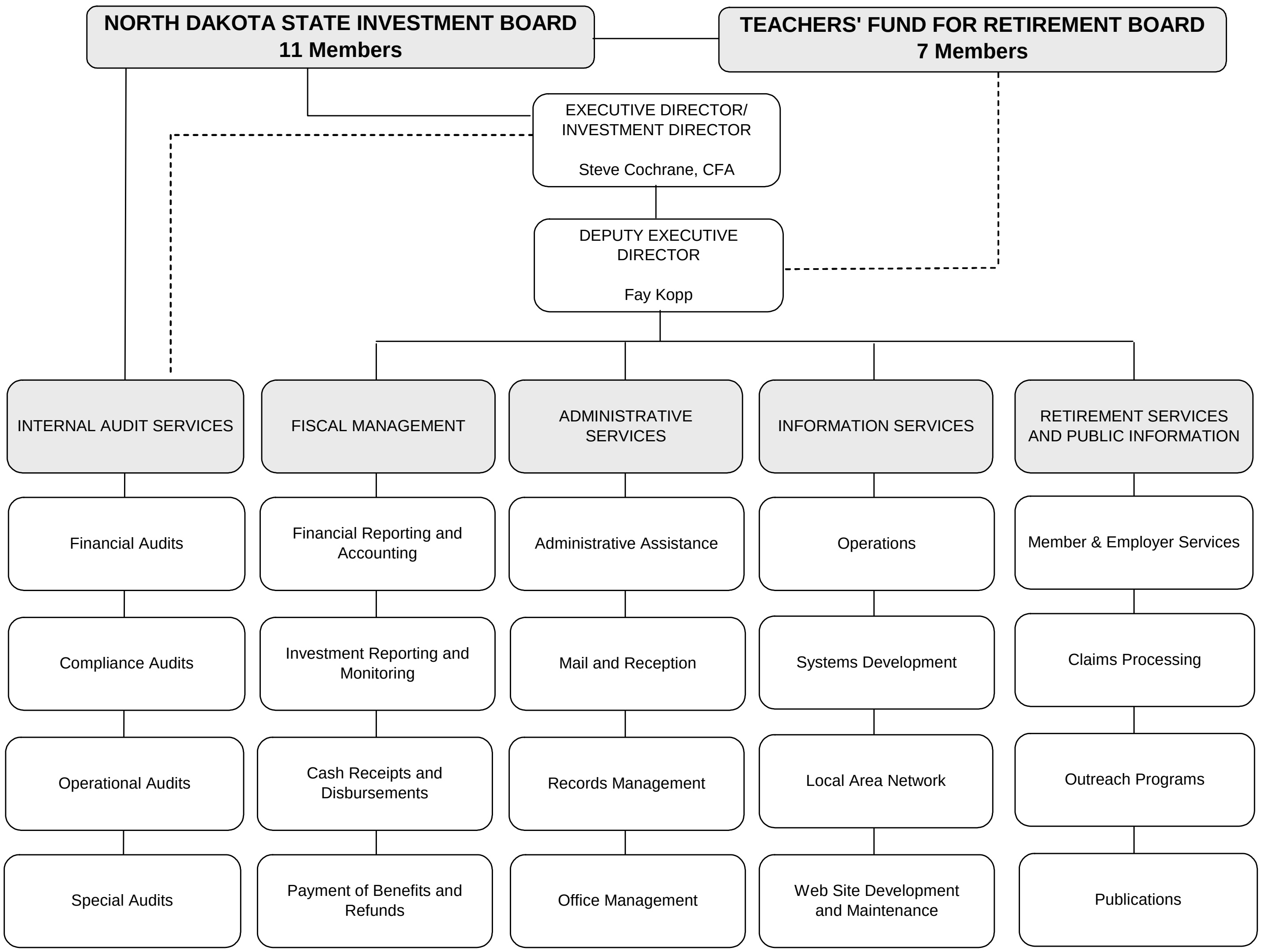
Clarence Corneil
Trustee
(represents retired teachers)
Term expires 6/30/07

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, 2006



Note: See page 64 in the Investment Section for a summary of fees paid to investment professionals and pages 138-140 in the Statistical Section for a detailed list of the investment professionals who provide services to the State Investment Board and their corresponding fees.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

CONSULTING AND PROFESSIONAL SERVICES
AS OF JUNE 30, 2006

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

Enterprise Solutions, Inc.
Bismarck, North Dakota

Master Custodian
The Northern Trust Company
Chicago, Illinois

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

Investment Managers
Adams Street Partners, LLC
Chicago, Illinois

Bank of Ireland Asset Management
Chicago, Illinois

Bank of North Dakota
Bismarck, North Dakota

Brandywine Asset Management
Wilmington, Delaware

Callan Associates
San Francisco, California

Capital Guardian Trust Company
Los Angeles, California

Coral Partners, Inc.
Minneapolis, Minnesota

Dimensional Fund Advisors
Chicago, Illinois

Goldman Sachs Asset Management
New York, New York

Hearthstone Homebuilding Investors, LLC
Encino, California

INVESCO Realty Advisors
Dallas, Texas

Investment Managers (cont.)
InvestAmerica L&C, LLC
Cedar Rapids, Iowa

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

Lazard Asset Management
New York, New York

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

PanAgora Asset Management, Inc.
Boston, Massachusetts

Prudential Investment Management
Newark, New Jersey

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 and
Minneapolis, Minnesota

Western Asset Management Company
Pasadena, California

WestLB Asset Management, LLC
Chicago, Illinois

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, 2005

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

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, 2006. 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, 2006, 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 $510 million at June 30, 2006. 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, 2006, 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, 2006, 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 8, 2006

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

June 30, 2006

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, 2006. 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 2006 by nearly $970,000. This was mostly due to the capitalization of the retirement administration software.

Total net assets increased in the fiduciary fund by $500 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, 2006, the funded ratio was approximately 75.4%.

Salaries and wages in the proprietary fund increased slightly due to increases in salaries granted by the 2005 legislature. Operating expenses and total revenues in the proprietary fund decreased from the prior year mainly due to the completion of the retirement software replacement project in the retirement program. Only residual final expenses were charged to the retirement program this year. This project resulted in the replacement of the mainframe-based system used to administer the TFFR plan. The project began during the previous biennium and as of the end of the current fiscal year, just over $1.9 million had been expended on the project. The total budget for the project was $2 million.

Additions in the fiduciary fund for the year were $524 million, which is comprised of contributions of $66 million and investment income of $458 million.

Deductions in the fiduciary fund increased over the prior year by $7 million or 7.5%. This increase represented a rise in the number of retirees drawing retirement benefits from the pension fund as well as an increase in the retirement salaries of those new retirees.

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, 2006

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, 2006, were $1.3 million and were comprised mostly of capital assets and cash. Total assets decreased $17,000 or 1.3% from the prior year primarily due to a decrease in cash held at year end.

Total current liabilities as of June 30, 2006, were $223,000 and were comprised mostly of accrued payroll and accounts payable. Total current liabilities decreased $39,000 or 15.0% from the prior year primarily due to decreases in accounts payable and the due to other state agencies accounts at year-end. Total noncurrent liabilities increased $12,000 or 14.1% 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 2006 by nearly $970,000.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

June 30, 2006

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

	2006	2005	Total % Change
Assets			
Cash	$ 193	$ 257	-25.1%
Receivables	63	39	63.6%
Capital Assets	1,036	1,013	2.2%
Total Assets	1,292	1,309	-1.3%
Current Liabilities	223	262	-15.0%
Noncurrent Liabilities	99	87	14.1%
Total Liabilities	322	349	-7.7%
Net Assets - Invested in capital assets, net of debt	1,030	1,004	2.6%
Net Assets - Unrestricted	(60)	(43)	38.8%
Total Net Assets	$ 970	$ 960	1.0%

RIO's fiduciary fund total assets as of June 30, 2006, were $5.6 billion and were comprised mainly of investments and invested securities lending collateral. Total assets increased over $550 million or 11.0% from the prior year primarily due to gains in the financial markets during the fiscal year.

Total liabilities as of June 30, 2006 were $634 million and were comprised mostly of securities lending collateral. Total liabilities increased $51 million or 8.7% from the prior year primarily due to an increase in securities lending collateral at year-end.

RIO's fiduciary fund total net assets were $4.9 billion at the close of fiscal year 2006.

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

	2006	2005	Total % Change
Assets			
Investments	$ 4,886	$ 4,389	11.3%
Sec Lending Collateral	629	579	8.6%
Receivables	32	29	9.0%
Cash & Other	10	9	11.4%
Total Assets	5,557	5,006	11.0%
Liabilities			
Accounts Payable	5	4	27.6%
Sec Lending Collateral	629	579	8.6%
Total Liabilities	634	583	8.7%
Total Net Assets	$ 4,923	$ 4,423	11.3%

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

June 30, 2006

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

	2006	2005	Total % Change
Additions:			
Contributions	$ 66	$ 64	2.3%
Investment Income	458	469	-2.2%
Total Additions	524	533	-1.7%
Deductions	96	89	7.5%
Net inc(dec) from unit transactions	72	5	1369.7%
Total inc(dec) in net assets	$ 500	$ 448	11.4%

Statement of Changes in Net Assets – Additions

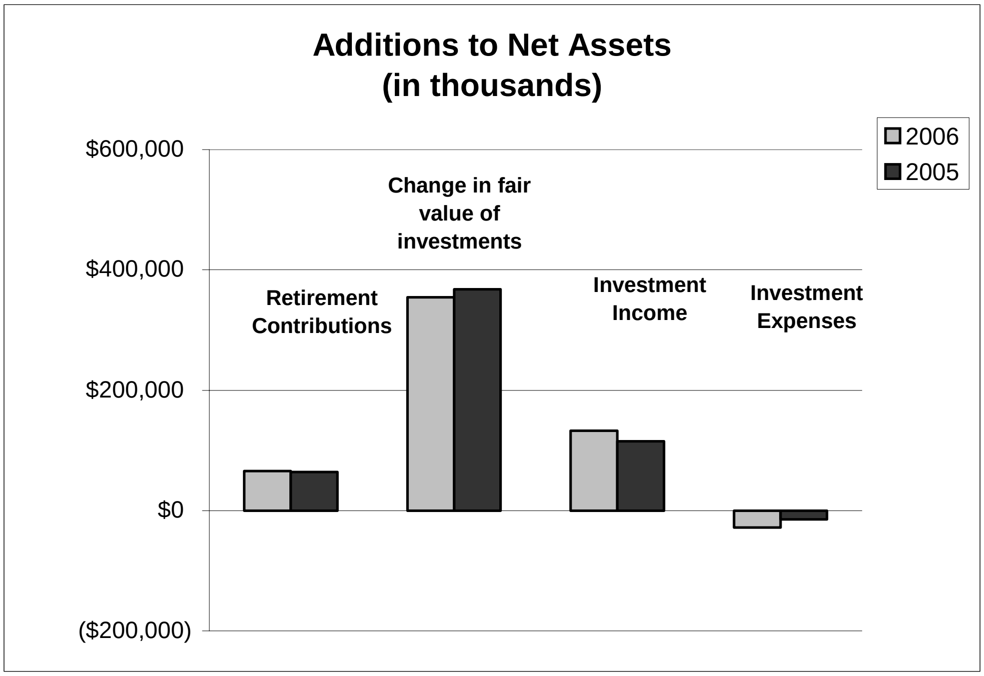
Contributions to the pension trust fund increased by $1.5 million or 2.3% over the previous fiscal year. The net change in fair value of investments in the fiduciary funds decreased by $13.7 million from fiscal year 2005 following an increase of $368.0 million the previous year.

Investment income, including net income from securities lending activities, increased by $17.2 million from last year due to higher interest rates in the bond markets. Investment expenses increased by $13.9 million or 96% due to higher investment market values which the fee calculations are based upon and an increase in the total number of investment managers. Nearly 83% of this increase is due to the accrual of an incentive/performance fee payable to the timberland investment manager who has performed extremely well since the inception of the account. This accrual will fluctuate over the life of the investment based on the continued performance of the manager.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

June 30, 2006



Statement of Changes in Net Assets – Deductions

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by $7.3 million or 8.7% during the fiscal year ended June 30, 2006. This was due to an increase in the number of retirees in the plan as well as an increased retirement salary which the benefits are based upon.

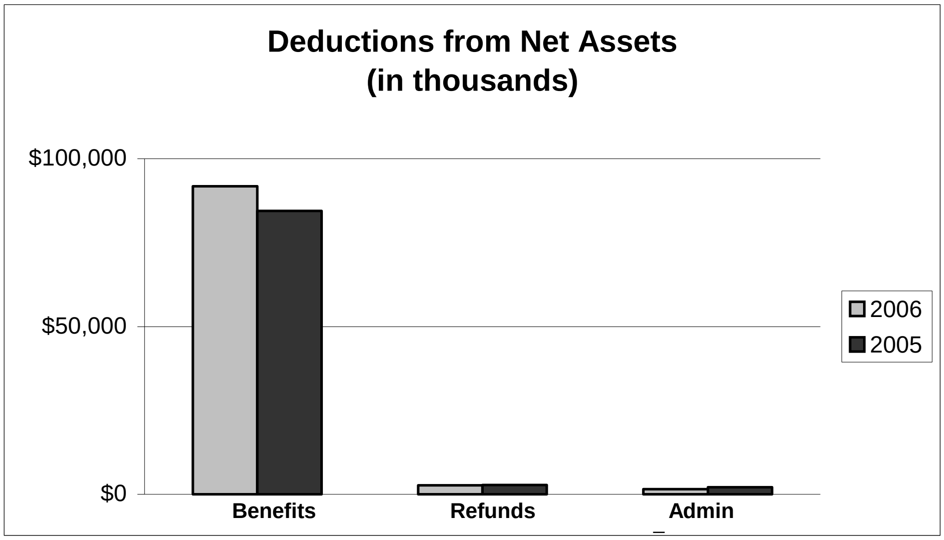
Refunds decreased slightly in fiscal year 2006 by $36,000.

Administrative expenses decreased, down $602,000 from fiscal year 2005. This decrease was due to the completion of the retirement software replacement project in the pension fund. Final expenses for the project were paid out during fiscal year 2006 but the majority of the project was paid for in previous years.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

June 30, 2006



CONCLUSION

Fiscal Year 2006 saw continued strength in the global equity markets and domestic real estate market which benefited RIO's combined net assets measurably.

Based on studies conducted by TFFR's actuarial consultant, we believe the TFFR pension plan is in a financial position to meet its current obligations. Investment losses and gains from the last five years continue to be phased into actuarial measurements. If all actuarial assumptions are met in the future, including the 8% investment return assumption, short term projections indicate TFFR's funded ratio will increase, unfunded actuarial accrued liability will decrease, and negative margin will decrease. However, long term projections indicate TFFR's financial condition will decline over time. To improve TFFR's long term funding condition, the TFFR Board is proposing legislation to increase employer contributions, and reduce benefits for new hires.

Within the SIB's investment program, the investment trust funds are invested within their policy guidelines and adding additional investment return to their expected benchmark return objectives. The SIB will continue to explore and implement investment strategies that offer the potential to improve expected return while maintaining controls on risk exposure.

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, 2006 and 2005

	Internal Service Fund 2006	Internal Service Fund 2005
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 192,755	$ 257,239
Due from other state agency	41	102
Administrative fees receivable	2,436	2,086
Due from fiduciary funds	60,552	36,327
Total current assets	255,784	295,754
Noncurrent assets:		
Capital assets:		
Software (not in production)	-	1,005,000
Equipment & software (net of depreciation)	1,035,729	8,164
Total noncurrent assets	1,035,729	1,013,164
Total assets	$ 1,291,513	$ 1,308,918
LIABILITIES:		
Current liabilities:		
Accounts payable	$ 71,718	$ 108,907
Accrued expenses	78,052	76,714
Capital leases payable	4,451	3,888
Due to fiduciary funds	60,067	53,576
Due to other state agencies	8,419	18,830
Total current liabilities	222,707	261,915
Noncurrent liabilities:		
Capital leases payable	1,211	5,662
Accrued annual leave	97,830	81,161
Total noncurrent liabilities	99,041	86,823
Total liabilities	321,748	348,738
NET ASSETS:		
Invested in capital assets, net of related debt	1,030,067	1,003,614
Unrestricted	(60,302)	(43,434)
Total net assets	969,765	960,180
Total net assets and liabilities	$ 1,291,513	$ 1,308,918

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, 2006 and 2005

	Internal Service Fund	
	2006	2005
Operating revenues:		
Charges for services	$ 1,880,345	$ 2,449,738
Miscellaneous	19,417	18,808
Total operating revenues	1,899,762	2,468,546
Operating expenses:		
Salaries and wages	957,489	906,336
Operating expenses	747,651	970,299
Depreciation	185,935	5,224
Total operating expenses	1,891,075	1,881,859
Operating income (loss)	8,687	586,687
Nonoperating revenue (expense):		
Investment income	1,961	1,107
Interest on capital lease	(1,063)	(1,555)
Total nonoperating revenue (expense)	898	(448)
Change in net assets	9,585	586,239
Total net assets - beginning of year	960,180	373,941
Total net assets - end of year	$ 969,765	$ 960,180

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, 2006 and 2005

	Internal Service Fund	
	2006	2005
Cash flows from operating activities:		
Cash received from other state agencies	$ 1,916,207	$ 2,691,820
Cash received from external clients	8,135	7,549
Payments to vendors	(1,777,397)	(1,975,951)
Net cash provided (used) by operating activities	146,945	723,418
Cash flow from capital-related financing activities:		
Purchase of capital assets	(208,500)	(595,000)
Payments on capital lease	(4,951)	(4,951)
Net cash provided (used) by capital-related financing activities	(213,451)	(599,951)
Cash flow from investing activities:		
Investment Income	2,022	1,034
Net increase (decrease) in cash and equivalents	(64,484)	124,501
Cash and equivalents - beginning of year	257,239	132,738
Cash and equivalents - end of year	$ 192,755	$ 257,239
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ 8,687	$ 586,687
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	185,935	5,224
Net change in assets and liabilities:		
Administrative fees receivable	(350)	-
Due from other funds	(24,225)	105,856
Accounts payable	(37,189)	(41,059)
Accrued expenses	18,007	8,560
Due to other funds	6,491	51,123
Due to other state agencies	(10,411)	7,027
Net cash provided (used) by operating activities	$ 146,945	$ 723,418

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, 2006 and 2005

	Pension Trust		Investment Trust	
	2006	2005	2006	2005
Assets:				
Investments, at fair value				
Equities	$ -	$ -	$ 24,654,171	$ 21,862,661
Equity pool	1,031,762,012	1,004,754,159	1,240,971,758	1,183,113,382
Fixed income	-	-	28,165,727	27,986,767
Fixed income pool	396,725,853	272,428,219	1,578,124,421	1,470,951,035
Real estate pool	182,884,803	139,039,070	178,872,189	77,236,675
Private equity	69,410,721	62,572,727	68,512,810	61,224,580
Cash and cash pool	15,969,730	28,950,655	70,359,513	39,294,401
Total investments	1,696,753,119	1,507,744,830	3,189,660,589	2,881,669,501
Invested securities lending collateral	127,302,330	104,685,772	501,599,342	474,658,207
Receivables:				
Investment income	8,616,986	8,109,864	15,285,863	13,499,666
Contributions	7,715,230	7,403,583	-	-
Miscellaneous	1,320	-	-	-
Total receivables	16,333,536	15,513,447	15,285,863	13,499,666
Due from other funds	19,504	20,170	40,563	33,406
Cash and cash equivalents	9,634,510	8,648,006	-	-
Total assets	1,850,042,999	1,636,612,225	3,706,586,357	3,369,860,780
Liabilities:				
Accounts payable	-	-	-	-
Investment expenses payable	2,041,720	1,414,912	2,247,294	1,922,316
Securities lending collateral	127,302,330	104,685,772	501,599,342	474,658,207
Accrued expenses	316,761	284,129	-	-
Due to other funds	57,240	32,985	3,312	3,342
Total liabilities	129,718,051	106,417,798	503,849,948	476,583,865
Net assets:				
Held in trust for pension benefits (see Schedule of Funding Progress on page 44)	1,720,324,948	1,530,194,427	-	-
Held for external investment pool participants:				
Pension pool	-	-	1,783,646,478	1,615,959,085
Insurance pool	-	-	1,381,525,195	1,243,699,436
Held for individual investment account	-	-	37,564,736	33,618,394
Total net assets	$ 1,720,324,948	$ 1,530,194,427	$ 3,202,736,409	$ 2,893,276,915
Each participant unit is valued at $1.00				
Participant units outstanding			3,202,736,409	2,893,276,915

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, 2006 and 2005

	Pension Trust 2006	Pension Trust 2005	Investment Trust 2006	Investment Trust 2005
Additions:				
Contributions:				
Employer contributions	$ 31,170,851	$ 30,388,265	$ -	$ -
Employee contributions	31,171,156	30,388,650	-	-
Purchased service credit	3,225,589	3,292,441	-	-
Interest and penalties	10,232	3,525	-	-
Total contributions	65,577,828	64,072,881	-	-
Investment income:				
Net increase (decrease) in fair value of investments	189,138,608	147,669,725	165,145,793	220,293,986
Interest, dividends and other income	41,950,305	38,900,553	89,504,102	75,282,138
	231,088,913	186,570,278	254,649,895	295,576,124
Less investment expenses	10,853,774	6,137,707	17,547,104	8,349,737
Net investment income	220,235,139	180,432,571	237,102,791	287,226,387
Securities lending activity:				
Securities lending income	4,864,938	1,863,404	18,467,438	9,019,381
Less securities lending expenses	4,547,393	1,535,720	17,705,498	8,223,043
Net securities lending income	317,545	327,684	761,940	796,338
Total additions	286,130,512	244,833,136	237,864,731	288,022,725
Deductions:				
Benefits paid to participants	91,397,868	84,125,369	-	-
Partial lump-sum distributions	420,224	372,761	-	-
Refunds	2,697,308	2,733,407	-	-
Administrative charges	1,484,591	2,086,849	-	-
Total deductions	95,999,991	89,318,386	-	-
Net increase (decrease) in net assets resulting from operations	190,130,521	155,514,750	237,864,731	288,022,725
Unit transactions at net asset value of $1.00 per unit:				
Purchase of units	-	-	247,149,734	168,759,897
Redemption of units	-	-	(175,554,971)	(163,888,573)
Net increase (decrease) in assets and units resulting from unit transactions	-	-	71,594,763	4,871,324
Total increase (decrease) in net assets	190,130,521	155,514,750	309,459,494	292,894,049
Net assets:				
Beginning of year	1,530,194,427	1,374,679,677	2,893,276,915	2,600,382,866
End of Year	$ 1,720,324,948	$ 1,530,194,427	$ 3,202,736,409	$ 2,893,276,915

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

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2006

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, 2006

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 (transferred out in fiscal year 2006), 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, City of Fargo FargoDome Permanent Fund, Cultural Endowment Fund, and Budget Stabilization 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, Risk Management Workers Comp, Cultural Endowment Fund and Budget Stabilization Fund.

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, 2006

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, 2006

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, 2006

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, 2006

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, 2006 was 118 days.

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

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

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

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and Northern Trust 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, 2006

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 $99,005 at June 30, 2006. The current portion of accrued leave amounted to $1,175 at June 30, 2006, 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, 2006 consisted of the following:

Balance July 1, 2005	$81,959
Additions	75,064
Deductions	(58,018)
Balance June 30, 2006	$99,005

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2006

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, 2006 include $115,416 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 $77,337 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, 2006 were deposited in the Bank of North Dakota. At June 30, 2006, the carrying amount of TFFR's deposits was $9,634,510, and the bank balance was $9,666,068. 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 $136,040,456 at June 30, 2006. 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, 2006

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, 2006 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	$ 35,234	$ 980	$ -	$ 182	$ 34,072
Commercial Mortgage-Backed	7,445	-	327	596	6,522
Commercial Paper	356	356	-	-	-
Corporate Bonds	576,448	10,428	200,443	196,851	168,726
Corporate Convertible Bonds	59,773	454	14,524	4,127	40,668
Government Agencies	78,770	638	47,603	15,516	15,013
Government Bonds	296,376	1,976	161,770	42,817	89,813
Government Mortgage-Backed	41,507	-	116	181	41,210
Index Linked Government Bonds	127,279	3,678	37,810	46,882	38,909
Municipal/Provincial Bonds	12,014	-	5,573	4,359	2,082
Non-Government Backed CMOs	19,159	-	2,100	131	16,928
Short Term Bills and Notes	19,574	19,574	-	-	-
Pooled Investments	432,847	-	8,051	410,355	14,441
Total Debt Securities	$1,706,782	$ 38,084	$ 478,317	$ 721,997	$ 468,384

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, 2006

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 $10,000, and POs valued at $5,302,000 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, 2006 (expressed in thousands).

	Total Market Value	S&P Credit Rating									
		AAA	AA	A	BBB	BB	B	CCC	C	D	Not Rated
Asset Backed Securities	$ 35,234	$ 4,295	$ 30	$ 159	$ 26,663	$ 974	$ 2,946	$ 167	$ -	$ -	$ -
Commercial Mortgage Backed	7,445	7,303	142	-	-	-	-	-	-	-	-
Commercial Paper	356	-	-	-	-	-	-	-	-	-	356
Corporate Bonds	576,448	5,668	22,866	138,247	231,674	73,226	88,240	12,857	157	30	3,483
Corporate Convertible Bonds	59,774	1,254	-	10,601	11,146	8,736	7,269	2,359	-	-	18,409
Gov't Agencies	52,989	51,703	-	1,286	-	-	-	-	-	-	-
Gov't Bonds	290,821	254,623	873	14,748	13,435	5,402	468	-	-	-	1,272
Index Linked Gov't Bonds	114,487	114,487	-	-	-	-	-	-	-	-	-
Municipal/Provincial Bonds	12,014	6,941	1,964	-	3,109	-	-	-	-	-	-
Non-Gov't Backed CMOs	19,159	19,028	-	-	-	-	131	-	-	-	-
Short Term Bills and Notes	4,742	599	-	-	-	-	-	-	-	-	4,143
Pooled Investments	432,846	340,267	-	-	75,217	9,311	8,051	-	-	-	-
Total Credit Risk of Debt Securities	1,606,315	$806,168	$ 25,875	$ 165,041	$ 361,244	$ 97,649	$ 107,105	$ 15,383	$ 157	$ 30	$ 27,663
US Gov't & Agencies	100,467										
Total Debt Securities	$ 1,706,782										

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2006

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 as of June 30, 2006 (expressed in thousands).

Currency	Short-Term	Debt	Equity	Total
Australian dollar	$ (12,968)	$ 8,996	$ 15,174	$ 11,202
Brazilian real	-	4,272	-	4,272
British pound sterling	(27,122)	4,210	80,731	57,819
Canadian dollar	(5,431)	5,474	13,343	13,386
Colombian peso	-	412	-	412
Danish krone	(935)	-	2,408	1,473
Euro	(63,159)	11,252	139,023	87,116
Hong Kong dollar	(1,598)	-	9,498	7,900
Indonesian Rupiah	-	3,347	-	3,347
Japanese yen	(21,775)	-	122,695	100,920
Malaysian Ringgit	-	1,866	-	1,866
Mexican peso	298	6,830	-	7,128
New Zealand dollar	(2,577)	2,807	-	230
Norwegian krone	(889)	-	4,011	3,122
Polish zloty	337	5,940	-	6,277
Singapore dollar	(847)	9,421	3,055	11,629
South African rand	-	307	513	820
South Korean won	-	1,022	4,680	5,702
Swedish krona	(2,301)	6,175	9,438	13,312
Swiss franc	(14,448)	-	31,124	16,676
Thai baht	1,415	3,159	-	4,574
International commingled funds (various currencies)	-	87,959	276,680	364,639
Total international investment securities	$ (152,000)	$ 163,449	$ 712,373	$ 723,822

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2006

NOTE 5 CAPITAL ASSETS

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

	7/1/2005	Additions	Retirements	6/30/2006
Office equipment	$ 27,996	$ -	$ -	$ 27,996
Software	-	$ 1,213,500	-	$ 1,213,500
Less accumulated depreciation	(19,832)	(185,935)	-	(205,767)
	$ 8,164			$ 1,035,729
Software (not in production)	$ 1,005,000	$ -	$ (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, 2006:

	Due to Internal Service Fund	Due from Internal Service Fund
Investment Trust Funds:		
PERS	$ -	$ 15,160
Workforce Safety and Insurance	-	21,539
State Fire and Tornado	-	838
State Bonding	108	-
Petroleum Tank Release Compensation Fund	-	220
Insurance Regulatory Trust	-	57
Health Care Trust	-	324
Cultural Endowment Fund	-	188
Veterans Cemetery	66	-
Budget Stabilization Fund	-	1,850
Risk Management	-	103
Risk Management Workers Comp	-	284
PERS Group Insurance	250	-
PERS Retiree Health	875	-
Job Service of North Dakota	2,013	-
Total Investment Trust	3,312	40,563
Pension Trust Fund:		
TFFR	57,240	19,504
Total due to / due from internal service fund	$60,552	$ 60,067

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2006

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, 2006:

Due To:	
Information Technology Department	$7,863
Attorney General's Office	381
Department of Transportation	67
Central Supply	53
Central Duplicating	55
Total due to other state agencies	$8,419
Due From:	
Bank of North Dakota	$ 41

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, 2007. RIO also incurs rent expense at other locations on a temporary basis to sponsor retirement education for TFFR members. Rent expense totaled $72,383 for fiscal 2006. RIO entered into a new lease for office space effective July 1, 2006. Minimum payments under this lease for fiscal 2007 are $70,671.

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, 2006:

June 30,	Amount
2007	4,951
2008	1,238
Total minimum lease payments	$ 6,189
Less: Amount Representing Interest	(527)
Present value of future minumum lease payments	$ 5,662

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2006

NOTE 9 CHANGES IN NONCURRENT LIABILITIES

Changes in noncurrent liabilities for the year ended June 30, 2006 is summarized as follows:

	Beginning Balance 7/1/2005	Additions	Reductions	Ending Balance 6/30/2006	Amounts Due Within One Year
Capital Leases Payable	$ 9,550	$ -	$ (3,888)	$ 5,662	$ 4,451
Accrued Annual Leave	81,959	75,064	(58,018)	99,005	1,175
	$ 91,509	$ 75,064	$ (61,906)	$ 104,667	$ 5,626

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, 2006 and 2005, the number of participating employer units was 246 and 260 consisting of the following:

	2006	2005
Public School Districts	200	207
County Superintendents	13	15
Special Education Units	17	18
Vocational Education Units	3	4
Other	13	16
Total	246	260

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2006

NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT - Continued

TFFR's membership consisted of the following:

	2006	2005
Retirees and beneficiaries currently receiving benefits	5,893	5,586
Terminated employees - vested	1,409	1,377
Terminated employees - nonvested	143	168
Total	7,445	7,131
Current employees:		
Vested	8,373	8,584
Nonvested	1,212	1,217
Total	9,585	9,801

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 8.93%, 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, 2006, TFFR had net realized gains of $193,168,387.

Investment Expenses

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

Member and Employer Contributions

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

A vested member who terminates covered employment may elect a refund of member contributions paid or defer payment until eligible for pension benefits. A nonvested member who terminates covered employment must claim a refund of member contributions paid unless that member submits a valid waiver of this refund to the Board

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements - Continued

June 30, 2006

NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT - Continued

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, 2006

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, 2006, 2005, and 2004, were $64,818, $62,397, and $59,134, 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

The State Investment Board has at June 30, 2006, committed to fund certain alternative private equity partnerships for an amount of $353.5 million. Funding of $268.7 million has been provided, leaving an unfunded commitment of $84.8 million.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Required Supplementary Information

June 30, 2006

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
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
2006	1,564.0	2,073.9	509.9	75.4	390.1	130.7

Schedule of Employer Contributions
North Dakota Teachers' Fund for Retirement

Fiscal Year	Annual Required Contribution	Percentage Contributed
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%
2006	48,747,189	63.9%

See notes to required supplementary information.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Required Supplementary Information

June 30, 2006

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, 2006
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, 2006
(With Comparative Totals for 2005)

	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	Veterans Cemetery
Assets:											
Investments											
Equities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Equity pool	905,189,810	19,339,213	10,057,763	33,697,071	250,644,251	8,571,996	933,098	3,215,124	1,099,764	-	-
Fixed income	-	-	-	-	-	-	-	-	-	15,577,333	-
Fixed income pool	543,860,851	19,753,359	7,913,261	50,348,223	858,532,445	13,551,755	1,477,340	4,640,884	1,293,147	-	-
Real estate pool	98,291,291	4,385,338	1,835,541	-	74,348,779	-	-	-	-	-	-
Private equity	67,743,197	327,418	442,195	-	-	-	-	-	-	-	-
Cash and cash pool	17,116,918	140,193	107,011	100,613	8,852,300	2,318,442	264,291	1,376,865	1,290,511	3,731,208	102,846
Total investments	1,632,202,067	43,945,521	20,355,771	84,145,907	1,192,377,775	24,442,193	2,674,729	9,232,873	3,683,422	19,308,541	102,846
Invested sec lending collateral	145,456,649	4,457,228	1,916,669	12,162,923	326,131,613	5,018,389	550,596	1,748,073	509,583	-	-
Investment income receivable	4,246,933	102,357	51,499	241,253	8,924,644	137,396	30,601	64,132	8,628	221,985	-
Due from other funds	15,160	-	-	-	21,539	838	-	220	57	324	-
Total assets	1,781,920,809	48,505,106	22,323,939	96,550,083	1,527,455,571	29,598,816	3,255,926	11,045,298	4,201,690	19,530,850	102,846
Liabilities:											
Investment expenses payable	1,547,360	44,926	20,943	44,748	539,102	14,304	1,560	5,176	1,573	-	-
Securities lending collateral	145,456,649	4,457,228	1,916,669	12,162,923	326,131,613	5,018,389	550,596	1,748,073	509,583	-	-
Due to other funds	-	-	-	2,013	-	-	108	-	-	-	66
Total liabilities	147,004,009	4,502,154	1,937,612	12,209,684	326,670,715	5,032,693	552,264	1,753,249	511,156	-	66
Net assets held in trust for external investment pool participants	$1,634,916,800	$ 44,002,952	$ 20,386,327	$ 84,340,399	$ 1,200,784,856	$ 24,566,123	$ 2,703,662	$ 9,292,049	$ 3,690,534	$ 19,530,850	$ 102,780
Each participant unit is valued at $1.00											
Participant units outstanding	1,634,916,800	44,002,952	20,386,327	84,340,399	1,200,784,856	24,566,123	2,703,662	9,292,049	3,690,534	19,530,850	102,780

	Insurance Pool Participants								Individual Investment Acct.		
Cultural Endowment Fund	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n. of Counties Fund	ND Ass'n of Counties Program Savings	PERS Group Insurance	Budget Stabilization Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	PERS Retiree Health Credit Fund	Totals 2006	Totals 2005
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 24,654,171	$ 24,654,171	$ 21,862,661
119,864	979,910	1,376,017	434,939	233,839	-	-	217,351	4,861,748	-	1,240,971,758	1,183,113,382
-	-	-	-	-	-	-	-	-	12,588,394	28,165,727	27,986,767
81,963	2,181,433	2,281,062	309,046	267,521	-	66,505,867	486,313	4,639,951	-	1,578,124,421	1,470,951,035
11,240	-	-	-	-	-	-	-	-	-	178,872,189	77,236,675
-	-	-	-	-	-	-	-	-	-	68,512,810	61,224,580
5,455	52,711	101,175	46,783	24,832	1,924,166	32,528,739	35,524	238,930	-	70,359,513	39,294,401
218,522	3,214,054	3,758,254	790,768	526,192	1,924,166	99,034,606	739,188	9,740,629	37,242,565	3,189,660,589	2,881,669,501
34,343	743,028	779,765	131,442	101,994	-	-	172,537	1,684,510	-	501,599,342	474,658,207
(26)	50,799	9,131	1,225	898	-	840,492	1,734	13,266	338,916	15,285,863	13,499,666
188	103	284	-	-	-	1,850	-	-	-	40,563	33,406
253,027	4,007,984	4,547,434	923,435	629,084	1,924,166	99,876,948	913,459	11,438,405	37,581,481	3,706,586,357	3,369,860,780
136	1,741	2,045	736	530	-	-	683	5,861	15,870	2,247,294	1,922,316
34,343	743,028	779,765	131,442	101,994	-	-	172,537	1,684,510	-	501,599,342	474,658,207
-	-	-	-	-	250	-	-	-	875	3,312	3,342
34,479	744,769	781,810	132,178	102,524	250	-	173,220	1,690,371	16,745	503,849,948	476,583,865
$ 218,548	$ 3,263,215	$ 3,765,624	$ 791,257	$ 526,560	$1,923,916	$ 99,876,948	$ 740,239	$ 9,748,034	$ 37,564,736	$ 3,202,736,409	$ 2,893,276,915
218,548	3,263,215	3,765,624	791,257	526,560	1,923,916	99,876,948	740,239	9,748,034	37,564,736	3,202,736,409	2,893,276,915

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, 2006
(With Comparative Totals for 2005)

	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	Veterans Cemetery
Investment income:											
Net increase/(decrease) in fair value of investments	$ 152,103,565	$ 3,073,287	$ 1,570,167	$ 4,905,261	$ 715,343	$ 450,751	$ 48,219	$ 205,297	$ 24,805	$ -	$ -
Interest, dividends and other income	36,915,516	1,054,196	487,465	1,916,260	41,242,230	872,102	93,093	325,982	92,947	950,821	4,130
	189,019,081	4,127,483	2,057,632	6,821,521	41,957,573	1,322,853	141,312	531,279	117,752	950,821	4,130
Less investment expenses	12,818,260	437,255	175,864	1,073,229	2,821,319	61,127	7,283	22,086	5,943	1,535	138
Net investment income	176,200,821	3,690,228	1,881,768	5,748,292	39,136,254	1,261,726	134,029	509,193	111,809	949,286	3,992
Securities lending activity:											
Securities lending income	5,365,034	171,576	71,679	442,673	12,007,319	189,359	20,206	65,513	12,394	-	-
Less Securities lending expenses	5,100,689	164,289	68,457	424,954	11,556,213	180,639	19,272	62,455	11,760	-	-
Net securities lending income	264,345	7,287	3,222	17,719	451,106	8,720	934	3,058	634	-	-
Net additions (deductions) in net assets resulting from operations	176,465,166	3,697,515	1,884,990	5,766,011	39,587,360	1,270,446	134,963	512,251	112,443	949,286	3,992
Unit transactions at net asset value of $1 per unit:											
Purchase of units	-	-	-	-	11,500,000	2,800,000	-	-	2,300,000	-	12,783
Redemption of units	(17,250,000)	-	-	(2,876,289)	(18,500,000)	(2,350,000)	(50,000)	(475,000)	(1,700,000)	-	-
Net additions (deductions) in net assets and units resulting from unit transactions	(17,250,000)	-	-	(2,876,289)	(7,000,000)	450,000	(50,000)	(475,000)	600,000	-	12,783
Total additions (deductions) in net assets	159,215,166	3,697,515	1,884,990	2,889,722	32,587,360	1,720,446	84,963	37,251	712,443	949,286	16,775
Net assets:											
Beginning 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	86,005
End of year	$1,634,916,800	$ 44,002,952	$ 20,386,327	$ 84,340,399	$ 1,200,784,856	$ 24,566,123	$ 2,703,662	$ 9,292,049	$ 3,690,534	$ 19,530,850	$102,780

		Insurance Pool Participants								Individual Investment Acct.		
Cultural Endowment Fund	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	Budget Stabilization Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	PERS Retiree Health Credit Fund	Totals 2006	Totals 2005
$ 7,263	$ 26,758	$ (30,158)	$ 4,963	$ 11,765	$ 10,908	$ -	$ -	$ 4,983	$ 216,395	$ 1,796,221	$ 165,145,793	$ 220,293,986
6,053	4,707	111,940	112,428	15,551	14,400	304,521	3,618,312	26,757	235,113	1,099,578	89,504,102	75,282,138
13,316	31,465	81,782	117,391	27,316	25,308	304,521	3,618,312	31,740	451,508	2,895,799	254,649,895	295,576,124
981	-	7,841	8,693	2,293	1,909	1,000	6,150	2,750	21,991	69,457	17,547,104	8,349,737
12,335	31,465	73,941	108,698	25,023	23,399	303,521	3,612,162	28,990	429,517	2,826,342	237,102,791	287,226,387
1,192	1,973	25,712	25,953	3,416	3,331		-	6,305	53,803	-	18,467,438	9,019,381
1,138	1,877	24,714	24,930	3,252	3,179	-	-	6,018	51,662	-	17,705,498	8,223,043
54	96	998	1,023	164	152	-	-	287	2,141	-	761,940	796,338
12,389	31,561	74,939	109,721	25,187	23,551	303,521	3,612,162	29,277	431,658	2,826,342	237,864,731	288,022,725
213,659	-	1,250,000	750,000	380,661	100,000	125,250,000	99,472,631	-	2,000,000	1,120,000	247,149,734	168,759,897
(7,500)	(3,638,337)	(500,000)	-	-	-	(125,000,000)	(3,207,845)	-	-	-	(175,554,971)	(163,888,573)
206,159	(3,638,337)	750,000	750,000	380,661	100,000	250,000	96,264,786	-	2,000,000	1,120,000	71,594,763	4,871,324
218,548	(3,606,776)	824,939	859,721	405,848	123,551	553,521	99,876,948	29,277	2,431,658	3,946,342	309,459,494	292,894,049
-	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
$ 218,548	$ -	$ 3,263,215	$ 3,765,624	$ 791,257	$ 526,560	$ 1,923,916	$ 99,876,948	$ 740,239	$ 9,748,034	$ 37,564,736	$ 3,202,736,409	$ 2,893,276,915

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, 2006 and 2005

	2006	2005
Salaries and wages:		
Salaries and wages	$737,755	$693,545
Fringe benefits	219,734	212,791
Total salaries and wages	957,489	906,336
Operating expenses:		
Information services	125,007	227,833
Intergovernmental services	9,985	7,798
Professional services	214,322	249,545
Rent of building space	72,383	70,996
Lease/rent of office equipment	266	287
Mailing services and postage	33,970	35,983
Travel and lodging	26,396	27,183
Printing	9,239	23,187
Office supplies	4,759	11,249
Professional development	10,814	14,356
Outside services	10,347	10,411
Small office equipment expense	79	6,311
Miscellaneous fees	5,733	3,537
Resource and reference materials	1,454	3,946
Service contracts - office equipment	150	150
IT contractual services	204,437	271,766
Repairs - office equipment	420	212
Insurance	1,486	2,584
Non-capitalized equipment purchases	16,404	2,965
Total operating expenses	747,651	970,299
Depreciation	185,935	5,224
Capital Assets	208,500	595,000
Capital lease payments - principal	3,888	3,396
Capital lease payments - interest	1,063	1,555
Less - nonappropriated items:		
Professional fees	214,322	249,545
Depreciation	185,935	5,224
Accrual adjustments to employee benefits	17,046	6,845
Total nonappropriated items	417,303	261,614
Total appropriated administrative expenditures	$ 1,687,223	$ 2,220,196

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Pension Trust Fund – Schedule of Administrative Expenses

For the Years Ended June 30, 2006 and 2005

	2006	2005
Salaries and wages:		
Salaries and wages	$493,230	$475,850
Fringe benefits	157,877	147,458
Total salaries and wages	651,107	623,308
Operating expenses:		
Information services	115,567	221,264
Intergovernmental services	7,489	5,848
Professional services	142,876	192,002
Rent of building space	51,057	50,087
Lease/rent of office equipment	2,661	2,709
Mailing services and postage	31,089	33,275
Travel and lodging	19,733	24,472
Printing	8,209	21,604
Office supplies	3,859	9,206
Professional development	10,243	13,606
Outside services	8,112	8,400
Small office equipment expense	81	5,132
Miscellaneous fees	4,235	2,334
Resource and reference materials	746	3,068
Service contracts - office equipment	113	112
IT contractual services	204,235	271,599
Repairs - office equipment	311	160
Insurance	1,114	1,938
Non-capitalized equipment purchases	14,309	2,347
Total operating expenses	626,039	869,163
Capital assets	208,500	595,000
Less: charges for services reduced by income	(1,055)	(622)
Total administrative expenditures	$ 1,484,591	$ 2,086,849

This schedule represents those administrative expenses allocated to the pension trust fund through the internal service fund.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Schedule of Appropriations – Budget Basis

Internal Service Fund

July 1, 2005 to June 30, 2007 Biennium

	Approved 2005-2007 Appropriation	Adjusted 2005-2007 Appropriation	Fiscal 2006 Expenses	Unexpended Appropriations
All Fund Types:				
Salaries and wages	$ 1,978,420	$ 1,978,420	$ 940,443	$ 1,037,977
Operating expenses	914,608	914,608	294,261	620,347
Contracted services	-	513,699	452,519	61,180
Contingency	82,000	82,000	-	82,000
Total	$ 2,975,028	$ 3,488,727	$ 1,687,223	$ 1,801,504

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

Reconciliation of Administrative Expenses
to Appropriated Expenditures

	2006
Administrative expenses as reflected in the financial statements	$1,891,075
Plus:	
Capital assets	208,500
Capital lease payments - principal	3,888
Capital lease payments - interest	1,063
Less:	
Professional fees	(214,322)
Depreciation expense	(185,935)
Changes in annual leave and FICA payments	(17,046)
Total appropriated expenses	$1,687,223

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Pension Trust Fund - Schedule of Investment Expenses

For the Years Ended June 30, 2006 and 2005

	2006	2005
Investment managers' fees:		
Domestic large cap equity managers	$ 981,571	$ 1,048,750
Domestic small cap equity managers	1,327,983	1,162,583
International equity managers	1,797,846	1,526,932
Emerging markets equity managers	619,604	501,406
Domestic fixed income managers [1]	4,059,305	325,746
High yield fixed income managers	580,241	496,671
International fixed income managers	292,708	304,026
Real estate managers	1,419,013	1,170,521
Private equity managers	4,573,050	4,195,757
Cash & equivalents managers	55,982	55,827
Total investment managers' fees	15,707,303	10,788,219
Custodian fees	368,436	384,777
Investment consultant fees	88,519	86,892
State Investment Board admin fees	140,666	128,690
Total investment expenses	$ 16,304,924	$ 11,388,578
Securities lending fees	$ 4,547,393	$ 1,535,720

[1] *Total fees within the domestic fixed income managers include a performance incentive fee paid to Timberland Investment Resources in the amount of $3.5 million in addition to their investment management fees. Absent this fee, total domestic fixed income fees would be $538,599.*

Reconciliation of Investment Expenses to Financial Statements

	2006	2005
Investment expenses as reflected in the financial statements	$ 10,853,774	$ 6,137,707
Plus investment management fees included in investment income		
Domestic large cap equity	1,847	1,962
Domestic small cap equity	873,071	749,963
International equity	3,424	19,543
Emerging markets equity	264,209	501,406
High Yield	-	-
Real Estate		71,166
Private equity	4,252,617	3,851,004
Cash equivalents	55,982	55,827
Investment expenses per schedule	$ 16,304,924	$ 11,388,578

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Pension Trust Fund - Schedule of Consultant Expenses

For the Years Ended June 30, 2006 and 2005

	2006	2005
Actuary fees:		
Gabriel, Roeder, Smith & Co.	$ 104,532	$ 160,453
Consulting fees:		
Brady Martz & Associates, P.C.	26,524	27,225
CPAS Systems Inc.	342,571	633,660
Enterprise Solutions Inc.	16,320	-
MSI Systems Integrators	40,945	210,442
Total consulting fees:	426,360	871,327
Disability consulting fees:		
Dr. G.M. Lunn	500	350
Legal fees:		
ND Attorney General	11,320	3,624
Calhoun Law Group, P.C.	-	350
Total legal fees	11,320	3,974
Total consultant expenses	$ 542,712	$ 1,036,104

Reconciliation of Consultant Expenses to Schedule of Administrative Expenses

	2006	2005
Total professional services on schedule	$ 142,876	$ 192,002
Plus capitalized expenses paid to CPAS	208,500	595,000
Plus IT contractual services from CPAS	134,071	38,660
Plus IT contractual services from ESI	16,320	-
Plus IT contractual services from MSI	40,945	210,442
Total consultant expenses	$ 542,712	$ 1,036,104

Investment


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

ND Retirement and Investment Office

Teachers' Fund for Retirement
State Investment Board

Steve Cochrane, CFA
Executive Director

Fay Kopp
Deputy Executive Director

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November 15, 2006

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, 2006.

Introduction

For the fiscal year ended June 30, 2006, the $3.5 billion North Dakota Pension investment pool portfolio experienced a net total return of 13.18%. The Teachers' Fund for Retirement, a participant in the Pension pool, grew by a net 14.79% for the year. The Insurance investment pool, valued at $1.3 billion on June 30, 2006, returned 3.61% net, during the same time frame. The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon market values and are subject to independent audit.

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 32 external investment managers are presented in the Investment Section.

Our investment program's cost effectiveness as measured by expense ratio is 81.6 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, 2006, as measured by standard deviation has been 11.89% for the Pension Trust and 5.99% for the Insurance Trust. Risk exposure for each participating fund is also limited in accordance with the guidelines presented in the Investment Section.

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Economic Overview

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

Domestic Equity Overview

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

International Equity Overview

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

Domestic Fixed-Income Overview

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

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

International Fixed-Income Overview

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

Real Estate Overview

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

Private Equity Overview

Private equity had its second best year in calendar-year 2005. This upward momentum continued into the first two quarters of calendar-year 2006 with funds flowing into new private equity partnerships. Buyouts had been the big news on all three fronts: fundraising, investing, and distributions. Due to the nature of private equity performance measurement, relative comparisons of fund performance with benchmarks are inherently ambiguous. Instead of recognizing any particular index as representative of the opportunity for the fiscal year ended June 30, 2006, it is worth noting that the Pension Trust's private equity allocation of Total Fund assets was only 3.95%. The market value of the private equity allocation, including investment returns and net new investment, gained 11.57% over the prior fiscal year.

Summary

Fiscal year 2006 continued the trend from 2005 in providing the Pension pool with good performance on both an absolute and relative basis, sensitive to its investment parameters and constraints. The performance of the Insurance pool was more market-like, reflecting the process of asset allocation revision and implementation within the Workforce Safety and Insurance portfolio. 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, 2006

			Rates of Return (net of fees)						
	Market Value	**% Of Pool**	**For Fiscal Year Ended 6/30**					**Annualized**	
PENSION POOL PARTICIPANTS			2006	2005	2004	2003	2002	3 Years	5 Years
Teachers' Fund for Retirement	$1,705,370,105	48.9%	14.79%	13.36%	19.30%	2.28%	-8.88%	15.79%	7.67%
Public Employees Retirement System	1,636,449,000	46.9%	12.00%	14.07%	16.66%	5.46%	-6.83%	14.23%	7.93%
Bismarck City Employee Pension Fund	44,047,878	1.3%	9.13%	13.81%	14.85%	6.14%	-6.37%	12.57%	7.23%
Bismarck City Police Pension Fund	20,407,270	0.6%	10.18%	13.45%	15.99%	5.32%	-7.25%	13.18%	7.21%
Job Service of North Dakota	84,387,160	2.4%	7.09%	14.72%	12.57%	5.70%	-7.00%	11.41%	6.33%
Subtotal Pension Pool Participants	3,490,661,413	100.0%							
INSURANCE POOL PARTICIPANTS									
Workforce Safety & Insurance Fund	1,201,302,419	86.9%	3.45%	7.29%	9.62%	8.96%	-1.68%	6.76%	5.44%
State Fire and Tornado Fund	24,579,589	1.8%	5.27%	6.66%	9.98%	7.25%	-2.24%	7.29%	5.30%
State Bonding Fund	2,705,330	0.2%	5.28%	6.62%	9.88%	7.52%	-2.74%	7.24%	5.22%
Petroleum Tank Release Fund	9,297,005	0.7%	5.58%	6.51%	10.41%	7.05%	-2.41%	7.48%	5.34%
Insurance Regulatory Trust Fund	3,692,050	0.3%	5.75%	5.41%	9.62%	6.74%	-1.92%	6.91%	5.05%
Health Care Trust Fund	19,530,526	1.4%	5.11%	4.34%	2.91%	-0.95%	-2.24%	4.12%	1.79%
State Risk Management Fund	3,264,853	0.2%	2.38%	5.98%	8.09%	8.86%	-2.56%	5.46%	4.46%
State Risk Management Workers Comp	3,767,385	0.3%	3.25%	5.88%	*	*	*	*	*
Cultural Endowment Fund	218,496	0.0%	6.32%	*	*	*	*	*	*
Budget Stabilization Fund	99,875,098	7.2%	*	*	*	*	*	*	*
Veterans Cemetery Trust Fund	102,846	0.0%	4.50%	2.46%	1.20%	1.57%	2.41%	2.71%	2.42%
Veterans Post War Trust Fund	-	0.0%	*	10.02%	20.47%	-0.46%	-16.82%	*	*
ND Assoc. of Counties (NDACo) Fund	791,993	0.1%	6.38%	7.19%	12.43%	6.76%	-4.69%	8.63%	5.46%
NDACo Program Savings Fund	527,090	0.0%	6.25%	7.18%	12.42%	6.75%	-4.57%	8.58%	5.46%
City of Bismarck Deferred Sick Leave	740,922	0.1%	4.30%	6.75%	8.91%	8.77%	-1.16%	6.64%	5.45%
PERS Group Insurance	1,924,166	0.1%	4.50%	2.46%	1.20%	1.57%	2.41%	2.71%	2.42%
City of Fargo FargoDome Permanent Fund	9,753,895	0.7%	5.44%	7.21%	12.38%	*	*	8.30%	*
Subtotal Insurance Pool Participants	1,382,073,663	100.0%							
INDIVIDUAL INVESTMENT ACCOUNT									
Retiree Health Insurance Credit Fund	37,581,481	100.0%	8.47%	8.74%	15.24%	3.39%	-7.33%	10.77%	5.43%
TOTAL	$4,910,316,557								
BENCHMARKS									
S&P 500			8.63%	6.32%	19.11%	0.24%	-17.99%	11.22%	2.49%
Lehman Brothers Aggregate			-0.81%	6.80%	0.32%	10.39%	8.63%	2.05%	4.97%
90 Day T-Bills			4.00%	2.15%	0.98%	1.52%	2.63%	2.37%	2.25%
Callan Public Plan Sponsors Database (Median)			10.42%	9.22%	15.10%	4.16%	-5.05%	11.55%	6.54%

* 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, 2006

	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	$ 148,424,644	12.12%	*	*
Los Angeles Capital Management	Enhanced Russell 1000	08/2000	189,216,351	12.74%	12.95%	3.98%
LSV Asset Management	Structured Value	06/1998	153,058,033	16.39%	21.51%	12.75%
Northern Trust Global Investments	Enhanced S&P 500	08/2000	191,134,637	9.43%	11.51%	3.04%
State Street Global Advisors	130/30 Long/Short	06/1987	63,513,060	9.64%	11.57%	2.72%
Wells Capital Management Co.	Alpha Capture	04/2006	95,938,601	*	*	*
Westridge Capital Management, Inc.	Enhanced S&P 500	08/2000	199,683,860	9.10%	11.76%	3.11%
TOTAL DOMESTIC LARGE CAP EQUITY			1,040,969,186	11.16%	13.47%	4.10%
Standard & Poor's 500 Index				8.63%	11.22%	2.49%
DOMESTIC SMALL CAP EQUITY:						
Callan Associates, Inc.	Mgr of Managers	05/2006	93,621,689	*	*	*
SEI Investments Management Co.	Mgr of Managers	06/2001	239,707,302	14.39%	19.13%	8.82%
TOTAL DOMESTIC SMALL CAP EQUITY			333,328,991	14.24%	19.08%	8.80%
Russell 2000 Index				14.58%	18.70%	8.50%
INTERNATIONAL EQUITY:						
Bank of Ireland Asset Management	Concentrated Core	03/2002	47,371,489	22.75%	19.92%	*
Capital Guardian Trust Company	Core	03/1992	142,558,025	28.47%	21.78%	7.03%
Lazard Asset Management	Small Cap Value	03/2002	46,837,872	25.84%	30.14%	*
LSV Asset Management	Core	11/2004	139,065,890	28.27%	*	*
State Street Global Advisors	Enhanced EAFE Index	03/1987	48,195,469	28.48%	20.98%	7.20%
Wellington Trust Company, NA	Small Cap Growth	03/2002	46,077,703	24.33%	26.23%	*
TOTAL INTERNATIONAL EQUITY			470,106,448	27.23%	23.34%	9.27%
MSCI EAFE 50% Hedged Index				26.72%	23.29%	7.27%
EMERGING MARKETS EQUITY:						
Dimensional Fund Advisors	Small Cap	10/2005	28,004,537	*	*	*
J.P. Morgan Investment Management, Inc.	Core	11/2005	30,012,225	*	*	*
PanAgora Asset Management, Inc.	Core	02/2006	25,900,056	*	*	*
UBS Global Asset Management	Core	07/2005	46,871,725	*	*	*
WestLB Asset Management, LLC	Core	03/2006	26,771,038	*	*	*
TOTAL EMERGING MARKETS EQUITY			157,559,581	35.30%	32.96%	19.20%
MSCI Emerging Markets Index				35.91%	34.77%	21.54%
DOMESTIC FIXED INCOME:						
Bank of North Dakota	LB G/C Index	01/1988	148,157,881	-1.31%	1.60%	5.31%
Prudential	Private Debt	06/2005	75,216,968	0.07%	*	*
Timberland Investment Resources - Teredo	Timberland	06/2001	59,053,528	-0.71%	8.54%	11.53%
Timberland Investment Resources - Springbank	Timberland	09/2004	146,950,365	13.87%	*	*
Trust Company of the West	Convertibles	06/1999	70,190,538	5.00%	7.23%	1.61%
Wells Capital Management, Inc.	Baa Average	11/1998	73,577,250	-2.45%	3.61%	5.78%
Western Asset Management Co.	Core Bonds	02/1986	74,862,738	-0.95%	2.85%	6.17%
TOTAL DOMESTIC FIXED INCOME			648,009,268	3.41%	9.27%	8.47%
Lehman Brothers Aggregate Index				-0.81%	2.05%	4.97%
HIGH YIELD FIXED INCOME:						
Goldman Sachs	Mezzanine Debt	04/2006	998,963	*	*	*
Loomis Sayles	High Yield	04/2004	100,599,175	5.26%	*	*
Wells Capital Management, Inc.	High Yield	04/2004	100,977,368	5.22%	*	*
TOTAL HIGH YIELD FIXED INCOME			202,575,506	5.25%	8.78%	7.83%
Lehman Brothers High Yield Corp 2% Issuer Cap				4.37%	8.41%	8.79%

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
PENSION POOL PARTICIPANTS (CONTINUED)
FOR PERIODS ENDED JUNE 30, 2006

	Style	Date Initiated	Market Value	Annualized Rates of Return 1 Year	3 Years	5 Years
INTERNATIONAL FIXED INCOME:						
UBS Global Asset Management	Core Non-U.S.	03/1989	87,959,256	0.47%	5.64%	10.40%
Brandywine Asset Management	Core Non-U.S.	05/2003	88,316,048	4.34%	8.84%	*
TOTAL INTERNATIONAL FIXED INCOME			176,275,304	2.38%	7.24%	11.34%
Citigroup Non-US Gov't Bond Index				-0.01%	5.05%	9.61%
REAL ESTATE:						
INVESCO Realty Advisors	Core Commingled	08/1997	135,096,478	23.83%	17.33%	12.38%
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	10/1987	132,340,861	21.07%	17.15%	12.53%
J. P. Morgan Investment Mgmt. Inc.	Alternative	01/2006	23,033,059	*	*	*
TOTAL REAL ESTATE			290,470,398	22.09%	17.09%	12.36%
NCREIF Total Index				18.67%	15.79%	12.00%
PRIVATE EQUITY						
Adams Street Partners (I.V.C.F. II)	Diversified	03/1989	60,623	22.67%	10.24%	-2.48%
Adams Street Partners (I.V.C.F. III)	Diversified	01/1993	615,942	70.72%	36.54%	27.81%
Adams Street Partners (1998 Fund)	Diversified	01/1998	2,626,846	14.13%	14.31%	1.55%
Adams Street Partners (1999 Fund)	Diversified	01/1999	4,691,761	15.24%	13.04%	-1.10%
Adams Street Partners (2000 Fund)	Diversified	10/1999	13,086,589	28.22%	17.90%	3.70%
Adams Street Partners (2001 Fund)	Diversified	12/2000	7,867,731	19.86%	9.98%	3.13%
Adams Street Partners (2002 Fund)	Diversified	03/2002	5,301,135	32.41%	13.22%	*
Adams Street Partners (2003 Fund)	Diversified	04/2003	1,284,387	26.22%	6.98%	*
Adams Street Partners (1999 Non-U.S. Fund)	Diversified	01/1999	2,400,859	44.48%	33.14%	19.77%
Adams Street Partners (2000 Non-U.S. Fund)	Diversified	01/2000	3,461,055	35.02%	21.65%	13.01%
Adams Street Partners (2001 Non-U.S. Fund)	Diversified	02/2001	3,941,502	23.09%	16.17%	8.24%
Adams Street Partners (2002 Non-U.S. Fund)	Diversified	05/2002	5,482,532	39.48%	23.07%	*
Adams Street Partners (2003 Non-U.S. Fund)	Diversified	04/2003	3,152,425	31.08%	8.89%	*
Adams Street Partners (2004 Non-U.S. Fund)	Diversified	04/2004	1,523,736	24.56%	*	*
Adams Street Partners (B.V.C.F. IV)	Diversified	05/1999	17,448,455	26.57%	17.61%	-0.33%
Coral Partners, Inc. (V.P. II)	Direct	06/1990	100,073	3.73%	6.19%	-9.24%
Coral Partners, Inc. (Fund V)	Direct	03/1998	9,820,699	8.73%	-15.31%	-24.06%
Coral Partners, Inc. (Supplemental Fund V)	Direct	08/2001	895,214	10.52%	10.33%	*
Coral Partners, Inc. (Momentum Fund)	Direct	07/2002	13,799,013	-6.23%	-10.15%	*
Hearthstone Homebuilding Investors (MSII)	Home Building	10/1999	1	-100.00%	1214.92%	-100.00%
Hearthstone Homebuilding Investors (MSIII)	Home Building	09/2003	2,755,867	59.61%	*	*
Invest America (Lewis and Clark)	Direct	02/2002	4,206,694	0.00%	-9.20%	*
Matlin Patterson Global Opportunities Fund I	Distressed Debt	07/2002	14,167,970	-11.68%	27.63%	*
Matlin Patterson Global Opportunities Fund II	Distressed Debt	10/2004	19,232,423	-2.65%	*	*
TOTAL PRIVATE EQUITY			137,923,532	14.56%	11.42%	-2.58%
CASH EQUIVALENTS:						
The Northern Trust Company	STIF/STEP	07/1994	33,443,199	4.43%	2.70%	2.52%
90 Day T-Bills				3.98%	2.37%	2.25%
TOTAL PENSION POOL			$ 3,490,661,413	13.49%	15.23%	8.12%
Policy Target				11.69%	13.07%	6.87%

* 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 based upon market values and are subject to independent audit. 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, 2006

	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	$ 19,142,351	11.35%	*	*
Los Angeles Capital Management	Enhanced Russell 1000	04/2004	37,404,404	11.83%	*	*
LSV Asset Management	Structured Value	06/1998	20,426,819	15.51%	21.59%	12.67%
State Street Global Advisors	S&P 500 Index	10/1996	13,607,622	9.59%	11.54%	2.68%
Westridge Capital Management, Inc.	Enhanced S&P 500	04/2004	43,999,845	9.07%	*	*
TOTAL DOMESTIC LARGE CAP EQUITY			134,581,041	11.24%	13.88%	4.15%
Standard & Poor's 500 Index				8.63%	11.22%	2.49%
DOMESTIC SMALL CAP EQUITY:						
SEI Investments Management Co.	Mgr of Managers	06/2001	42,169,196	14.39%	19.03%	8.67%
TOTAL DOMESTIC SMALL CAP EQUITY			42,169,196	14.39%	19.03%	8.68%
Russell 2000 Index				14.58%	18.70%	8.50%
INTERNATIONAL EQUITY:						
Capital Guardian Trust Company	Core	04/1997	39,256,201	28.69%	21.70%	7.52%
Lazard Asset Management	Small Cap Value	11/2002	9,503,196	24.96%	29.08%	*
LSV Asset Management	Core	11/2004	37,866,666	27.59%	*	*
The Vanguard Group	Small Cap Growth	06/2003	9,526,330	29.98%	33.26%	*
TOTAL INTERNATIONAL EQUITY			96,152,393	27.95%	24.43%	9.23%
**MSCI EAFE 50% Hedged Index ** **				26.72%	23.29%	7.27%
DOMESTIC FIXED INCOME:						
Bank of North Dakota (BND)	LB G/C Index	07/1989	197,176,849	-1.09%	1.20%	4.96%
BND Match Loan CDs ***	Certificates of Deposit	varies	83,145,678	5.10%	4.78%	4.99%
Wells Capital	Baa Average Quality	04/2002	218,193,153	-1.88%	2.84%	*
Western Asset Management Co.	Core Bond	07/1990	218,555,470	-0.70%	3.04%	6.06%
TOTAL DOMESTIC FIXED INCOME			717,071,150	-1.18%	2.26%	5.60%
Lehman Brothers Aggregate Index				-0.81%	2.05%	4.97%
TREASURY INFLATION PROTECTED (TIPS):						
Northern Trust Global Investments	Index	05/2004	132,430,542	-1.49%	*	*
Western Asset Management Co.	Core	05/2004	132,414,543	-1.94%	*	*
TOTAL TIPS			264,845,085	-1.72%	*	*
Lehman Brothers US TIPS Index				-1.64%	3.75%	7.00%
REAL ESTATE:						
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	11/2005	74,360,019	*	*	*
TOTAL REAL ESTATE			74,360,019	*	*	*
NCREIF Total Index				18.67%	15.79%	12.00%
CASH EQUIVALENTS:						
Bank of North Dakota	Enhanced MMDA	07/1989	52,894,779	4.51%	2.71%	2.42%
90 Day T-Bills				3.98%	2.37%	2.25%
TOTAL INSURANCE POOL			$ 1,382,073,663	3.78%	6.87%	5.53%
Policy Target				3.73%	6.32%	5.45%

* 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).

*** At 6/30/2006, these CDs were owned by the Budget Stabilization Fund and the ND Health Care Trust Fund only. In previous years, they were held within both the pension and insurance pools in varying amounts. The historical performance for these CDs represents the performance of all CDs held during that time period, regardless of which pool held them.

The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon market values and are subject to independent audit. Returns are shown before the effect of investment management fees.

LARGEST HOLDINGS (By Market Value) AT JUNE 30, 2006

PENSION POOL PARTICIPANTS

Shares	Stocks	Market Value
284,340	Exxon Mobile Corporation	$ 17,444,259
567,153	Microsoft Corporation	13,214,665
513,279	Pfizer Incorporated	12,046,658
247,173	Bank of America Corporation	11,889,021
605,217	Cisco Systems Incorporated	11,819,888
229,380	Citigroup Incorporated	11,065,291
292,460	General Electric Company	9,639,482
152,925	Chevron Corporation	9,490,526
450,717	Intel Corporation	8,541,087
201,222	JP Morgan Chase & Company	8,451,324

Par	Bonds	Market Value
10,845,000	US Treasury Bonds Dated 11-15-1997 6.125% Due 11-15-2027	$ 11,982,879
11,400,000	FNMA Single Family Mortgage 5.00% 30 Years	10,655,443
10,060,000	US Treasury Notes 4.125% Due 08-15-2010	9,699,258
8,850,000	US Treasury Notes 3.5% Due 11-15-2009	8,411,996
7,475,000	US Treasury Notes Dated 02-15-1998 5.5% Due 2-15-2008	7,514,124
18,690,000	Poland (Rep of) 5.75% Bonds Due 6-24-2008	5,940,128
5,500,000	US Treasury Notes Dated 02-15-2000 6.5% Due 2-15-2010	5,746,428
4,725,000	US Treasury Notes 6.5% Due 11-15-2026	5,420,463
4,665,000	US Treasury Bonds 5.25% Due 02-15-2029	4,644,591
3,415,000	Germany (Fed Rep) 5.25% Bonds Due 04-7-2010	4,599,288

INSURANCE POOL PARTICIPANTS

Shares	Stocks	Market Value
35,894	Bank of America Corporation	$ 1,726,501
52,958	Avon Products Incorporated	1,641,698
70,215	Microsoft Corporation	1,636,010
24,712	Exxon Mobile Corporation	1,516,081
59,293	Pfizer Incorporated	1,391,607
13,680	BNP Paribas	1,309,281
39,700	Royal Bank of Scotland Group	1,305,534
19,900	Chevron Corporation	1,234,994
35,687	Royal Dutch Shell	1,200,100
22,100	Hess Corporation	1,167,985

Par	Bonds	Market Value
15,210,000	US Treasury Notes Inflation Indexed 2% 01-15-2014	$ 16,005,601
8,600,000	US Treasury Bonds Inflation Indexed 3.625% Due 04-15-2028	12,709,846
6,940,000	US Treasury Bonds Inflation Index Linked 3.875% Due 4-15-2029	10,522,457
10,000,000	US Treasury Bonds Dated 11-16-1998 5.25% Due 11-15-2028	9,953,120
9,000,000	US Treasury Notes 3.875% Due 07-31-2007	8,869,923
8,390,000	US Treasury Bonds Inflation Indexed 1.875% Due 07-15-2013	8,840,176
8,700,000	US Treasury Notes 3.625% Due 06-30-2007	8,561,000
6,395,000	US Treasury Notes Inflation Indexed 3.625% 01-15-2008	8,110,981
6,425,000	AT&T Broadband Corp Note 8.375% Due 03-15-2013	7,135,862
6,735,000	US Treasury Bonds Inflation Indexed 2.375% Due 01-15-2025	7,005,248

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, 2006

	Assets under management	Fees	Basis points
Investment managers' fees:			
Domestic large cap equity managers	$ 1,175,550,227	$ 2,446,102	21
Domestic small cap equity managers	375,498,187	3,093,597	82
International equity managers	566,258,841	3,439,593	61
Emerging markets equity managers	157,559,581	1,238,550	79
Domestic fixed income managers [1]	1,365,080,418	14,267,634	111
TIPS managers	264,845,085	55,493	2
High yield fixed income managers	202,575,506	986,563	49
International fixed income managers	176,275,304	610,278	35
Real estate managers	364,830,417	2,666,106	73
Private equity managers	137,923,532	8,757,950	635
Cash & equivalents managers	86,337,978	122,988	14
Balanced account managers	37,581,481	72,797	19
Total investment managers' fees	$ 4,910,316,557	37,757,651	78
Custodian fees		926,327	2
Investment consultant fees		269,837	1
Administrative fees		415,096	1
Total investment expenses		$ 39,368,911	80
Securities lending fees		$ 22,252,891	46

[1] Total fees within the domestic fixed income managers include a performance incentive fee paid to Timberland Investment Resources in the amount of $11.5 million in addition to their investment management fees. Absent this fee, total domestic fixed income fees would be 20 basis points.

Reconciliation of Investment Expenses to Financial Statements

Investment expenses as reflected in the financial statements	$ 28,400,878
Plus investment management fees included in investment income	
Domestic large cap equity	4,454
Domestic small cap equity	2,029,350
International equity	158,006
Emerging markets equity	527,083
Private equity	8,119,214
Cash equivalents	122,988
Balanced fund	6,938
Investment expenses per schedule	$ 39,368,911

Brokers	Number of shares traded	Total commissions	Commissions per share
Nomura Securities International Inc	7,124,629	$ 213,739	$0.030
Investment Technology Group Inc.	6,021,119	126,088	0.021
BNY ESI Securities Co.	2,830,321	84,910	0.030
JP Morgan Securities Inc	4,931,465	51,025	0.010
Citigroup Global Markets/Smith Barney	3,378,556	48,304	0.014
Goldman Sachs & Company	3,362,537	43,880	0.013
Sanford C. Bernstein & Co.	2,014,468	40,289	0.020
Merrill Lynch Pierce Fenner & Smith	2,628,715	38,602	0.015
Jefferies & Company	1,197,497	33,413	0.028
Citigroup Global LTD	1,970,931	18,260	0.009
Other 147 Brokers *	281,652,594	422,486	0.002
Gross commissions	317,112,832	$ 1,120,996	$0.004
Less commissions recaptured		(15,336)	
Net commissions paid		$ 1,105,660	$0.003

* 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 2005 indicates that a 1% 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.

Management responsibility for the investment program not assigned to the 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.

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 28% S&P 500 Stock Index, 10% Russell 2000, 18% MSCI EAFE, 5% Emerging Markets (MSCI Emerging Markets Free Index), 5% Brinson Venture Capital Performance Indicator, 12% Lehman Aggregate Bond Index, 7% High Yield (Lehman Brothers High Yield Bond Index), 5% Citigroup Non-US Government Bond Index, 1% 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 8.93% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 13.52%.

Policy and Guidelines

The asset allocation of the TFFR fund is established by the TFFR Board, with input from consultants and RIO staff. Asset allocation is based upon the asset/liability study completed by Gabriel, Roeder, Smith and Company in June 2005. 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	28%
Domestic Equities – Small Cap	10%
International Equities	18%
Emerging Markets Equities	5%
Venture Capital/Alt. Invsts.	5%
Domestic Fixed Income	12%
High Yield Bonds	7%
International Fixed Income	5%
Cash Equivalents	1%
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.

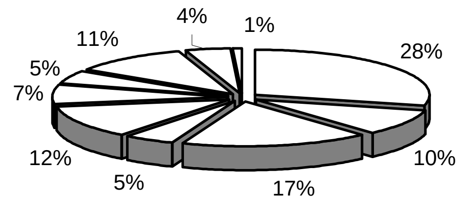
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:
   (1) The cost does not exceed the fair market value at the time of investment.
   (2) The investment provides the Fund with an equivalent or superior rate of return for a similar 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, 2006

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 490,920,316	28%	
Domestic Small Cap Equity	164,308,282	10%	
International Equity	299,060,257	17%	
Emerging Markets Equity	78,600,164	5%	
Domestic Fixed Income	201,212,909	12%	
High Yield Fixed Income	118,522,137	7%	
International Fixed Income	82,523,139	5%	
Real Estate	184,841,640	11%	
Private Equity	69,410,706	4%	
Cash Equivalents	15,970,555	1%	
TOTAL FUND	$ 1,705,370,105	100%	14.79%



PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

Plan Characteristics and Fund Constraints

The North Dakota Public Employees Retirement System (NDPERS) and the Highway Patrol Retirement (HPR) plan are pension benefit plans that have been established to provide retirement income to state employees and employees of participating political subdivisions. The plans are administered by a seven member Board of Trustees. The Chair is appointed by the governor, three members are elected by the active members of the plan, one member is elected by the retired members, one is appointed by the Attorney General and the State Health Officer is a member of the board.

The NDPERS plan is a multi-employer hybrid benefit public pension plan that provides retirement benefits, disability retirement benefits, and survivor benefits, as the case may be, in accordance with Chapter 54-52 of the North Dakota Century Code (NDCC). Monthly retirement benefits for the Main, National Guard and Law Enforcement Plans are based on the formula: number of Years of Service times 2.0% times the final average salary. For the NDPERS Judges Plan the retirement formula is: for the first ten years of service of the formula is final average salary times 3.5%, for the second ten years of service the formula is final average salary times 2.80% and for all remaining years of service the formula is final average salary times 1.25%. The Highway Patrol plan is a single employer plan that provides retirement benefits, disability benefits, and survivor benefits in accordance with Chapter 39-03.1 of the North Dakota Century Code. Monthly retirement benefits are based upon on the formula: first 25 years of credit service times 3.25% and all remaining years of service times 1.75%.

Funding for the NDPERS plan is provided by monthly employee contributions and employer contributions with the amount varying based upon which NDPERS plan the member participates in. For the Main NDPERS plan the employee contribution is 4% and the employer contribution is 4.12%, for the Judges Plan the employee contribution is 5% and employer contribution is 14.52%, for the National Guard Plan the employee contribution is 4% and employer contribution is 6.5%, for the Law Enforcement Plan with prior service the employee contribution is 4% and the employer contribution is 8.31% and for the Law Enforcement Plan without prior service the employee contribution rate is 4% and the employer rate is 6.43%. Funding for the Highway Patrol plan is provided by a monthly employee contribution of 10.3% and an employer contribution of 16.7%.

Each year the NDPERS Board has an actuarial valuation performed. The current actuarial assumed rate of return on assets for all plans is 8%.

Responsibilities and Discretion of the State Investment Board (SIB)

The PERS Board is charged by NDCC chapters 54-52 and 39-03.1 to establish policies for the investment goals and asset allocation of the Fund. The State Investment Board (SIB) is charged with implementing the asset allocation in accordance with these policies by investing the assets of the Fund in the manner provided in NDCC § 21-10-07 and the prudent investor rule, which provides:

Fund fiduciaries shall exercise the judgment and care similar to that of an institutional investor who exercises ordinary prudence, discretion, and intelligence when managing the assets of large investments entrusted to it. In all investments the Fund must be invested exclusively for the benefit of the members and the beneficiaries in accordance with this investment policy.

The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manger has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

The SIB may at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives subject to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.

The SIB is responsible for the implementation of changes to the Fund's investment policy and asset allocation as promptly as prudently possible.

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. The use of derivatives 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.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

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: To obtain investment returns in excess of that needed to allow for increases in a retiree's annuity to maintain the purchasing power of their retirement benefit.

Investment Performance Objective

The North Dakota Public Employees Retirement System (NDPERS) will seek to make investments that generate sufficient return to meet the goals outlined in this policy. 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 NDPERS and its beneficiaries that performance 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 Fund should produce a rate of return, over any given time period that matches, or exceeds, that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB and reflected in the monthly investment performance reports.

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 periods the fund should match or exceed the expected 9.3% rate of return projected in the asset/liability study without exceeding the expected risk for the period. Expected risk for the period, measured by standard deviation, is 10.5%

Asset Allocation

In recognition of the plan's performance objectives, benefit projections, and capital market expectations, the NDPERS Board has established the following asset allocation:

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	9.3%
Standard Deviation of Returns	10.5%

The Fund's investment portfolio must be rebalanced to this target 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.

Restrictions

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

B. Use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.

C. No transaction may be made which threatens the tax exempt status of the Fund.

D. No unhedged short sales or speculative margin purchases may be made.

E. 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.

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

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

Economically targeted investing 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.

The Exclusive Benefit Rule is met if the following four conditions are satisfied:

(1) The cost does not exceed the fair market value at the time of investment.

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

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

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

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

H. Where timberland is used as part of the domestic fixed income portfolio, it may not make up more than 30% of the total asset class at the time of initial purchase. If timberland becomes 50% or more of the domestic fixed income portfolio through market appreciation, the SIB must review the situation with the goal of bringing the timberland portion of the domestic fixed income portfolio into line with this restriction and, considering market conditions at the time, take any action deemed prudent.

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.

<u>Internal Controls</u>

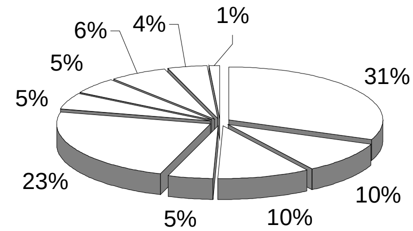
The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

<u>Evaluation</u>

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives and the three and five-year results will be emphasized.

Public Employees Retirement Fund
Actual Asset Allocation – June 30, 2006

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 510,690,345	31%	
Domestic Small Cap Equity	157,617,734	10%	
International Equity	160,052,123	10%	
Emerging Markets Equity	77,593,884	5%	
Domestic Fixed Income	382,522,207	23%	
High Yield Fixed Income	80,418,147	5%	
International Fixed Income	83,349,568	5%	
Real Estate	99,343,888	6%	
Private Equity	67,743,170	4%	
Cash Equivalents	17,117,934	1%	
TOTAL FUND	$ 1,636,449,000	100%	12.00%



BISMARCK CITY EMPLOYEE PENSION PLAN

■ Bismarck City Employee Pension Plan Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The Bismarck, North Dakota City Employee Pension Plan (BCEPP) is the pension benefit plan (Fund) established for the city of Bismarck public employees. The Fund is administered by the Bismarck City Employee Pension Plan Board of Trustees. The Fund is a defined benefit pension plan maintained to provide retirement 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 Fund is administered in accordance with IRS and Treasury Regulations.

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

Responsibilities and Discretion of the State Investment Board (SIB)

The BCEPP Board has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. The BCEPP Board is responsible for 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.

Standards of Investment Performance

Investments of the Fund must seek to generate sufficient return to meet the goals outlined in this policy. 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 the Fund 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.

a. The Fund should produce a rate of return, over any given time period, that matches or exceeds that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB and reflected in the monthly investment performance reports.

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 8.6% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 9.7%.

Policy and Guidelines

The asset allocation of the Fund is established by the BCEPP Board, with input from consultants and RIO staff. Asset allocation is based upon the asset/liability study completed by SEI in March 2006. 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 Fund's objectives, benefit projections, and capital market expectations, the following is the asset allocation for the Fund:

Domestic Large Cap Equity	20.0%
Domestic Small Cap Equity	12.0%
International Equity	11.0%
Emerging Markets Equity	2.0%
Domestic Fixed Income	29.0%
High Yield Fixed Income	6.0%
International Fixed Income	9.5%
Real Estate	9.5%
Alternative Investments	1.0%

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.

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.

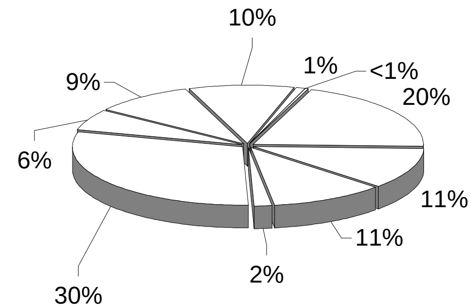
Where investment characteristics, including yield, risk, and liquidity are equivalent, the BCEPP Board's policy favors investments which will have a positive impact on the economy of North Dakota.

<u>Internal Controls</u>

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

■ Bismarck City Employee Pension Plan
Actual Asset Allocation – June 30, 2006

Asset Allocation		Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	8,857,115	20%	
Domestic Small Cap Equity		5,005,983	11%	
International Equity		4,686,611	11%	
Emerging Markets Equity		786,931	2%	
Domestic Fixed Income		13,058,993	30%	
High Yield Fixed Income		2,603,531	6%	
International Fixed Income		4,148,335	9%	
Real Estate		4,430,521	10%	
Private Equity		327,436	1%	
Cash Equivalents		142,422	0%	
TOTAL FUND	$	44,047,878	100%	9.13%



BISMARCK CITY POLICE PENSION PLAN

Bismarck City Police Pension Plan Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The Bismarck, North Dakota City Police Pension Plan (BCPPP) is the pension benefit plan (Fund) established for the city of Bismarck police. The Fund is administered by the Bismarck City Police Pension Plan Board of Trustees. The Fund is a defined benefit pension plan maintained to provide retirement 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 Fund is administered in accordance with IRS and Treasury Regulations.

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

Responsibilities and Discretion of the State Investment Board (SIB)

The BCPPP Board has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. The BCPPP Board is responsible for 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.

Standards of Investment Performance

Investments of the Fund must seek to generate sufficient return to meet the goals outlined in this policy. 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 the Fund 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.

a. The Fund should produce a rate of return, over any given time period, that matches or exceeds that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB and reflected in the monthly investment performance reports.
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 8.9% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 10.6%.

Policy and Guidelines

The asset allocation of the Fund is established by the BCPPP Board, with input from consultants and RIO staff. Asset allocation is based upon the asset/liability study completed by SEI in March 2006. 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 Fund's objectives, benefit projections, and capital market expectations, the following is the asset allocation for the Fund:

Domestic Large Cap Equity	24.0%
Domestic Small Cap Equity	12.0%
International Equity	11.0%
Emerging Markets Equity	3.0%
Domestic Fixed Income	24.5%
High Yield Fixed Income	5.0%
International Fixed Income	9.0%
Real Estate	8.5%
Venture Capital	3.0%

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.

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.

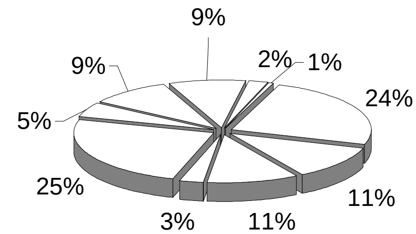
   Where investment characteristics, including yield, risk, and liquidity are equivalent, the BCPPP Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

Bismarck City Police Pension Plan
Actual Asset Allocation – June 30, 2006

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 4,962,316	24%	
Domestic Small Cap Equity	2,326,926	11%	
International Equity	2,190,288	11%	
Emerging Markets Equity	578,603	3%	
Domestic Fixed Income	5,029,190	25%	
High Yield Fixed Income	1,031,691	5%	
International Fixed Income	1,883,517	9%	
Real Estate	1,854,349	9%	
Private Equity	442,221	2%	
Cash Equivalents	108,169	1%	
TOTAL FUND	$ 20,407,270	100%	10.18%



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.

<u>Investment Objectives</u>

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.

<u>Standards of Investment Performance</u>

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

<u>Policy and Guidelines</u>

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.

<u>Restrictions</u>

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.

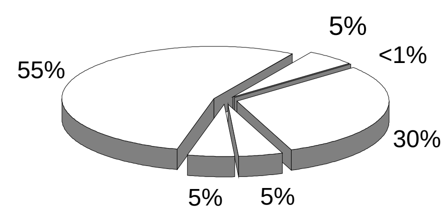
(2) The investment provides the Plan with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

(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, 2006

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 25,539,091	30%	
Domestic Small Cap Equity	4,070,068	5%	
International Equity	4,117,170	5%	
Domestic Fixed Income	46,185,968	55%	
International Fixed Income	4,370,744	5%	
Cash Equivalents	104,119	0%	
TOTAL FUND	$ 84,387,160	100%	7.09%



WORKFORCE SAFETY & INSURANCE FUND

■ Workforce Safety & Insurance Fund Investment Objectives and Policy Guidelines

<u>Introduction</u>

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.

<u>Responsibilities of the North Dakota State Investment Board (SIB)</u>

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.

<u>Investment Objectives</u>

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.

<u>Standards of Investment Performance</u>

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%
TIPS	22.00%
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.

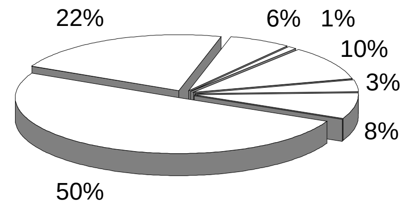
(3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.

(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, 2006

Asset Allocation		Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	121,175,500	10%	
Domestic Small Cap Equity		37,708,228	3%	
International Equity		91,968,350	8%	
Fixed Income		602,404,170	50%	
TIPS		264,845,085	22%	
Real Estate		74,348,786	6%	
Cash Equivalents		8,852,300	1%	
TOTAL FUND	$	1,201,302,419	100%	3.45%



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:

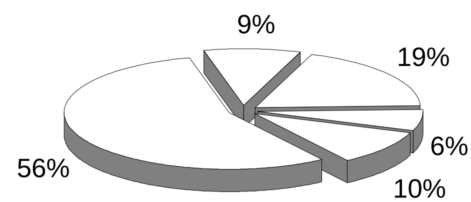
   (1) The cost does not exceed the fair market value at the time of investment.
   (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
   (3) Sufficient liquidity is maintained in the Fund to permit distributions 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, 2006

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 4,628,887	19%	
Domestic Small Cap Equity	1,529,485	6%	
International Equity	2,416,135	10%	
Fixed Income	13,686,640	56%	
Cash Equivalents	2,318,442	9%	
TOTAL FUND	$ 24,579,589	100%	5.27%



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.

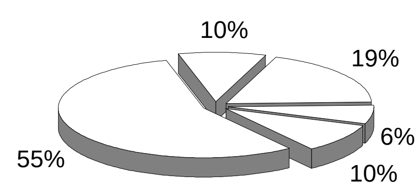
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

   (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, 2006

Asset Allocation	**Market Value**	**Percent of Total**	**One Year Return**
Domestic Large Cap Equity	$ 509,361	19%	
Domestic Small Cap Equity	168,294	6%	
International Equity	257,400	10%	
Fixed Income	1,505,984	55%	
Cash Equivalents	264,291	10%	
TOTAL FUND	$ 2,705,330	100%	5.28%



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.

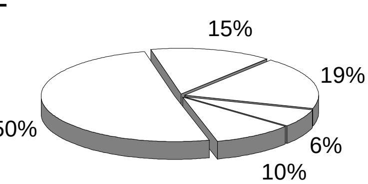
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

   (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, 2006

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 1,733,849	19%	
Domestic Small Cap Equity	577,546	6%	
International Equity	904,359	10%	
Fixed Income	4,704,386	50%	
Cash Equivalents	1,376,865	15%	
TOTAL FUND	$ 9,297,005	100%	5.58%



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.

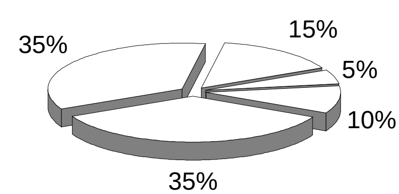
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

   (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, 2006

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 555,493	15%	
Domestic Small Cap Equity	183,156	5%	
International Equity	360,563	10%	
Fixed Income	1,302,327	35%	
Cash Equivalents	1,290,511	35%	
TOTAL FUND	$ 3,692,050	100%	5.75%



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, 2006

Asset Allocation	Market Value	Percent of Total	One Year Return
Cash Equivalents & CD's	19,530,526	100%	
TOTAL FUND	$ 19,530,526	100%	5.11%

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.

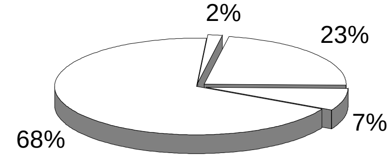
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

   (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, 2006

Asset Allocation		Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	736,945	23%	
Domestic Small Cap Equity		242,791	7%	
Fixed Income		2,232,406	68%	
Cash Equivalents		52,711	2%	
TOTAL FUND	$	3,264,853	100%	2.38%



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.

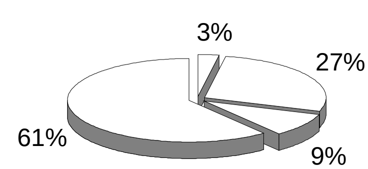
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

(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, 2006

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 1,031,847	27%	
Domestic Small Cap Equity	345,076	9%	
Fixed Income	2,289,287	61%	
Cash Equivalents	101,175	3%	
TOTAL FUND	$ 3,767,385	100%	3.25%



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, 2006

Asset Allocation	Market Value	Percent of Total	One Year Return
Cash Equivalents	$102,846	100%	4.50%

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 allocations are deemed appropriate for the funds.

Asset Class	NDACo Fund	NDACo Program Savings
Dom Lg Cap Equity	29.7%	26.2%
Dom Sm Cap Equity	12.0%	8.8%
Int'l Equity	13.3%	10.0%
Dom Fixed Income	40.0%	50.0%
Cash Equivalents	5.0%	5.0%

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.

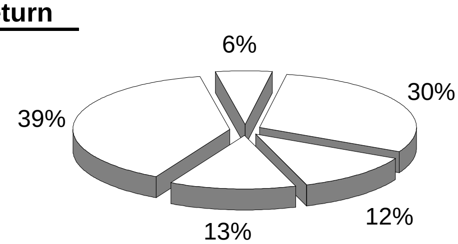
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

(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.

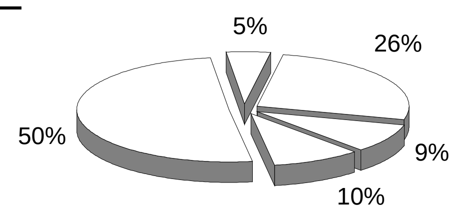
■ ND Association of Counties (NDACo) Fund
Actual Asset Allocation – June 30, 2006

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 236,263	30%	
Domestic Small Cap Equity	95,106	12%	
International Equity	103,544	13%	
Fixed Income	310,297	39%	
Cash Equivalents	46,783	6%	
TOTAL FUND	$ 791,993	100%	6.38%



■ NDACo Program Savings Fund
Actual Asset Allocation – June 30, 2006

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 137,354	26%	
Domestic Small Cap Equity	46,117	9%	
International Equity	50,301	10%	
Fixed Income	268,486	50%	
Cash Equivalents	24,832	5%	
TOTAL FUND	$ 527,090	100%	6.25%



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.

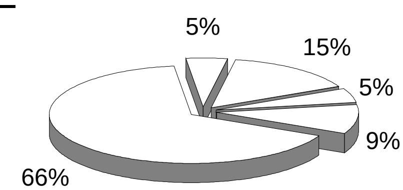
   For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

   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, 2006

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 111,790	15%	
Domestic Small Cap Equity	35,214	5%	
International Equity	70,301	9%	
Fixed Income	488,093	66%	
Cash Equivalents	35,524	5%	
TOTAL FUND	$ 740,922	100%	4.30%



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, 2006

Asset Allocation	Market Value	Percent of Total	One Year Return
Cash Equivalents	$1,924,166	100%	4.50%

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 37.5% S&P 500 domestic stock index, 12.5% Russell 2000 domestic small cap index, 49% Lehman Aggregate 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	37.5%
Small Cap Domestic Equity	12.5%
Fixed Income	49.0%
Cash Equivalents	1.0%

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.

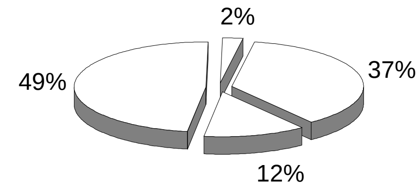
c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.

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, 2006

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 3,649,737	37%	
Domestic Small Cap Equity	1,213,762	12%	
Fixed Income	4,651,466	49%	
Cash Equivalents	238,930	2%	
TOTAL FUND	$ 9,753,895	100%	5.44%



NORTH DAKOTA CULTURAL ENDOWMENT FUND

■ ND Cultural Endowment Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The North Dakota Cultural Endowment Fund (Fund) was created by the State Legislature in 1979 and is governed by NDCC 54-54-08.2.

The Fund was established "to improve the intrinsic quality of the lives of the state's citizens now and in the future through programs approved by the council on the arts." Such programs must:

1. Increase cultural awareness by the state's citizens through programs in arts, crafts, theater, ethnic and folk arts, literature, journalism, public media, historic preservation and interpretation, visual arts, and architecture.
2. Make the items named in #1 above more available to the state's citizens.
3. Encourage the development of talent in the areas named in #1 above within the state.
4. Preserve and increase understanding of North Dakota's heritage and future.

The goals of the Fund are:

- To create a vehicle through which the North Dakota Council on the Arts can secure private and public funds to enhance existing programs;
- And to provide a stable funding source for the Council.

Sources of funding for the Fund are private donations and periodic General Fund appropriations. The current principal balance that must be maintained in the Fund is $150,000. Disbursements from the Fund will amount to approximately $5,000 per year for fellowship grants.

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 Funds policies and priorities as outlined below:

Objective #1: Investment income is needed to provide balance in investment return sources. 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. Capital growth will be sought through investment in equities.

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

Objective #4: The risk of violating the mandated minimum balance requirement of $150,000 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 33.75% S&P 500 domestic stock index, 11.25% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 37% Lehman Aggregate domestic bond index, 5% NCREIF Total real estate 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

7.26% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 10.44%.

Policy and Guidelines

The asset allocation of the Cultural Endowment Fund is established by the North Dakota Council on the Arts, with input from the SIB. 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 Equities	33.75%
Small Cap Domestic Equities	11.25%
International Equities	10.00%
Domestic Fixed Income	37.00%
Real Estate	5.00%
Cash Equivalents	3.00%

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 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 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.

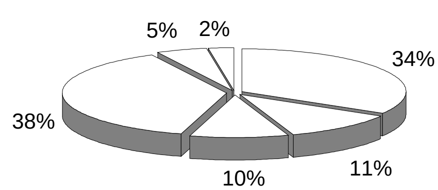
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

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

■ ND Cultural Endowment Fund
Actual Asset Allocation – June 30, 2006

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 74,017	34%	
Domestic Small Cap Equity	24,421	11%	
International Equity	21,438	10%	
Fixed Income	81,932	38%	
Real Estate	11,233	5%	
Cash Equivalents	5,455	2%	
TOTAL FUND	$ 218,496	100%	6.32%



NORTH DAKOTA BUDGET STABILIZATION FUND

■ ND Budget Stabilization Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The Budget Stabilization Fund (Fund) is a special fund created in 1987 under Chapter 54-27.2 of the North Dakota Century Code used to deposit general fund moneys in excess of appropriations. Notwithstanding any other provision of law except section 54-27.2-01, any amount in the state general fund in excess of sixty-five million dollars at the end of any biennium must be transferred by the state treasurer to the budget stabilization fund. The state investment board shall supervise investment of the budget stabilization fund in accordance with chapter 21-10.

Any interest or other budget stabilization fund earnings must be deposited in the fund. Any amounts provided by law for deposit in the fund and any interest or earnings of the fund which would bring the balance in the fund to an amount greater than five percent of the current biennial state general fund budget, as finally approved by the most recently adjourned special or regular session of the legislative assembly, may not be deposited or retained in the fund but must be deposited instead in the state general fund.

If the director of the office of management and budget projects that general fund revenues for the biennium will be at least two and one-half percent less than estimated by the most recently adjourned special or regular session of the legislative assembly, and if the governor orders a transfer, the state treasurer shall transfer the appropriate funds from the budget stabilization fund to the state general fund to offset the decrease in general fund revenues. The amount transferred from the budget stabilization fund upon order of the governor may not exceed the difference between an amount two and one-half percent below the general fund revenue projections for the biennium and the general fund revenue projections for the biennium by the director of the office of management and budget.

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 Funds policies and priorities as outlined below:

Objective: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations. 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.

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 Budget Stabilization Fund is established by the Office of Management and Budget, with input from the SIB. 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 & CDs	100.00%

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

■ **ND Budget Stabilization Fund**
Actual Asset Allocation – June 30, 2006

Asset Allocation	Market Value	Percent of Total	One Year Return
Cash Equivalents & CD's	$ 99,875,098	100%	*

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%

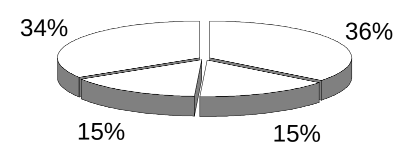
Rebalancing of the Plan to this target will be done in accordance with the SIB's rebalancing policy.

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, 2006

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 13,230,546	36%	
Domestic Small Cap Equity	5,750,582	15%	
International Equity	5,818,474	15%	
Fixed Income	12,781,879	34%	
TOTAL FUND	$37,581,481	100%	8.47%



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Actuarial

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October 9, 2006

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, 2006

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, 2006.

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 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 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) over a period of 30 years from the valuation date. 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.

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 Annual Required Contribution (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, 2006, the ARC is 12.29%. 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 -4.54%.

The GASB ARC increased from 12.12% last year. The increase in the ARC would have been even larger if not for the 14.6% market asset return in FY 2006.

If the 7.75% employer 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) increased from last year. The funded ratio at July 1, 2005 was 74.8%, while it is 75.4% as of July 1, 2006. Based on market values rather than actuarial values of assets, the funded ratio improved to 83.0% from 77.9% last year.

Reporting Consequences

TFFR is required to report in its Comprehensive Annual Financial Report (CAFR) for the current fiscal year ending June 30, 2006 that actual contributions received in FY 2006 were less than the ARC. The 7.75% statutory rate was 63.9% of the 12.12% ARC determined by the last valuation. Next year, the CAFR for FY 2007 will show that the 7.75% statutory rate was only 63.1% of the 12.29% ARC for FY 2007. 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.

Assumptions and Methods

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. These assumptions and procedures were recommended by the actuary, and were last changed in 2005, 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.

Gabriel Roeder Smith & Company

Board of Trustees
October 9, 2006
Page 3

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, 2006, 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.

Sincerely,
Gabriel, Roeder, Smith & Co.

J. Christian Conradi

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

W Michael Carter

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

WB Fornia

William B. Fornia, FSA, MAAA, EA
Senior Consultant
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SUMMARY OF ACTUARIAL VALUATION RESULTS

Valuation Date	7/1/2006	7/1/2005
Fiscal Year Ending	6/30/2007	6/30/2006
Membership		
• Number of		
- Active Members	9,585	9,801
- Retirees and Beneficiaries	5,893	5,586
- Inactive, Vested	1,409	1,377
- Inactive, Nonvested	143	168
- Total	17,030	16,932
• Payroll	$390.1 million	$386.6 million
Statutory contribution rate		
• Employer	7.75%	7.75%
• Member	7.75%	7.75%
Assets		
• Market value	$1,720.3 million	$1,530.2 million
• Actuarial value	1,564.0 million	1,469.7 million
• Return on market value	14.6 %	13.3 %
• Return on actuarial value	8.5 %	3.3 %
• Ratio - actuarial value to market value	90.9 %	96.0 %
• External cash flow %	(1.8)%	(1.6)%
Actuarial Information		
• Normal cost %	11.31%	11.31%
• Unfunded actuarial accrued liability (UAAL)	$509.9 million	$495.5 million
• Funded ratio	75.4%	74.8%
• Funding period	Infinite	Infinite
GASB 25 ARC		
• Amortization period	30 years	30 years
• Amortization method	Level % (2.00%)	Level % (2.00%)
• Calculated contribution rate	12.29%	12.12%
• Margin	(4.54)%	(4.37)%
Gains/(Losses)		
• Asset experience	$ 6.7 million	$(67.4) million
• Liability experience	(1.7) million	(5.8) million
• Benefit changes	0.0 million	0.0 million
• Assumption/method changes	(0.0) million	(63.3) million
• Total	$ 5.0 million	$(136.5) 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 Termination 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

Age	Years of Service 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

Age	Years of Service 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

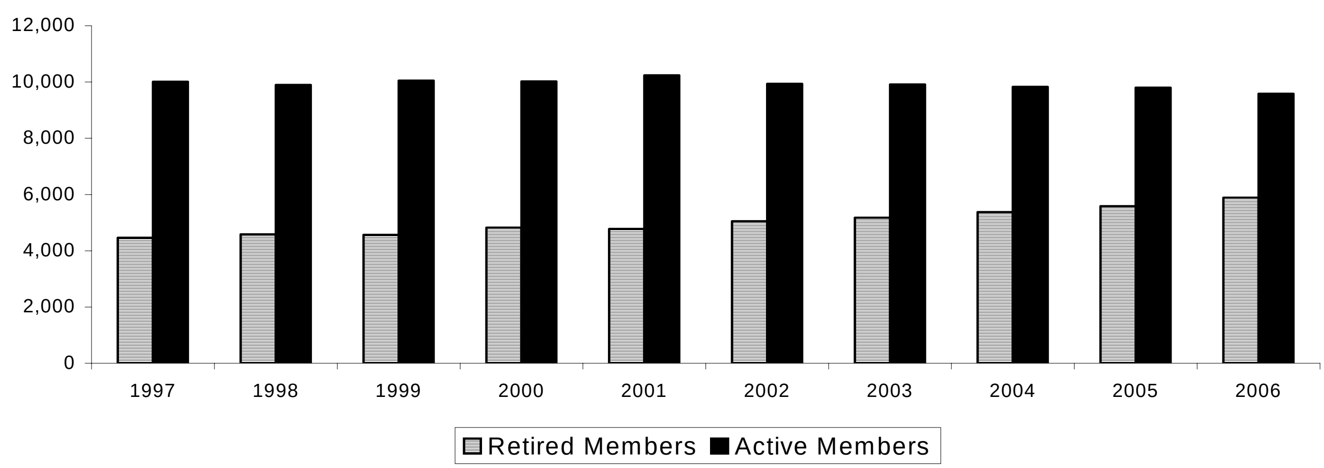
	Active Members		Covered Payroll		Average Salary			
Valuation Year	Number	Percent Increase	Amount in $ Millions	Percent Increase	$ Amount	Percent Increase	Average Age	Average Service
1997	10,010	2.2	294.1	4.6	29,382	2.3	43.4	14.0
1998	9,896	(1.1)	298.4	1.5	30,156	2.6	43.5	14.0
1999	10,046	1.5	314.6	5.4	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
2006	9,585	(2.2)	390.1	0.9	40,703	3.2	44.8	14.6

SCHEDULE OF RETIREES AND BENEFICIARIES

Valuation Year	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
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
2006	501	12.3	194	2.0	5,893	16,596	91.8	8.6

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

ACTIVE MEMBERS VS RETIRED MEMBERS 10-YEAR SUMMARY



ANALYSIS OF CHANGE IN GASB ANNUAL REQUIRED CONTRIBUTION (ARC)

	2006	2005
Prior valuation	12.12 %	11.34 %
Increases/(decreases) due to:		
Open amortization	(0.12)%	(0.19)%
Growth in covered payroll	0.10 %	(0.23)%
Employer contributions received at 7.75%; rather than 12.12% or 11.34%	0.28 %	0.29 %
Liability experience	0.02 %	0.14 %
Investment experience	(0.11)%	1.63 %
Assumption changes	0.00 %	2.49 %
Change in amortization method	0.00 %	(3.35)%
Legislative changes	0.00 %	0.00 %
Total	0.17 %	0.78 %
Current valuation	12.29 %	12.12 %
Statutory employer contribution rate	7.75 %	7.75 %
Margin available	(4.54)%	(4.37)%

ANALYSIS OF CHANGE IN UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)

	Unfunded Actuarial Accrued Liability ($ in millions)	
	2006	2005
Prior valuation	$ 495.5	$ 354.8
Increases/(decreases) due to:		
Amortization payments	$ 19.4	$ 4.2
Investment experience	(6.7)	67.4
Assumption changes	-	63.3
Liability experience	1.7	5.8
Change in actuarial methods	-	-
Legislative changes	-	-
Total	$ 14.4	$ 140.7
Current valuation	$ 509.9	$ 495.5

SOLVENCY TEST

	Actuarial Accrued Liability (AAL) (in millions)				Portion of AAL Covered by Valuation Assets		
Valuation Year	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)
1997	$310.0	$344.9	$222.2	$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
2006	504.4	929.1	640.3	1,564.0	100.0	100.0	20.4

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
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
2006	31,171,156	31,170,851	7.75	220,562,916	3,225,589	286,130,512

Expenses by Type

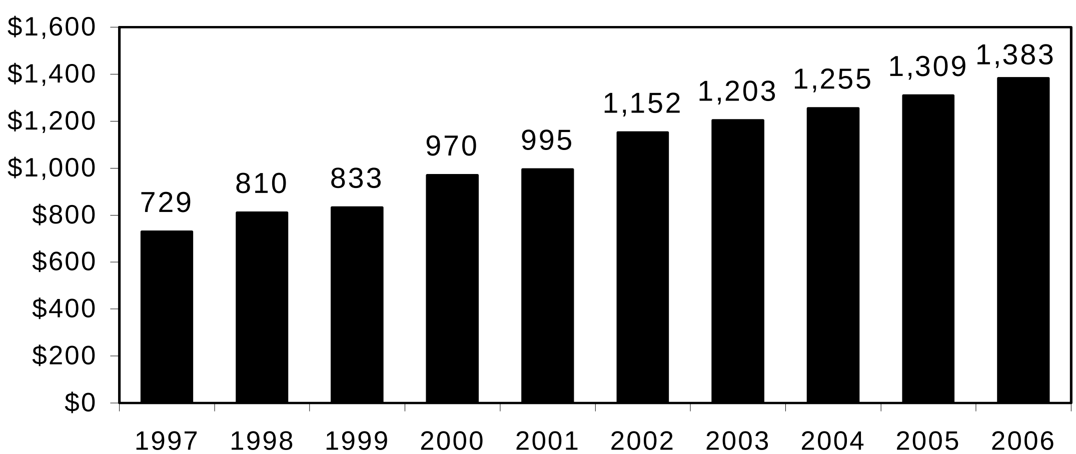
Fiscal Year	Benefits Paid to Participants	Refunds	Administrative Charges	Total
1997	$ 39,522,935	$ 2,590,766	$ 832,223	$ 42,945,924
1998	43,706,492	2,671,933	789,830	47,168,255
1999	46,120,317	2,877,423	944,654	49,942,394
2000	53,583,271	2,788,019	1,015,549	57,386,839
2001	57,740,914	3,127,841	1,099,331	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
2006	91,818,092	2,697,308	1,484,591	95,999,991

SCHEDULE OF BENEFIT EXPENSES BY TYPE

	Annuity Payments					Refunds			
Fiscal Year	Service Retirements	PLSO Distributions	Disability Retirements	Beneficiaries	Total Annuity Payments	Separation	Death	Total Refunds	Total Benefit Expenses
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	87,195,438
2006	84,795,930	420,224	950,658	5,651,280	91,818,092	2,381,196	316,112	2,697,308	94,515,400

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Valuation Year		Years of Service < 10	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	> 34	TOTAL
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
2006	Number of Retirees	269	436	417	627	1,254	1,750	1,140	5,893
	Average Monthly Benefit	276	399	607	938	1,351	1,804	1,938	1,383
	Average Years of Service	6	13	17	23	28	32	38	28



SCHEDULE OF RETIREES BY BENEFIT AMOUNT

Monthly Benefit Amount	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Under $199	171	157	146	134	119	154	146	218	209	311
200 to 399	460	465	466	473	481	646	669	904	929	1,020
400 to 599	590	619	637	671	705	927	997	1,007	1,071	1,077
600 to 799	563	593	637	663	715	538	564	477	492	477
800 to 999	423	432	434	439	458	490	497	482	476	438
1,000 to 1,199	542	528	517	513	503	470	459	410	394	365
1,200 to 1,399	492	478	458	450	431	417	405	357	349	289
1,400 to 1,599	498	474	455	432	423	349	343	237	230	189
1,600 to 1,799	449	422	392	358	327	229	225	166	160	110
1,800 to 1,999	438	382	348	297	261	173	164	100	94	67
2,000 & Over *				747	631	384	358	210	181	119
2,000 to 2,199	310	270	245							
2,200 to 2,399	258	227	202							
2,400 to 2,599	190	157	133							
2,600 to 2,799	150	119	105							
2,800 to 2,999	102	86	68							
3,000 & Over	257	177	130							
TOTAL	5,893	5,586	5,373	5,177	5,054	4,777	4,827	4,568	4,585	4,462

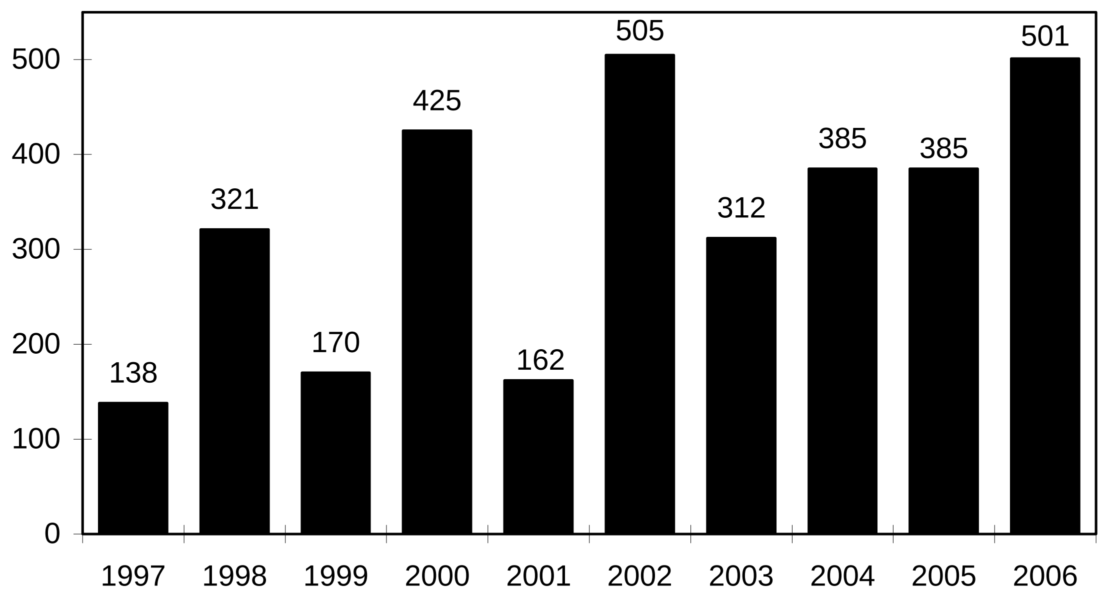
* Breakdown of data for monthly benefits > $2,000 is not available for years prior to 2004.

SCHEDULE OF RETIREES BY BENEFIT TYPE

Type of Benefit/ Form of Payment	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Service:										
Straight Life	2,549	2,544	2,527	2,531	2,566	2,566	2,674	2,661	2,760	2,787
100% J&S	1,570	1,361	1,243	1,128	1,030	872	862	719	675	591
50% J&S	408	372	357	333	328	301	303	281	286	270
5 Years C&L	34	34	35	34	32	31	33	31	31	30
10 Years C&L	157	154	151	149	149	140	141	130	129	122
20 Years C&L	28	16	8	0	0	0	0	0	0	0
Level	567	539	495	458	422	354	335	279	256	211
Subtotal	5,313	5,020	4,816	4,633	4,527	4,264	4,348	4,101	4,137	4,011
Disability:										
Straight Life	66	61	59	57	55	50	44	41	38	33
100% J&S	11	9	10	11	10	10	10	7	5	5
50% J&S	4	5	6	9	8	7	5	4	3	3
5 Years C&L	2	2	2	2	2	2	2	1	1	1
10 Years C&L	1	1	1	1	1	1	1	1	2	0
20 Years C&L	1	1	1	0	0	0	0	0	0	0
Subtotal	85	79	79	80	76	70	62	54	49	42
Beneficiaries:										
Straight Life	475	466	457	442	439	431	407	404	394	403
5 Years C&L	8	9	9	6	2	2	1	1	1	0
10 Years C&L	12	12	12	16	10	10	9	8	4	6
Subtotal	495	487	478	464	451	443	417	413	399	409
TOTAL	5,893	5,586	5,373	5,177	5,054	4,777	4,827	4,568	4,585	4,462

SCHEDULE OF NEW RETIREES BY TYPE

Valuation Year	Retirement	Disability	Beneficiary	Total
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
2006	466	8	27	501



SCHEDULE OF RETIREES RESIDING IN NORTH DAKOTA BY COUNTY

County	Number	Average Benefit	County	Number	Average Benefit	County	Number	Average Benefit
Adams	16	$ 1,398	Griggs	27	$ 1,018	Richland	100	$ 1,307
Barnes	127	1,382	Hettinger	27	1,672	Rolette	47	1,324
Benson	28	1,273	Kidder	25	1,241	Sargent	29	1,069
Billings	7	1,033	LaMoure	45	1,404	Sheridan	16	1,203
Bottineau	80	1,194	Logan	17	1,204	Sioux	6	1,088
Bowman	46	1,501	McHenry	58	1,225	Slope	4	508
Burke	32	1,333	McIntosh	34	1,412	Stark	162	1,459
Burleigh	601	1,537	McKenzie	35	1,308	Steele	14	820
Cass	641	1,604	McLean	93	1,264	Stutsman	162	1,282
Cavalier	57	1,293	Mercer	57	1,450	Towner	26	1,147
Dickey	57	989	Morton	190	1,613	Traill	75	1,438
Divide	24	1,711	Mountrail	65	1,253	Walsh	123	1,436
Dunn	18	1,036	Nelson	56	1,256	Ward	422	1,506
Eddy	34	1,257	Oliver	14	1,579	Wells	61	1,371
Emmons	24	1,051	Pembina	63	1,312	Williams	154	1,388
Foster	36	1,450	Pierce	46	1,349	Out-of-State	1,138	1,140
Golden Valley	19	1,029	Ramsey	117	1,364			
Grand Forks	446	1,623	Ransom	47	1,289	GRAND TOTALS:	5,893	$ 1,383
Grant	24	926	Renville	21	1,353			

PRINCIPAL PARTICIPATING EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

	2006			1997		
Participating Employer	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System
Fargo Public Schools	978	1	9.57%	843	1	8.17%
Bismarck Public Schools	935	2	9.15%	774	2	7.50%
Grand Forks Schools	765	3	7.49%	758	3	7.35%
Minot Schools	597	4	5.84%	591	4	5.73%
West Fargo Schools	442	5	4.33%	328	5	3.18%
Mandan Public Schools	271	6	2.65%	241	6	2.34%
Jamestown Schools	236	7	2.31%	212	8	2.05%
Dickinson Schools	227	8	2.22%	222	7	2.15%
Williston Schools	176	9	1.72%	201	9	1.95%
Devils Lake Schools	164	10	1.61%	160	10	1.55%
All Other [1]	5,424		53.10%	5,987		58.03%
Total (246 & 307 employers) [2]	10,215		100.00%	10,317		100.00%

[1] In 2006 "all other" consisted of:

Type	Number	Employees
School Districts	190	4,898
County Superintendents	13	13
Special Education Units	17	345
Vocational Centers	3	45
State Agencies/Institutions	5	106
Colleges/Universities	4	5
Other	4	12
Total	236	5,424

[2] This schedule includes all employees who earned service credit during the fiscal year. If an employee worked for more than one employer during the year, that employee is counted multiple times. The total differs from the actuary's total active members as the actuary's total only includes those employees who were active at the end of the fiscal year and only counts each individual one time.

SCHEDULE OF PARTICIPATING EMPLOYERS AT JUNE 30, 2006

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
Bottineau
Bowbells
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 Lankin
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
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
Nedrose
Nesson
New Elementary
New England
New Horizons ITV
New Rockford
New Salem
New Town
Newburg United
North Border School
North Central of Barnes
North Central of Towner
North Sargent
Northern Cass
Northwood
Oakes
Oberon Elementary
Page
Park River
Parshall
Pettibone
Pingree – Buchanan
Pleasant Valley Elementary
Positive Action Consortium
Powers Lake
Rhame
Richardton
Richland
Robinson
Rolette
Roosevelt
Rugby
Sargent Central
Sawyer
Scranton

SCHEDULE OF PARTICIPATING EMPLOYERS (Continued)

School Districts (cont.)

Selfridge
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
Tappen
TGU
Thompson
Tioga
Turtle Lake – Mercer
Tuttle
Twin Buttes Elementary
Underwood
United
Valley
Valley City
Velva
Wahpeton
Warwick
Washburn
West Fargo
Westhope
White Shield
Wildrose
Williston
Wimbledon – Courtenay
Wing
Wishek
Wolford
Wyndmere
Yellowstone
Zeeland
Total School Districts 200

County Superintendents

Billings County
Bottineau County
Grant County
LaMoure County
Logan County
McHenry County
McKenzie County
Morton County
Nelson County
Rolette County
Slope County
Ward County
Williams County
Total County Supts. 13

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.
Upper Valley Special Ed.
West River Student Services
Wil-Mac Special Ed.
Total Special Ed Units 17

Vocational Centers

North Valley Career & Tech. Ctr
SE Region Career/Tech Center
Sheyenne Valley Area Voc. Ctr.
Total Vocational Centers 3

State Agencies & Institutions

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 5

Colleges/Universities

Bismarck State College
ND State College of Science
ND State University
Valley City State University
Total Colleges/Univ. 4

Other

Fargo Catholic Schools Network
ND High School Activities Assn.
ND Education Assn.
Valley City Teacher Center
Total Other 4

Total Employers 246

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

	2006	2005	2004	2003	2002
INVESTMENT MANAGERS					
Domestic Large Cap Equity:					
AllianceBernstein Capital Management	$ -	$ -	$ 12,457	$ 137,107	$ 151,964
Los Angeles Capital Management	745,621	660,619	520,099	263,973	280,792
LSV Asset Management	601,936	590,168	533,657	448,581	294,418
Northern Trust Global Investments	177,332	402,732	291,741	250,046	279,447
State Street Global Advisors	24,122	17,541	16,857	22,707	35,858
Wells Capital Management Co.	4,904	-	262,974	208,778	256,989
Westridge Capital Management, Inc.	543,316	493,687	452,368	417,561	737,898
Total Domestic Large Cap Equity	2,097,231	2,164,747	2,090,153	1,748,753	2,037,366
Domestic Small Cap Equity:					
Callan Associates Inc.	75,401	-	-	-	-
SEI Investments Management Co.	2,635,502	2,370,310	2,242,925	1,691,371	1,936,560
Total Domestic Small Cap Equity	2,710,903	2,370,310	2,242,925	1,691,371	1,936,560
International Equity:					
Bank of Ireland Asset Management	344,610	322,720	291,873	227,016	86,262
Capital Guardian Trust Company	662,525	693,054	851,348	629,489	693,003
Lazard Asset Management	360,262	345,025	307,157	246,569	82,230
LSV Asset Management	711,900	416,411	-	-	-
State Street Global Advisors	291,655	114,231	245,192	170,764	368,456
Wellington Trust Company, NA	442,878	403,531	387,222	307,985	106,925
Total International Equity	2,813,830	2,294,972	2,082,792	1,581,823	1,336,876
Emerging Markets Equity:					
Capital Guardian Trust Company	300,224	976,495	886,004	644,587	675,677
Dimensional Fund Advisors	226,859	-	-	-	-
J.P. Morgan Investment Management, Inc.	156,328	-	-	-	-
PanAgora Asset Management, Inc.	63,104	-	-	-	-
UBS Global Asset Management	432,929	-	-	-	-
WestLB Asset Management, LLC	59,106	-	-	-	-
Total Emerging Markets Equity	1,238,550	976,495	886,004	644,587	675,677
Domestic Fixed Income:					
Bank of North Dakota	80,304	52,529	50,271	44,239	53,531
Prudential Investment Management	133,901	-	-	-	-
RMK Timberland Investment Mgmt.	412,804	567,599	736,627	423,603	176,129
Timberland Investment Resources	12,022,865	455,891	-	-	-
Trust Company of the West	299,027	218,650	242,297	255,695	335,802
Wells Capital Management, Inc.	146,039	134,936	117,820	150,395	228,669
Western Asset Management Company	136,234	111,449	101,180	106,155	145,338
WestLB Asset Management	-	82,413	130,429	146,821	196,555
Total Domestic Fixed Income	13,231,174	1,623,467	1,378,624	1,126,908	1,136,024
High Yield Fixed Income:					
Loomis Sayles & Company	485,906	437,397	92,700	-	-
Wells Capital Management, Inc.	500,657	422,859	96,369	-	-
Western Asset Management Company	-	-	198,017	249,265	266,409
Total High Yield Fixed Income	986,563	860,256	387,086	249,265	266,409
International Fixed Income:					
UBS Global Asset Management	265,882	297,226	267,101	423,731	478,521
Brandywine Asset Management	344,396	313,098	273,526	39,940	-
Total International Fixed Income	610,278	610,324	540,627	463,671	478,521

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

	2006	2005	2004	2003	2002
INVESTMENT MANAGERS (continued)					
Real Estate:					
Heitman/JMB Advisory Corp.	$ -	$ -	$ -	$ -	$ 23,141
INVESCO Realty Advisors	705,687	642,900	777,309	634,499	741,084
J.P. Morgan Investment Management, Inc.	1,516,689	1,189,060	1,009,926	944,537	874,910
Total Real Estate	2,222,376	1,831,960	1,787,235	1,579,036	1,639,135
Private Equity:					
Adams Street Partners	961,377	1,075,470	1,152,935	1,220,639	1,325,000
Coral Partners, Inc.	1,137,086	1,689,769	1,684,712	1,646,036	1,003,190
Hearthstone Homebuilding Investors, LLC	5,554,616	4,542,006	2,354,122	1,307,083	1,036,884
InvestAmerica L&C, LLC	375,000	375,000	375,000	348,772	-
Matlin Patterson Global Opportunities, LLC	729,871	640,625	437,500	943,322	-
Total Private Equity	8,757,950	8,322,870	6,004,269	5,465,852	3,365,074
Cash Equivalents:					
The Northern Trust Company, Inc.	122,988	92,149	75,054	48,678	75,064
Total Investment Manager Fees	34,791,843	21,147,550	18,767,129	16,512,708	12,545,711
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	648,728	665,915	523,890	548,056	626,718
INVESTMENT CONSULTANT					
Callan Associates Inc.	181,705	178,389	193,175	140,195	131,463
SIB ADMINISTRATIVE FEES	296,335	270,288	277,786	272,871	252,997
SECURITIES LENDING FEES					
Rebates	10,044,445	3,556,742	1,107,164	1,674,462	3,002,217
Bank Fees	261,337	262,466	212,251	185,818	205,838
Total Securities Lending Fees	10,305,782	3,819,208	1,319,415	1,860,280	3,208,055

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

	2006	2005	2004	2003	2002
INVESTMENT MANAGERS					
State Street Global Advisors	$ 72,797	$ 65,534	$ 56,210	$ 47,599	$ 50,380
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	654	652	648	1,692	2,740
SIB ADMINISTRATIVE FEES	2,944	2,696	2,618	2,587	2,251

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

	2006	2005	2004	2003	2002
INVESTMENT MANAGERS					
Domestic Large Cap Equity:					
AllianceBernstein Capital Management	$ -	$ -	$ 4,525	$ 50,673	$ 54,786
Los Angeles Capital Management	134,125	130,010	62,875	-	-
LSV Asset Management	84,145	84,484	85,026	73,011	96,428
State Street Global Advisors	10,868	10,000	33,648	38,949	41,842
Westridge Capital Management, Inc.	119,733	110,895	27,844	-	-
Total Domestic Large Cap Equity	348,871	335,389	213,918	162,633	193,056
Domestic Small Cap Equity:					
SEI Investments Management	382,694	521,070	548,495	453,329	484,616
International Equity:					
Capital Guardian Trust Company	258,024	199,852	356,373	344,834	392,190
Lazard Asset Management	96,692	66,902	83,289	44,755	-
LSV Asset Management	215,086	101,949	-	-	-
The Vanguard Group	55,961	45,275	91,048	2,891	-
Total International Equity	625,763	413,978	530,710	392,480	392,190
Convertible Bonds:					
Trust Company of the West	-	292,953	505,255	466,670	492,572
Domestic Fixed Income:					
Bank of North Dakota	119,080	142,950	109,926	94,786	134,261
Wells Capital Management, Inc.	475,084	298,661	301,395	272,484	68,273
Western Asset Management Company	442,296	411,419	535,966	524,407	572,893
Total Domestic Fixed Income	1,036,460	853,030	947,287	891,677	775,427
Treasury Inflation-Protected Securities (TIPS)					
Northern Trust Global Investments	55,493	60,268	-	-	-
Real Estate:					
J.P. Morgan Investment Management, Inc.	443,730	-	-	-	-
Balanced Fund-State Street (Health Trust)	-	-	-	41,346	-
Total Investment Manager Fees	2,893,011	2,476,688	2,745,665	2,408,135	2,337,861
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	276,945	261,904	247,232	337,768	366,837
INVESTMENT CONSULTANT					
Callan Associates	88,132	140,608	110,159	87,266	69,955
SIB ADMINISTRATIVE FEES	115,817	108,712	373,650	120,095	79,815
SECURITIES LENDING FEES					
Rebates	11,746,006	5,720,527	1,422,043	1,811,453	3,907,272
Bank Fees	201,103	219,027	149,306	141,667	249,189
Total Securities Lending Fees	11,947,109	5,939,554	1,571,349	1,953,120	4,156,461

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

	2006	2005	2004	2003	2002
Public Employees Retirement System					
Net assets beginning of year	$ 1,475,701,634	$ 1,304,738,956	$ 1,126,095,333	$ 1,080,040,861	$ 1,170,179,844
Net increase/(decrease) in fair value of investments	152,103,565	154,870,263	156,289,529	22,232,141	(115,940,983)
Interest, dividends and other income	36,915,516	34,148,529	34,280,353	36,951,759	38,541,144
Investment expenses	12,818,260	5,316,187	4,043,903	3,575,041	3,727,939
Net securities lending income	264,345	260,073	218,294	195,613	238,795
Net incr/(decr) in net assets resulting from unit transactions	(17,250,000)	(13,000,000)	(8,100,650)	(9,750,000)	(9,250,000)
Net assets end of year	$ 1,634,916,800	$ 1,475,701,634	$ 1,304,738,956	$ 1,126,095,333	$ 1,080,040,861
City of Bismarck Employees Pension Plan					
Net assets beginning of year	$ 40,305,437	$ 26,354,623	$ 22,968,106	$ 21,573,002	$ 23,006,697
Net increase/(decrease) in fair value of investments	3,073,287	3,332,675	2,770,138	721,533	(2,192,830)
Interest, dividends and other income	1,054,196	649,709	683,552	735,176	827,200
Investment expenses	437,255	108,273	71,632	65,768	73,474
Net securities lending income	7,287	5,048	4,459	4,163	5,409
Net incr/(decr) in net assets resulting from unit transactions	-	10,071,655	-	-	-
Net assets end of year	$ 44,002,952	$ 40,305,437	$ 26,354,623	$ 22,968,106	$ 21,573,002
City of Bismarck Police Pension Plan					
Net assets beginning of year	$ 18,501,337	$ 12,807,676	$ 11,077,471	$ 10,494,577	$ 11,304,692
Net increase/(decrease) in fair value of investments	1,570,167	1,519,817	1,428,040	262,050	(1,152,914)
Interest, dividends and other income	487,465	346,503	340,580	354,978	380,805
Investment expenses	175,864	55,815	40,476	35,988	40,275
Net securities lending income	3,222	2,373	2,061	1,854	2,269
Net incr/(decr) in net assets resulting from unit transactions	-	3,880,783	-	-	-
Net assets end of year	$ 20,386,327	$ 18,501,337	$ 12,807,676	$ 11,077,471	$ 10,494,577
Job Service of North Dakota					
Net assets beginning of year	$ 81,450,677	$ 73,259,542	$ 67,303,290	$ 60,847,741	$ 62,062,970
Net increase/(decrease) in fair value of investments	4,905,261	9,452,746	6,536,599	2,153,287	(6,167,057)
Interest, dividends and other income	1,916,260	1,682,114	1,946,003	2,077,422	2,217,530
Investment expenses	1,073,229	268,358	184,664	181,548	191,608
Net securities lending income	17,719	17,556	15,958	15,388	17,906
Net incr/(decr) in net assets resulting from unit transactions	(2,876,289)	(2,692,923)	(2,357,644)	2,391,000	2,908,000
Net assets end of year	$ 84,340,399	$ 81,450,677	$ 73,259,542	$ 67,303,290	$ 60,847,741
TOTAL PENSION INVESTMENT POOL					
Net assets beginning of year	$ 1,615,959,085	$ 1,417,160,797	$ 1,227,444,200	$ 1,172,956,181	$ 1,266,554,203
Net increase/(decrease) in fair value of investments	161,652,280	169,175,501	167,024,306	25,369,011	(125,453,784)
Interest, dividends and other income	40,373,437	36,826,855	37,250,488	40,119,335	41,966,679
Investment expenses	14,504,608	5,748,633	4,340,675	3,858,345	4,033,296
Net securities lending income	292,573	285,050	240,772	217,018	264,379
Net incr/(decr) in net assets resulting from unit transactions	(20,126,289)	(1,740,485)	(10,458,294)	(7,359,000)	(6,342,000)
Net assets end of year	$ 1,783,646,478	$ 1,615,959,085	$ 1,417,160,797	$ 1,227,444,200	$ 1,172,956,181

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

	2006	2005	2004	2003	2002
Workforce Safety & Insurance Fund					
Net assets beginning of year	$ 1,168,197,496	$ 1,078,349,677	$ 980,192,555	$ 906,570,883	$ 924,957,230
Net increase/(decrease) in fair value of investments	715,343	47,067,853	59,516,744	44,052,887	(51,653,135)
Interest, dividends and other income	41,242,230	34,684,534	34,358,320	38,713,140	38,573,723
Investment expenses	2,821,319	2,393,638	2,552,501	2,461,558	2,344,928
Net securities lending income	451,106	489,070	334,559	317,203	537,993
Net incr/(decr) in net assets resulting from unit transactions	(7,000,000)	10,000,000	6,500,000	(7,000,000)	(3,500,000)
Net assets end of year	$ 1,200,784,856	$ 1,168,197,496	$ 1,078,349,677	$ 980,192,555	$ 906,570,883
State Fire & Tornado Fund					
Net assets beginning of year	$ 22,845,677	$ 19,607,853	$ 16,328,742	$ 13,219,551	$ 16,640,670
Net increase/(decrease) in fair value of investments	450,751	857,407	1,276,515	640,258	(896,648)
Interest, dividends and other income	872,102	730,323	596,671	578,844	603,477
Investment expenses	61,127	60,054	50,261	39,974	36,532
Net securities lending income	8,720	10,148	6,186	5,063	8,584
Net incr/(decr) in net assets resulting from unit transactions	450,000	1,700,000	1,450,000	1,925,000	(3,100,000)
Net assets end of year	$ 24,566,123	$ 22,845,677	$ 19,607,853	$ 16,328,742	$ 13,219,551
State Bonding Fund					
Net assets beginning of year	$ 2,618,699	$ 3,772,597	$ 5,136,038	$ 4,781,300	$ 4,909,606
Net increase/(decrease) in fair value of investments	48,219	130,648	264,390	181,129	(303,555)
Interest, dividends and other income	93,093	123,768	131,611	185,032	185,119
Investment expenses	7,283	10,057	10,792	13,044	12,508
Net securities lending income	934	1,743	1,350	1,621	2,638
Net incr/(decr) in net assets resulting from unit transactions	(50,000)	(1,400,000)	(1,750,000)	-	-
Net assets end of year	$ 2,703,662	$ 2,618,699	$ 3,772,597	$ 5,136,038	$ 4,781,300
Petroleum Tank Release Compensation Fund					
Net assets beginning of year	$ 9,254,798	$ 8,958,441	$ 8,574,000	$ 8,317,667	$ 8,632,780
Net increase/(decrease) in fair value of investments	205,297	317,187	653,442	278,199	(484,206)
Interest, dividends and other income	325,982	289,064	261,312	296,926	310,995
Investment expenses	22,086	23,799	22,988	21,392	21,265
Net securities lending income	3,058	3,905	2,675	2,600	4,363
Net incr/(decr) in net assets resulting from unit transactions	(475,000)	(290,000)	(510,000)	(300,000)	(125,000)
Net assets end of year	$ 9,292,049	$ 9,254,798	$ 8,958,441	$ 8,574,000	$ 8,317,667
Insurance Regulatory Trust Fund					
Net assets beginning of year	$ 2,978,091	$ 2,690,119	$ 2,763,062	$ 2,280,579	$ 2,327,671
Net increase/(decrease) in fair value of investments	24,805	77,694	87,813	37,155	(142,511)
Interest, dividends and other income	92,947	54,367	43,323	49,452	48,598
Investment expenses	5,943	4,699	4,500	4,572	3,734
Net securities lending income	634	610	421	448	555
Net incr/(decr) in net assets resulting from unit transactions	600,000	160,000	(200,000)	400,000	50,000
Net assets end of year	$ 3,690,534	$ 2,978,091	$ 2,690,119	$ 2,763,062	$ 2,280,579

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

	2006	2005	2004	2003	2002
ND Health Care Trust Fund					
Net assets beginning of year	$ 18,581,564	$ 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	950,821	1,075,658	1,209,708	1,845,765	1,795,032
Investment expenses	1,535	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	$ 19,530,850	$ 18,581,564	$ 25,498,926	$ 28,646,477	$ 43,795,649
Veterans Cemetery Fund					
Net assets beginning of year	$ 86,005	$ 71,103	$ 63,417	$ 49,627	$ 35,697
Net increase/(decrease) in fair value of investments	-	-	-	-	-
Interest, dividends and other income	4,130	1,956	811	846	999
Investment expenses	138	13	10	11	3
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	12,783	12,959	6,885	12,955	12,934
Net assets end of year	$ 102,780	$ 86,005	$ 71,103	$ 63,417	$ 49,627
Veterans Post War Trust Fund					
Net assets beginning of year	$ 3,606,776	$ 1,341,087	$ 1,126,207	$ 1,186,374	$ 1,424,389
Net increase/(decrease) in fair value of investments	26,758	279,146	200,635	(31,456)	(254,022)
Interest, dividends and other income	4,707	57,769	18,286	18,832	19,106
Investment expenses	-	7,310	4,293	2,656	3,132
Net securities lending income	96	1,084	252	113	33
Net incr/(decr) in net assets resulting from unit transactions	(3,638,337)	1,935,000	-	(45,000)	-
Net assets end of year	$ -	$ 3,606,776	$ 1,341,087	$ 1,126,207	$ 1,186,374
Risk Management Fund					
Net assets beginning of year	$ 2,438,276	$ 2,968,620	$ 2,538,517	$ 3,298,707	$ 3,532,523
Net increase/(decrease) in fair value of investments	(30,158)	144,646	60,323	102,735	(205,527)
Interest, dividends and other income	111,940	79,971	75,280	107,014	128,818
Investment expenses	7,841	5,961	6,181	5,623	8,943
Net securities lending income	998	1,000	681	684	1,836
Net incr/(decr) in net assets resulting from unit transactions	750,000	(750,000)	300,000	(965,000)	(150,000)
Net assets end of year	$ 3,263,215	$ 2,438,276	$ 2,968,620	$ 2,538,517	$ 3,298,707
Risk Management Workers Comp Fund					
Net assets beginning of year	$ 2,905,903	$ 2,679,178	$ -	$ -	$ -
Net increase/(decrease) in fair value of investments	4,963	68,035	124,123	-	-
Interest, dividends and other income	112,428	64,068	61,166	-	-
Investment expenses	8,693	6,125	6,729	-	-
Net securities lending income	1,023	747	618	-	-
Net incr/(decr) in net assets resulting from unit transactions	750,000	100,000	2,500,000	-	-
Net assets end of year	$ 3,765,624	$ 2,905,903	$ 2,679,178	$ -	$ -

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

	2006	2005	2004	2003	2002
ND Association of Counties Fund					
Net assets beginning of year	$ 385,409	$ 306,518	$ 273,797	$ 257,665	$ 271,137
Net increase/(decrease) in fair value of investments	11,765	20,629	25,891	8,441	(21,265)
Interest, dividends and other income	15,551	10,059	8,525	9,280	9,323
Investment expenses	2,293	1,941	1,786	1,672	1,666
Net securities lending income	164	144	91	83	136
Net incr/(decr) in net assets resulting from unit transactions	380,661	50,000	-	-	-
Net assets end of year	$ 791,257	$ 385,409	$ 306,518	$ 273,797	$ 257,665
ND Association of Counties Program Savings Fund					
Net assets beginning of year	$ 403,009	$ 325,508	$ 290,719	$ 273,574	$ 287,382
Net increase/(decrease) in fair value of investments	10,908	18,684	27,475	8,916	(22,143)
Interest, dividends and other income	14,400	10,661	9,053	9,855	9,901
Investment expenses	1,909	1,996	1,835	1,714	1,709
Net securities lending income	152	152	96	88	143
Net incr/(decr) in net assets resulting from unit transactions	100,000	50,000	-	-	-
Net assets end of year	$ 526,560	$ 403,009	$ 325,508	$ 290,719	$ 273,574
PERS Group Insurance Fund					
Net assets beginning of year	$ 1,370,395	$ 286,269	$ 133,981	$ 57,641	$ 1,544,733
Net increase/(decrease) in fair value of investments	-	-	-	-	-
Interest, dividends and other income	304,521	135,190	53,303	58,525	95,512
Investment expenses	1,000	1,064	1,015	1,013	1,004
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	250,000	950,000	100,000	18,828	(1,581,600)
Net assets end of year	$ 1,923,916	$ 1,370,395	$ 286,269	$ 133,981	$ 57,641
City of Bismarck Deferred Sick Leave Fund					
Net assets beginning of year	$ 710,962	$ 660,487	$ 607,608	$ 559,779	$ 566,032
Net increase/(decrease) in fair value of investments	4,983	28,817	33,526	26,238	(27,731)
Interest, dividends and other income	26,757	24,078	21,800	23,875	23,530
Investment expenses	2,750	2,769	2,673	2,491	2,397
Net securities lending income	287	349	226	207	345
Net incr/(decr) in net assets resulting from unit transactions	-	-	-	-	-
Net assets end of year	$ 740,239	$ 710,962	$ 660,487	$ 607,608	$ 559,779
City of Fargo FargoDome Permanent Fund					
Net assets beginning of year	$ 7,316,376	$ 5,863,757	$ 4,307,480	$ -	$ -
Net increase/(decrease) in fair value of investments	216,395	274,460	419,447	438,029	-
Interest, dividends and other income	235,113	192,967	149,299	95,346	-
Investment expenses	21,991	17,144	13,802	8,639	-
Net securities lending income	2,141	2,336	1,333	617	-
Net incr/(decr) in net assets resulting from unit transactions	2,000,000	1,000,000	1,000,000	3,782,127	-
Net assets end of year	$ 9,748,034	$ 7,316,376	$ 5,863,757	$ 4,307,480	$ -

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

	2006	2005	2004	2003	2002
Cultural Endowment Fund					
Net assets beginning of year	$ -	$ -	$ -	$ -	$ -
Net increase/(decrease)					
in fair value of investments	7,263	-	-	-	-
Interest, dividends and other income	6,053	-	-	-	-
Investment expenses	981	-	-	-	-
Net securities lending income	54	-	-	-	-
Net incr/(decr) in net assets					
resulting from unit transactions	206,159	-	-	-	-
Net assets end of year	$ 218,548	$ -	$ -	$ -	$ -
Budget Stabilization Fund					
Net assets beginning of year	$ -	$ -	$ -	$ -	$ -
Net increase/(decrease)					
in fair value of investments	-	-	-	-	-
Interest, dividends and other income	3,618,312	-	-	-	-
Investment expenses	6,150	-	-	-	-
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets					
resulting from unit transactions	96,264,786	-	-	-	-
Net assets end of year	$ 99,876,948	$ -	$ -	$ -	$ -
TOTAL INSURANCE INVESTMENT POOL					
Net assets beginning of year	$ 1,243,699,436	$ 1,153,380,140	$ 1,050,982,600	$ 984,648,996	$ 965,129,850
Net increase/(decrease)					
in fair value of investments	1,697,292	49,285,206	62,690,324	43,721,388	(56,952,165)
Interest, dividends and other income	48,031,087	37,534,433	36,998,468	41,992,732	41,804,133
Investment expenses	2,973,039	2,538,940	2,683,030	2,612,267	2,572,011
Net securities lending income	469,367	511,288	348,488	330,550	581,094
Net incr/(decr) in net assets					
resulting from unit transactions	90,601,052	5,527,309	5,043,290	(17,098,799)	36,658,095
Net assets end of year	$ 1,381,525,195	$ 1,243,699,436	$ 1,153,380,140	$ 1,050,982,600	$ 984,648,996