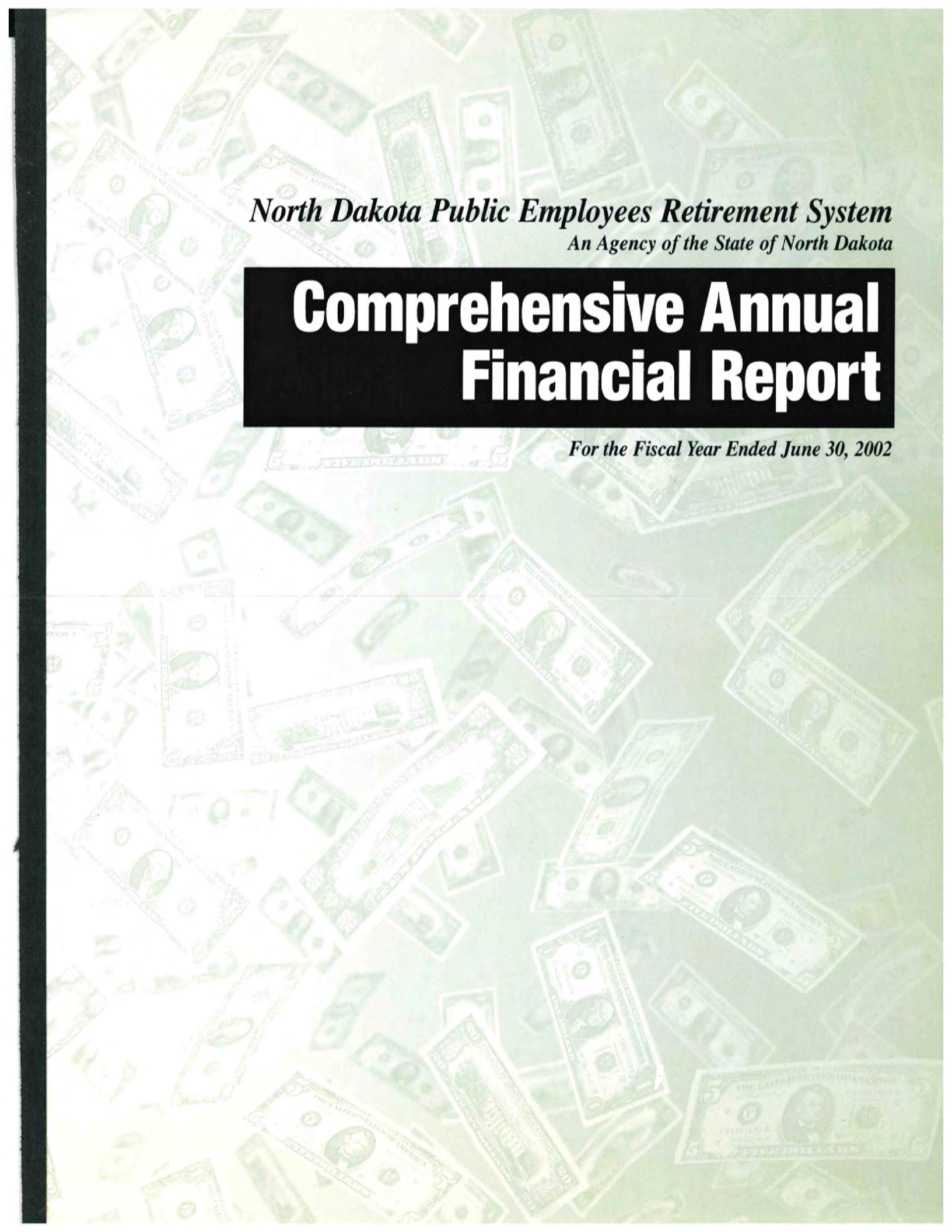


The background of the entire page is a collage of various US dollar bills, including \$1, \$5, \$10, \$20, and \$50 denominations, scattered across a light green gradient. The bills are oriented in different directions, creating a sense of movement and abundance.

North Dakota Public Employees Retirement System
An Agency of the State of North Dakota

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2002

North Dakota Public Employees Retirement System

An Agency of the State of North Dakota



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Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2002

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

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

701-328-3900 • Toll-free: 1-800-803-7377 • EMAIL: NDPERS@state.nd.us • discovernd.com/NDPERS

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INTRODUCTORY SECTION

**GFOA
CERTIFICATE OF
ACHIEVEMENT**

Certificate of Achievement for Excellence in Financial Reporting

Presented to

North Dakota Public
Employees Retirement
System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

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.



Thomas A. Crave
President

Jeffrey L. Esser
Executive Director

**PPCC
ACHIEVEMENT
AWARD**



**Public Pension Coordinating Council
Public Pension Principles
2000 Achievement Award**

Presented to

**North Dakota Public Employees
Retirement System**

In recognition of instituting professional standards for public
employee retirement systems as established by the Public Pension Principles.

Presented by the Public Pension Coordinating Council, a confederation of
Government Finance Officers Association (GFOA)
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script, reading 'Michael L. Mory', is positioned above the printed name and title.
Michael L. Mory
Chairman

LETTER OF TRANSMITTAL



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

Sparb Collins
Executive Director
701-328-3900
1-800-803-7377

FAX: 701-328-3920 • EMAIL: NDPERS@state.nd.us • discovernd.com/NDPERS

December 11, 2002

Board of Trustees
Members of the System

We are pleased to present the Comprehensive Annual Financial Report for the North Dakota Public Employees Retirement System (System) for the fiscal year ended June 30, 2002. The management of the System is responsible for both the accuracy of the data and the completeness and fairness of the presentation.

The report consists of five sections:

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

Plan History and Services Provided

The System is the administrator of two defined benefit pension plans and an optional defined contribution retirement plan. The System also manages and administers the retiree health insurance credit program, the uniform group insurance program, the deferred compensation program and the pretax benefits program. Following is a brief overview of the statistical and financial highlights for each of these programs for the fiscal year ended June 30, 2002.

Defined Benefit Pension Plans

The Public Employees Retirement System (PERS) is a cost-sharing multiple-employer retirement plan. PERS was established July 1, 1966 as a defined contribution plan and was changed to a defined benefit plan by the 1977 North Dakota Legislature. PERS covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. It also covers Supreme and District Court Judges and the National Guard Security Officers and Firefighters. The Highway Patrolmen's Retirement System (HPRS) is a single-employer defined benefit plan established July 1, 1949 that covers substantially all sworn officers of the North Dakota Highway Patrol. The System became the administrator of this plan effective July 1, 1983.

PERS has 17,089 contributing members and 5,252 retirees and beneficiaries currently receiving benefits. HPRS has 125 contributing members and 86 retirees and beneficiaries. The employers participating in PERS include 90 state agencies and 245 political subdivisions.

PERS and HPRS are accounted for as pension trust funds.

Defined Contribution Retirement Plan

An optional Defined Contribution Retirement Plan (Plan) was established effective January 1, 2000. The Plan covers state employees who are in positions not classified by the central personnel division of the State of North Dakota. Employees of the judicial branch or the Board of Higher Education and State Institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Plan. The Plan has 295 participants.

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



Retiree Health Insurance Credit Program

This program was created by the North Dakota Legislature in 1989. It is designed to provide members with a benefit that can be used to offset the cost of their health insurance premiums during their retirement years. Approximately 66% of eligible retirees are receiving benefits under this plan.

This program is advance-funded on an actuarially determined basis. The market value of net assets available to pay benefits as of June 30, 2002 is \$23.7 million, a decrease of 3.65% over the previous year. The assets earned an annualized rate of return of -7.33% for the fiscal year ended June 30, 2002, -6.58% for the last three years and 24.13% for the last five years. As of fiscal year end, the program's actuarial value of assets increased to 38.3% of the actuarial accrued liability. Funding progress is covered in more detail in the actuarial section of this report.

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

Uniform Group Insurance Program

Group Health Insurance. The System began administering the group health insurance plan in 1971. There are 22,818 active and retired contracts under this plan as of June 30, 2002, an increase of 4.8% from last year at this time. Total covered lives, including spouses and dependents, are 55,158. Membership in the health insurance plan continues to increase as a result of more retirees and political subdivision employees in the plan. As of June 30, 2002 there were 149 political subdivisions participating in the group health program, an increase of 6% from last year. The health insurance premiums paid to Blue Cross Blue Shield for the fiscal year ended June 30, 2002 totaled \$99.7 million. Managed care continues to be at the forefront of plan design initiatives. Since 1989, a Preferred Provider Option (PPO) has been available and in 1997, the Exclusive Provider Option (EPO) pilot program became a permanent option under the plan.

Group Life Insurance. The System began administering the group life insurance plan in 1971. There are 17,061 active and 3,551 retired employees covered under the basic life insurance plan. Active employees have the option of purchasing additional life insurance under the employee supplemental, dependent supplemental, and spouse supplemental provisions of the plan. The life insurance premiums paid to ReliaStar for the fiscal year ended June 30, 2002 totaled \$2.3 million. As of fiscal year end, there is \$833million of life insurance in force for all participants covered by this plan, a 6.1% increase in coverage from last year.

Voluntary Insurance Products. The 1995 North Dakota Legislature authorized the System to offer voluntary insurance products, specifically dental, vision and long term care insurance. On January 1, 1997, the System began offering a dental plan and long term care plan. There are approximately 3,400 participants in the dental plan and 50 participants in the long term care plan.

Employee Assistance Program. The 1997 North Dakota Legislature authorized the System to administer an employer-sponsored Employee Assistance Program (EAP) for all state employees, effective August 1, 1997. The System has contracted with four EAP vendors to provide services to employees and their families. The System collects the monthly premiums from the employers and remits them to the appropriate vendor. Approximately 14,200 state employees are covered under this program.

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

Deferred Compensation Program

This is a voluntary, supplemental retirement plan provided in accordance with Section 457 of the Internal Revenue Code. It allows eligible employees to defer and invest income on a pretax basis to be withdrawn at a later date, usually at retirement. The System has administered the Plan since 1987. Fifteen companies have agreed to provide investment services for the State's deferred compensation program. The System is the trustee for deferred compensation assets totaling \$8.6 million; provider companies hold the remaining plan assets of \$56.2 million in custodial accounts for the exclusive benefit of participants and their beneficiaries. Approximately 5,800 employees participate in this program, a 5% increase from last year.

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

Pretax Benefits Program (FlexComp)

This program was established by the North Dakota Legislature in 1989 in accordance with Section 125 of the Internal Revenue Code. It allows eligible employees to elect to reduce their salaries to pay for the

following benefits on a pretax basis: qualified insurance premiums, medical expenses, and dependent care expenses. Participation in the program has remained relatively constant at approximately 98% of eligible employees in the premium conversion option, 5% in the dependent care account, and 31% in the medical spending account. However, employee salary reductions into the program increased 8%, to \$5.4 million, during the fiscal year. The employer FICA savings generated from the salary reductions are sufficient to cover the administrative expenses; therefore, this program remains budget neutral.

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

Major Initiatives

The following is a summary of revisions to the laws governing the System that were passed by the 2001 North Dakota Legislature. All changes were effective August 1, 2001 unless otherwise noted.

PERS

- * Multiplier increase from 1.89% to 2.0% for main system and national guard system.
- * A benefit that begins before age 65 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before the earlier of age 65 or the age at which the Rule of 85 would be met. Previously, the reduction was from age 65.
- * 6% benefit adjustment for main system and national guard system retirees, beneficiaries and recipients of disability benefits.
- * The normal form of benefit was changed to include an unreduced 50% joint and survivor annuity for the judges retirement system.
- * 2% increase for judges' system retirees and beneficiaries on January 1, 2002 and January 1, 2003

HPRS

- * Multiplier increase from 3.40% to 3.60% for the first 25 years of service.
- * Post-retirement increase for retiree and beneficiaries to reflect multiplier increase.
- * 6% benefit adjustment for recipients of disability benefits.
- * Expanded the service purchase provisions

Defined Contribution Plan

- * Provide eligible employees with another election window to transfer from the defined benefit plan to the defined contribution plan.

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

- * Issued a request for proposal for a vision plan. A vendor was selected and the plan will be offered to state employees and retirees effective January 1, 2003.
- * Implemented changes to the 457 deferred compensation plan and 401(a) defined contribution plan that resulted from the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA).
- * Expanded the investment options available to participants in the defined contribution plan and the deferred compensation companion plan to allow for more diversification.
- * Updated the investment guidelines for the defined contribution plan
- * Completed an assessment of how the Health Insurance Portability and Accountability Act of 1996 (HIPAA) privacy, security and transaction provisions affect the agency.

Financial Information

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

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



continuing appropriation from the North Dakota Legislature and are reviewed directly by the System's Board.

Revenues and Expenses

Investment earnings, together with employee and employer contributions, are the funding sources for the benefits provided through the System. The main expenses of the System are benefit payments and the cost of administering the System. The following tables show the combined revenues and expenses of PERS and HPRS for fiscal years 2002 and 2001:

(Millions)	Fiscal Year	Fiscal Year	Change	Percentage
Revenue Type	2002	2001	in \$'s	Change
Employee Contributions	\$ 18.9	\$ 17.8	\$ 1.1	6.2%
Employer Contributions	19.1	17.9	1.2	6.7
Investments	<u>-80.9</u>	<u>-55.0</u>	<u>-25.9</u>	<u>-47.1</u>
Total	\$-42.9	\$ -19.3	\$ -23.6	-122.3%
Expense Type				
Benefits	\$ 42.8	\$ 38.3	\$ 4.5	11.7%
Refunds and Transfers	3.6	4.1	-0.5	-12.2
Administrative Expenses	<u>1.0</u>	<u>0.9</u>	<u>0.1</u>	<u>11.1</u>
Total	47.4	\$ 43.3	\$ 4.1	9.5%

Investment earnings decreased from the previous year as a result of the fund experiencing a negative return on investments of -6.83%. Benefit payments are higher than the previous fiscal year because there are more retired members and beneficiaries receiving benefits from the System and benefits for existing retirees and beneficiaries increased by 6%. Fewer employees took refunds/transfers during the current fiscal year which resulted in a decrease of -12.2%. Administrative expenses increased over last fiscal year due to the addition of a new staff position and increased general office expenses.

Funding Status

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

A common measure of the strength of a pension system is to express the assets as a percentage of liabilities - the greater the percentage, the stronger the funding position of the System. The schedules of funding progress in the Financial Section of this report show both PERS and HPRS to be funded very soundly. The July 1, 2002 actuarial valuation reports the actuarial value of assets for PERS at \$1,150.0 million, which exceeds the actuarial accrued liabilities of \$1,103.5 million by \$46.5 million. The actuarial value of assets for HPRS is \$39.5 million, which is close to covering the actuarial accrued liabilities of \$40.5 million.

Investments

The North Dakota State Investment Board (SIB) invests the PERS and HPRS funds. Chapter 21-10 of the North Dakota Century Code states that the SIB shall apply the prudent investor rule when investing funds under its supervision. The prudent investor rule means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. All funds must be invested exclusively for the benefit of the System's members and all investments are made in accordance with the System's long-term investment objectives and performance goals.

The combined market value of assets for PERS and HPRS as of June 30, 2002 is \$1.1 billion, which is 8.3% less than the previous year. During the fiscal year ended June 30, 2002, the System's portfolio remained broadly diversified with investments in domestic and international equities, domestic and international fixed income securities, real estate, private equity and cash equivalents. The investment policies, goals and objectives were last reviewed and revised by the Retirement Board in July 2000. Revisions to the asset allocation were made to better meet the actuarial assumptions and the goals of the System. No changes were made to the asset categories.

The System assets had a negative annualized rate of return of -6.83% for the fiscal year ended June 30, 2002. The annualized rate of return was -2.15% for the last three years and 25.66% for the last five years.

The assets of the defined contribution retirement plan are invested according to the direction of each participating member. The participant can select from thirteen investment categories and a mutual fund window, as provided by the Board. The investment categories are designed to cover a broad range to allow the participant to structure an investment strategy that meets their individual return objectives and risk tolerances. The market value of assets in the defined contribution retirement plan as of June 30, 2002 is \$7.8 million, which is a 2.6% decrease from the previous year.

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

Independent Audit

The financial statements contained in this report were audited by the accounting firm of Brady, Martz & Associates PC, under the direction of the North Dakota State Auditor. The auditors' opinion was unqualified for the System for the year ended June 30, 2002.

Achievement Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the North Dakota Public Employees Retirement System for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2001. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

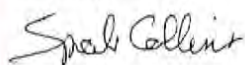
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The North Dakota Public Employees Retirement System has received a Certificate of Achievement for the last six consecutive years (fiscal years ended June 30, 1996 - 2001). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

The System is also a recipient of the Public Pension Principles 2000 Achievement Award. This program, administered by the Public Pension Coordinating Council, covers a two-year period recognizing the professional achievements of public employee retirement systems.

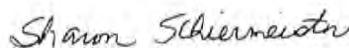
Acknowledgements

The preparation of this report is the result of the combined effort of the System's staff. It is intended to provide complete and accurate information concerning the activities and results of operations. This report is being mailed to all employer members of the System. Summary financial information will be distributed to the active and retired PERS membership in the two agency newsletters, PERSpectives and Alternative PERSpectives. Copies of this report are available to members and other interested parties upon request.

Sincerely,



Sparb Collins
Executive Director



Sharon Schiermeister, CPA
Accounting/Information Technology Manager



THE RETIREMENT BOARD

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

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

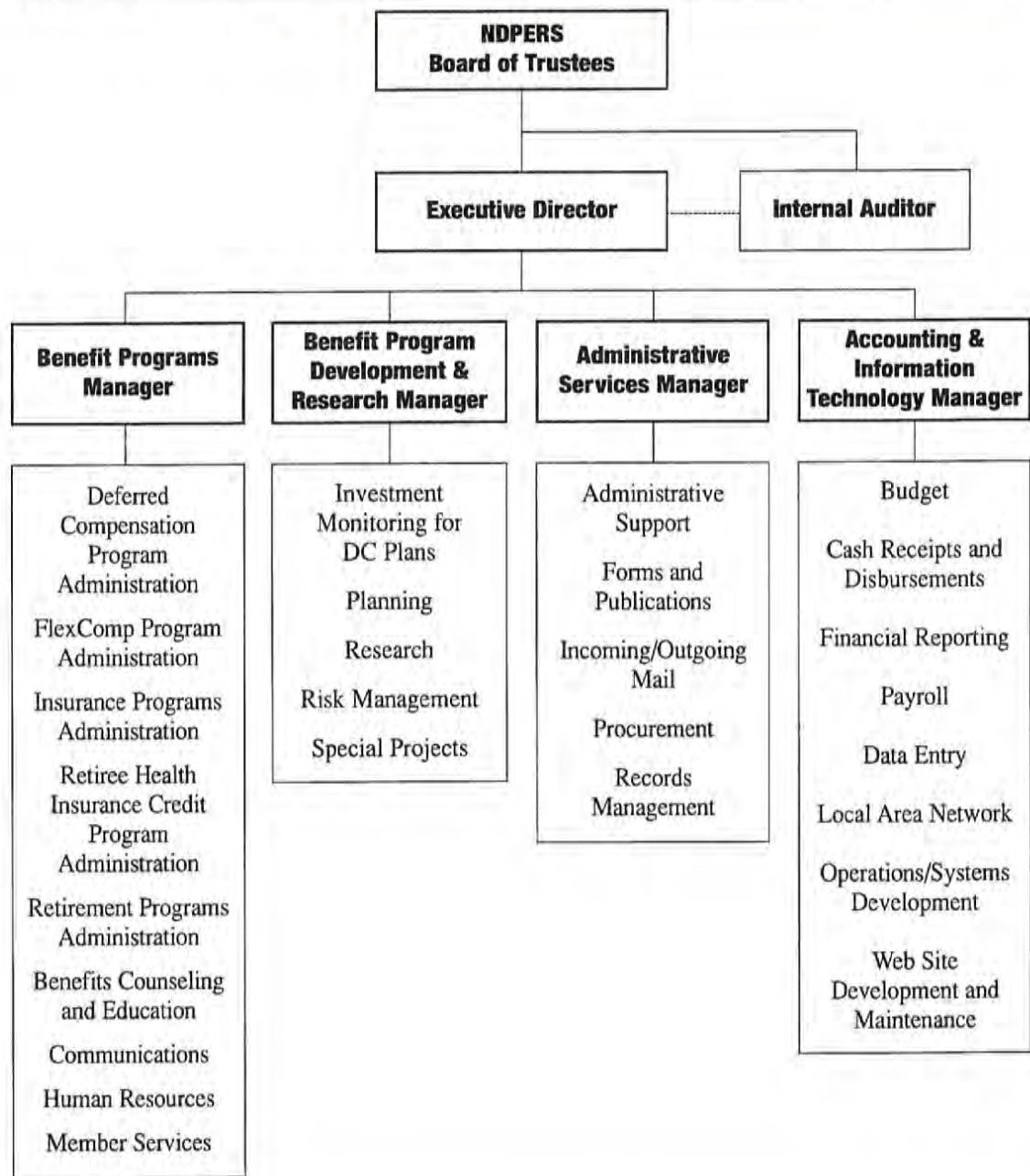


Pictured, left to right: Dr. Terry L. Dwelle, Jon Strinden, Sandi Tabor, David Gunkel, Ronald Leingang, Howard Sage, Weldee Baetsch.

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

Jon Strinden Chairman Term expires 7/31/2006	
Dr. Terry L. Dwelle State Health Officer	David Gunkel Member elected Term expires 6/30/2004
Sandi Tabor Attorney General Appointee Term expires 12/31/2005	Ronald Leingang Member elected Term expires 6/30/2002
Weldee Baetsch Retiree elected Term expires 6/30/2004	Howard Sage Member elected Term expires 6/30/2003

ORGANIZATIONAL CHART



ADMINISTRATION

Sparb Collins, *Executive Director*

Kathy Allen, *Benefit Programs Manager*

Denise Curfman, *Administrative Services Manager*

Jamie Kinsella, CPA, CIA, *Internal Auditor*

Deb Knudsen, *Benefit Program Development and Research Manager*

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



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

The Segal Company
Denver, CO

Auditor:

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

Dental Insurance Carrier:

ReliaStar
Minneapolis, MN

Disability Consultant:

Mid Dakota Clinic
Bismarck, ND

Employee Assistance Program Vendors:

APS Healthcare Northwest
Fargo, ND

Medcenter One
Bismarck, ND

St. Alexius/Heartview
Bismarck, ND

Village Family Services
Fargo, ND

Health Insurance Carrier:

Blue Cross Blue Shield of North Dakota
Fargo, ND

Insurance Consultant:

Deloitte & Touche LLP
Minneapolis, MN

Investment Services:

North Dakota Retirement & Investment Office
Bismarck, ND

Legal Counsel:

North Dakota Attorney General's Office
Bismarck, ND

Life Insurance Carrier:

ReliaStar
Minneapolis, MN

Long Term Care Insurance Carrier:

UNUM
Portland, ME



FINANCIAL SECTION

The System's retirement assets are held in trust for the purpose of providing retirement benefits in the future. Since these benefits are guaranteed by North Dakota law to each eligible participant, it is the responsibility of the Retirement Board to see that the plans are soundly funded and that a complete accounting is made for all investments, receipts, payments and expenses. In addition to the Public Employees Retirement System, Highway Patrolmen's Retirement System, Defined Contribution Retirement Plan and Retiree Health Insurance Credit Program, the Retirement Board is also responsible for the Uniform Group Insurance Plan, Deferred Compensation Plan and FlexComp program.

To assure that proper accounting methods are being used, the Retirement Board requires an annual independent audit of the assets and liabilities of the System. The audit for the fiscal year ended June 30, 2002, was performed by Brady, Martz & Associates, P.C.. In addition to the annual audit, the System's internal auditor reports on a quarterly basis directly to the Audit Committee of the Retirement Board. This provides the Board with ongoing assurance of the safety of the System's assets.

The audit opinion of the CPA firm follows along with the audited financial statements, accompanying notes and required supplementary information.

INDEPENDENT AUDITOR'S REPORT

BRADY MARTZ

CERTIFIED PUBLIC ACCOUNTANTS

Governor John Hoeven
The Legislative Assembly

Sparb Collins, Executive Director
Public Employees Retirement System

We have audited the accompanying financial statements of the business-type activities and fiduciary funds of the Public Employees Retirement System, a department of the State of North Dakota, as of and for the years ended June 30, 2002 and 2001, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Public Employees Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Public Employees Retirement System are intended to present the financial position, the changes in financial position, the cash flows and the change in net plan assets of only that portion of the business-type activities and fiduciary funds of the State of North Dakota that is attributable to the transactions of the Public Employees Retirement System. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2002 and 2001, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the plan net assets of the Public Employees Retirement System as of June 30, 2002 and 2001, and the respective changes in net plan assets, changes in financial position and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information and supporting schedules shown on pages 40 through 41 are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. The required supplementary information and supporting schedules are the responsibility of the Public Employees Retirement System's management. The financial information listed as supplementary information, shown on pages 42 through 44 are presented for purposes of additional analysis and is not a required part of the financial statements. The Schedules of Employer Contributions, Funding Progress, related notes and the supplementary information have been subjected to the auditing procedures applied in our audits of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) on pages 15 through 17 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.

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

Reports in accordance with Government Auditing Standards, on the Public Employees Retirement System's internal control structure and on compliance with laws and regulations are issued under separate cover.

BRADY, MARTZ & ASSOCIATES, P.C.

Brady, Martz

August 22, 2002



Management's Discussion and Analysis June 30, 2002

Our Discussion and analysis of the North Dakota Public Employees Retirement System's (NDPERS) financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2002. Please read it in conjunction with the basic financial statements which follows this discussion.

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

Financial Highlights

Pension and Other Employee Benefit Plans

• As of June 30, 2002 and 2001, the funding ratio (actuarial value of assets divided by actuarial accrued liability) for each of the funds is shown below:

	2002	2001
Public Employees Retirement System	104.2%	110.6%
Highway Patrolmen Retirement System	97.4%	101.8%
Retiree Health Insurance Credit Fund	38.3%	37.8%

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

Plan net assets have decreased over the past two years due to a national economic slowdown that decreased investment income, which has affected the funding ratio. However, management believes, and actuarial studies concur, that the defined benefit pension plans and retiree health insurance credit fund are adequately funded to meet current obligations.

• Plan net assets for all trust funds administered by NDPERS, decreased \$90,285,137 during the fiscal year ended June 30, 2002. The decrease was primarily due to losses incurred in the investment markets.

Public Employees Retirement System	(\$ 86,788,936)
Highway Patrolmen Retirement System	(3,463,481)
Retiree Health Insurance Credit Fund	(906,905)
Defined Contribution Retirement Fund	(168,223)
Pretax Benefits Fund	83,387
Deferred Compensation Plan	959,021
Total decrease in plan net assets	(\$ 90,285,137)

Uniform Group Insurance Program

• Premium reduction expense decreased from \$2 million to \$0 for the current fiscal year. There were no surplus funds available to buydown health insurance premiums for the fiscal year ended June 30, 2002.

• Premiums paid to the insurance carriers for fiscal year end June 30, 2002 increased by 19.7% over the previous year. This was primarily the result of an increase in the health insurance premium for the 2001-2003 contract period.

Overview of the Financial Statements

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

Fund Financial Statements – There are two financial statements presented for the fiduciary funds. The Statement of Fiduciary Net Assets as of June 30, 2002, indicates the net assets available to pay future payments and gives a snapshot at a particular point in time. The Statement of Changes in Fiduciary Net Assets for the year ended June 30, 2002 provides a view of the current year's additions and deductions to the individual trust funds.

There are three financial statements presented for the proprietary fund. The Statement of Net Assets as of June 30, 2002 provides a snapshot at a particular point in time of the net assets available for use by this program. The Statement of Revenues, Expenses, and Changes in Fund Net Assets for the year ended June 30, 2002, provides a view of the current year's operating and non-operating revenues and expenses for the enterprise fund. The Statement of Cash Flows for the year ended June 30, 2002 shows the cash used by operating activities as well as the net increase in cash due to operating and investing activities.

Notes to the Financial Statements – The notes provide additional information that is essential for a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 26-39 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

Financial Analysis

The financial results for fiscal year 2002 and 2001 are summarized below. The information in the tables below is condensed from the Financial Statements.

Statement of Fiduciary Net Assets

	<u>June 30, 2002</u>	<u>June 30, 2001</u>	<u>% Change</u>
Assets			
Cash	\$ 1,196,021	\$ 1,197,691	(0.1)%
Receivables	6,071,045	8,164,600	(25.6)%
Investments, at fair value	1,118,227,581	1,206,428,288	(7.3)%
Securities lending collateral	73,264,448	79,537,494	(7.9)%
Equipment, net of accumulated depr.	47,928	2,513	1,807.2%
Total assets	<u>1,198,807,023</u>	<u>1,295,330,586</u>	<u>(7.5)%</u>
Liabilities			
Long-term liabilities outstanding	89,240	56,303	58.5%
Other liabilities	<u>74,352,313</u>	<u>80,623,676</u>	<u>(7.8)%</u>
Total liabilities	<u>74,441,553</u>	<u>80,679,979</u>	<u>(7.7)%</u>
Net assets available for benefits	<u>\$1,124,365,470</u>	<u>\$1,214,650,607</u>	<u>(7.4)%</u>

As the above table shows, plan net assets decreased by \$90,285,137 (7.4%) during the year ended June 30, 2002. This decrease is attributable to less favorable market conditions than the prior fiscal year.

The decrease in receivables was due to a decrease in investment receivables; securities lending collateral also decreased. Long-term liabilities increased due to a new lease for computer equipment and other liabilities decreased as a result of the decrease in securities lending obligations.

Statement of Changes in Fiduciary Net Assets

	<u>June 30, 2002</u>	<u>June 30, 2001</u>	<u>% Change</u>
Additions			
Contributions	\$ 48,855,760	\$ 45,526,971	7.3%
Investment income (loss)	(84,248,637)	(59,139,523)	42.5%
Other	<u>1,567,168</u>	<u>1,556,352</u>	<u>0.7%</u>
Total additions	<u>(33,825,709)</u>	<u>(12,056,200)</u>	<u>180.6%</u>
Deductions			
Benefit payments	51,105,284	45,931,640	11.3%
Refunds/Transfers	3,882,223	4,361,771	(11.0)%
Administrative expenses	<u>1,471,921</u>	<u>1,387,770</u>	<u>6.1%</u>
Total deductions	<u>56,459,428</u>	<u>51,681,181</u>	<u>9.2%</u>
Changes in net assets available for benefits	<u>\$ (90,285,137)</u>	<u>\$ (63,737,381)</u>	<u>41.7%</u>



Additions: Additions to fund benefits are accumulated through contributions and returns on invested funds. Contributions for the year ended June 30, 2002 increased by \$3.3 million, or 7.3%, over 2001. Current year investment losses of \$84 million were 42.5% higher than the prior year.

Deductions: Expenses include benefit payments, refunds/transfers, and administrative expenses. Expenses for the year ended June 30, 2002 totaled \$56.5 million, an increase of \$4.6 million over 2001. The increase was primarily due to growth in the benefits paid to plan participants. This growth was the result of an increase in the number of benefit recipients and an increase to the retirement benefit multiplier.

Statement of Proprietary Fund Net Assets

	<u>June 30, 2002</u>	<u>June 30, 2001</u>	<u>% Change</u>
Assets			
Cash	\$ 3,102,070	\$ 2,821,703	9.9%
Receivables	58,718	45,255	29.7%
Total assets	<u>3,160,788</u>	<u>2,866,958</u>	<u>10.2%</u>
Liabilities			
Long-term liabilities outstanding	46,589	38,500	21.0%
Other liabilities	973,289	1,057,668	(8.0)%
Total liabilities	<u>1,019,878</u>	<u>1,096,168</u>	<u>(7.0)%</u>
Net assets – unrestricted	<u>\$ 2,140,910</u>	<u>\$ 1,770,790</u>	<u>20.9%</u>

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

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

Statement of Changes in Proprietary Fund Net Assets

	<u>June 30, 2002</u>	<u>June 30, 2001</u>	<u>% Change</u>
Operating Revenues			
Administrative Fee	<u>\$ 853,727</u>	<u>\$ 755,221</u>	<u>13.0%</u>
Operating Expenses			
Premium reduction expense	-	2,031,203	(100.0)%
Administrative expenses	728,796	591,534	23.2%
Total operating expenses	<u>728,796</u>	<u>2,622,737</u>	<u>(72.2)%</u>
Operating Income (Loss)	124,931	(1,867,516)	106.7%
Non-Operating Revenues			
Interest and other	<u>245,189</u>	<u>306,848</u>	<u>(20.1)%</u>
Change in Net Assets	<u>\$ 370,120</u>	<u>\$ (1,560,668)</u>	<u>123.7%</u>

Net assets increased by \$370,120 for the fiscal year ended June 30, 2002. Last year, net assets decreased by \$1,560,668. The primary reason for the change in the current fiscal year was because there was no premium reduction expense. In the prior fiscal year, \$2 million was used to buydown health insurance premiums. There were no surplus funds available to buydown premiums for the 2001-03 contract period, therefore, this expense was eliminated.

Contacting NDPERS Financial Management

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

**BASIC
FINANCIAL
STATEMENTS**

**Statement of Net Assets
Proprietary Funds
June 30, 2002 and 2001**

	Uniform Group Insurance Program	
	<u>2002</u>	<u>2001</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,102,070	\$ 2,821,703
Interest receivable	-	781
Accounts receivable	14,676	15,713
Due from other funds	39,493	25,259
Due from other state agencies	4,549	3,502
Total current assets	<u>3,160,788</u>	<u>2,866,958</u>
Noncurrent assets:	-	-
Total assets	<u>3,160,788</u>	<u>2,866,958</u>
LIABILITIES		
Current liabilities:		
Salaries payable	38,097	36,620
Due to other funds	-	178,746
Accounts payable	14,539	17,938
Due to other state agencies	6,594	7,799
Amounts held in custody for others	751,284	761,342
Deferred premiums	162,775	55,223
Total current liabilities	<u>973,289</u>	<u>1,057,668</u>
Noncurrent liabilities		
Accrued compensated absences	46,589	38,500
Total liabilities	<u>1,019,878</u>	<u>1,096,168</u>
NET ASSETS		
Unrestricted	<u>2,140,910</u>	<u>1,770,790</u>
Total net assets	<u>\$ 2,140,910</u>	<u>\$ 1,770,790</u>

**Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Years Ended June 30, 2002 and 2001**

	Uniform Group Insurance Program	
	<u>2002</u>	<u>2001</u>
OPERATING REVENUES:		
Administrative fee	\$ 853,727	\$ 755,221
Total operating revenues	<u>853,727</u>	<u>755,221</u>
OPERATING EXPENSES:		
Salaries and wages	448,981	392,724
Operating expenses	139,551	114,968
Professional fees	71,151	52,293
Data processing	69,113	31,549
Premium reduction expenses	-	2,031,203
Total operating expenses	<u>728,796</u>	<u>2,622,737</u>
Operating income (loss)	<u>124,931</u>	<u>(1,867,516)</u>
NON-OPERATING REVENUES:		
Investment income	242,652	306,848
Miscellaneous Income	2,537	-
	<u>245,189</u>	<u>306,848</u>
Change in net assets	<u>370,120</u>	<u>(1,560,668)</u>
Total net assets – beginning of year	<u>1,770,790</u>	<u>3,331,458</u>
Total net assets – end of year	<u>\$ 2,140,910</u>	<u>\$ 1,770,790</u>

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

Statement of Cash Flows
Proprietary Funds
For the years ended June 30, 2002 and 2001

	Uniform Group Insurance Program	
	<u>2002</u>	<u>2001</u>
Cash Flows From Operating Activities:		
Premiums collected	\$ 103,244,660	\$ 84,231,770
Administrative fees collected	936,977	770,159
Payments to suppliers	(284,421)	(196,357)
Premiums paid	(103,244,660)	(86,262,973)
Payments to employees	(439,415)	(387,021)
Net Cash Provided (Used) By Operating Activities	<u>213,141</u>	<u>(1,844,422)</u>
Cash Flows From Noncapital Financing Activities:		
Due to other funds	<u>(178,746)</u>	<u>178,746</u>
Cash Flows From Investing Activities:		
Proceeds from sale of investments	-	119,373
Miscellaneous Income	2,537	-
Investment Income	<u>243,435</u>	<u>306,065</u>
Net Cash Provided By Investing Activities	<u>245,972</u>	<u>425,438</u>
Net Increase (Decrease) in Cash and Cash Equivalents	280,367	(1,240,238)
Cash and Cash Equivalents Balance – Beginning of Year	<u>2,821,703</u>	<u>4,061,941</u>
Cash and Cash Equivalents Balance – End of Year	<u>\$ 3,102,070</u>	<u>\$ 2,821,703</u>
Reconciliation of Operating Income to Net Cash Provided		
(Used) By Operating Activities:		
Operating Income (Loss)	\$ 124,931	\$ (1,867,516)
Adjustments To Reconcile Operating Income (Loss)		
To Net Cash Provided (Used) by Operating Activities:		
Premiums Collected and BCBS Surplus Used	103,244,660	86,262,973
Premiums Paid	(103,244,660)	(86,262,973)
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable	1,037	19,770
Increase in Due From Other Funds	(14,234)	(5,655)
(Increase) Decrease in Due From Other State Agencies	(1,047)	2,168
Increase in Salaries Payable	1,477	3,670
Increase in Accrued Compensated Absences	8,089	2,033
Decrease in Accounts Payable	(3,401)	(1,527)
Increase (Decrease) in Due To Other State Agencies	(7,799)	3,980
Increase (Decrease) in Amounts Held in Custody for Others	(10,058)	2,033
Increase in Due To Other Funds	6,594	-
(Increase) Decrease in Deferred Premiums	<u>107,552</u>	<u>(3,378)</u>
Total Adjustments	<u>88,210</u>	<u>23,094</u>
Net Cash Provided (Used) By Operating Activities	<u>\$ 213,141</u>	<u>\$ (1,844,422)</u>

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

Statement of Plan Net Assets
Fiduciary Funds
June 30, 2002

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan
ASSETS:						
Cash	\$ 729,465	\$ -	\$ 35,285	\$ -	\$ 431,271	\$ -
Receivables:						
Contribution receivable	2,831,550	-	334,951	77,207	-	-
Interest receivable	2,136,879	73,613	161,785	-	-	-
Accounts receivable	365	-	-	-	350,105	-
Due from other funds	59,146	-	-	-	10,997	-
Due from other state agencies	807	-	-	-	33,640	-
Total receivables	<u>5,028,747</u>	<u>73,613</u>	<u>496,736</u>	<u>77,207</u>	<u>394,742</u>	<u>-</u>
Investments, at fair value:						
Domestic equities	-	-	11,321,978	4,956,038	-	-
International equities	-	-	3,461,473	494,683	-	-
International equity pool	137,056,203	4,721,554	-	-	-	-
Domestic equity pool	379,330,497	13,067,846	-	-	-	-
Fixed income	54,432,032	1,875,171	8,438,218	2,387,598	-	-
International fixed income pool	59,020,145	2,033,230	-	-	-	-
Domestic fixed income pool	304,227,995	10,480,582	-	-	-	-
Certificates of deposit	16,370,224	563,950	-	-	-	-
Real estate pool	54,010,656	1,860,655	-	-	-	-
Private equity	621,728	21,419	-	-	-	-
Private equity pool	30,070,988	1,035,938	-	-	-	-
Short-term investment fund	7,462,987	257,098	-	-	-	-
Annuities	-	-	-	-	-	250,723
Mutual funds	-	-	-	-	-	8,395,972
Total investments	<u>1,042,603,455</u>	<u>35,917,443</u>	<u>23,221,669</u>	<u>7,838,319</u>	<u>-</u>	<u>8,646,695</u>
Invested securities lending collateral	70,824,559	2,439,889	-	-	-	-
Equipment (net of accumulated depreciation)	<u>47,928</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets:	<u>\$ 1,119,234,154</u>	<u>\$ 38,430,945</u>	<u>\$ 23,753,690</u>	<u>\$ 7,915,526</u>	<u>\$ 826,013</u>	<u>\$ 8,646,695</u>

LIABILITIES:

Salaries payable	\$ 39,285	\$ -	\$ -	\$ -	\$ 7,158	\$ 9,517
Accounts payable	853,920	-	11,304	-	6,868	2,524
Due to other funds	8,206	12,143	89,287	-	-	-
Due to other state agencies	33,265	-	745	-	324	1,050
Securities lending collateral	70,824,559	2,439,889	-	-	-	-
Accrued compensated absences	42,703	-	-	-	8,246	8,370
Capital lease payable	<u>42,190</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>71,844,128</u>	<u>2,452,032</u>	<u>101,336</u>	<u>-</u>	<u>22,596</u>	<u>21,461</u>

NET ASSETS

Held in trust for pension benefits	1,047,390,026	35,978,913	-	7,915,526	-	8,625,234
Held in trust for postemployment healthcare benefits	-	-	23,652,354	-	-	-
Held in trust for pretax benefits (A schedule of pension funding progress for each plan is presented on page 40)	-	-	-	-	803,417	-
Total net assets held in trust	<u>\$1,047,390,026</u>	<u>\$ 35,978,913</u>	<u>\$ 23,652,354</u>	<u>\$ 7,915,526</u>	<u>\$ 803,417</u>	<u>\$ 8,625,234</u>

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

Statement of Plan Net Assets
Fiduciary Funds
June 30, 2001

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan
ASSETS:						
Cash	\$ 794,322	\$ -	\$ 30,339	\$ -	\$ 371,080	\$ 1,950
Receivables:						
Contribution receivable	2,634,601	-	311,865	70,713	-	-
Interest receivable	4,383,537	152,830	16,020	-	-	-
Accounts receivable	362	-	-	1,196	324,893	5
Due from other funds	224,697	-	-	-	11,360	-
Due from other state agencies	932	-	-	-	31,589	-
Total receivables	<u>7,244,129</u>	<u>152,830</u>	<u>327,885</u>	<u>71,909</u>	<u>367,842</u>	<u>5</u>
Investments, at fair value:						
Domestic equities	-	-	12,115,841	5,508,672	-	-
International equities	-	-	3,524,162	478,814	-	-
International equity pool	140,501,557	4,898,649	-	-	-	-
Domestic equity pool	433,710,477	15,121,509	-	-	-	-
Fixed income	56,367,221	1,965,268	8,646,630	2,024,626	-	-
International fixed income pool	57,044,601	1,988,885	-	-	-	-
Domestic fixed income pool	316,893,201	11,048,622	-	-	-	-
Certificates of deposit	14,596,666	508,919	-	-	-	-
Real estate pool	65,541,911	2,285,148	-	-	-	-
Private equity	1,164,494	40,600	-	-	-	-
Private equity pool	38,449,115	1,340,546	-	-	-	-
Short-term investment fund	2,875,448	100,254	-	-	-	-
Mutual funds	-	-	-	-	-	7,686,452
Total investments	<u>1,127,144,691</u>	<u>39,298,400</u>	<u>24,286,633</u>	<u>8,012,112</u>	<u>-</u>	<u>7,686,452</u>
Invested securities lending collateral	76,857,812	2,679,682	-	-	-	-
Equipment (net of accumulated depreciation)	<u>2,513</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets:	<u>\$ 1,212,043,467</u>	<u>\$ 42,130,912</u>	<u>\$ 24,644,857</u>	<u>\$ 8,084,021</u>	<u>\$ 738,922</u>	<u>\$ 7,688,407</u>

LIABILITIES:

Salaries payable	\$ 37,863	\$ -	\$ -	\$ -	\$ 6,591	\$ 8,916
Accounts payable	915,619	-	10,970	-	3,836	2,401
Due to other funds	-	8,836	73,732	-	2	-
Due to other state agencies	11,134	-	896	272	743	2,305
Securities lending collateral	76,857,812	2,679,682	-	-	-	-
Accrued compensated absences	40,011	-	-	-	7,720	8,572
Capital lease payable	<u>2,066</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>77,864,505</u>	<u>2,688,518</u>	<u>85,598</u>	<u>272</u>	<u>18,892</u>	<u>22,194</u>

NET ASSETS

Held in trust for pension benefits	1,134,178,962	39,442,394	-	8,083,749	-	7,666,213
Held in trust for postemployment healthcare benefits	-	-	24,559,259	-	-	-
Held in trust for pretax benefits	-	-	-	-	720,030	-
(A schedule of pension funding progress for each plan is presented on page 40)						

Total net assets held in trust	<u>\$ 1,134,178,962</u>	<u>\$ 39,442,394</u>	<u>\$ 24,559,259</u>	<u>\$ 8,083,749</u>	<u>\$ 720,030</u>	<u>\$ 7,666,213</u>
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The accompanying notes are an integral part of these financial statements.

**Statement of Changes in Plan Net Assets – Fiduciary Funds
For the Year Ended June 30, 2002**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan
ADDITIONS:						
Contributions:						
From employer	\$ 18,244,655	\$ 814,035	4,482,993	452,311	-	-
From employee	17,379,812	501,850	4,421	439,113	4,237,797	1,920,559
From other plans	-	-	-	138,275	-	-
From pretax benefits fund	-	-	-	13,704	-	226,235
Total contributions	<u>35,624,467</u>	<u>1,315,885</u>	<u>4,487,414</u>	<u>1,043,403</u>	<u>4,237,797</u>	<u>2,146,794</u>
Investment income:						
Net decrease						
in fair value of investments	(112,052,260)	(3,888,722)	(2,467,469)	(1,160,835)	-	(718,075)
Interest and dividends	37,261,290	1,292,836	877,106	204,383	9,332	-
Less investment expense	<u>(3,602,891)</u>	<u>(125,048)</u>	<u>(49,785)</u>	<u>(7,005)</u>	<u>-</u>	<u>(60,289)</u>
Net investment income	<u>(78,393,861)</u>	<u>(2,720,934)</u>	<u>(1,640,148)</u>	<u>(963,457)</u>	<u>9,332</u>	<u>(778,364)</u>
Securities lending activity:						
Securities lending income	1,986,019	68,968	-	-	-	-
Less securities lending expenses	<u>(1,755,233)</u>	<u>(60,959)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net securities lending income	<u>230,786</u>	<u>8,009</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Repurchase service credit	1,059,313	-	76,322	-	-	-
FICA tax savings	-	-	-	-	414,609	-
Miscellaneous income	12,301	85	-	3,587	498	453
Total additions	<u>(41,466,994)</u>	<u>(1,396,955)</u>	<u>2,923,588</u>	<u>83,533</u>	<u>4,662,236</u>	<u>1,368,883</u>
DEDUCTIONS:						
Benefits paid to participants	40,871,330	1,928,173	-	233,541	4,193,201	133,081
Refunds	3,129,801	122,434	3,626	-	-	-
Prefunded credit applied	-	-	3,745,958	-	-	-
Transfers to other plans	<u>337,553</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>239,939</u>	<u>48,870</u>
	44,338,684	2,050,607	3,749,584	233,541	4,433,140	181,951
Administrative expenses	<u>983,258</u>	<u>15,919</u>	<u>80,909</u>	<u>18,215</u>	<u>145,709</u>	<u>227,911</u>
Total deductions	<u>45,321,942</u>	<u>2,066,526</u>	<u>3,830,493</u>	<u>251,756</u>	<u>4,578,849</u>	<u>409,862</u>
Change in net assets	(86,788,936)	(3,463,481)	(906,905)	(168,223)	83,387	959,021
Net assets - beginning of year	<u>1,134,178,962</u>	<u>39,442,394</u>	<u>24,559,259</u>	<u>8,083,749</u>	<u>720,030</u>	<u>7,666,213</u>
Net assets - end of year	<u>\$ 1,047,390,026</u>	<u>\$ 35,978,913</u>	<u>\$ 23,652,354</u>	<u>\$ 7,915,526</u>	<u>\$ 803,417</u>	<u>\$ 8,625,234</u>

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

**Statement of Changes in Plan Net Assets – Fiduciary Funds
For the Year Ended June 30, 2001**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan
ADDITIONS:						
Contributions:						
From employer	\$ 17,101,628	\$ 788,125	\$ 4,191,541	\$ 394,746	-	-
From employee	16,273,260	486,332	9,219	383,248	3,943,540	1,787,137
From other plans	-	-	-	88,699	-	-
From pretax benefits fund	-	-	-	79,496	-	-
Total contributions	<u>33,374,888</u>	<u>1,274,457</u>	<u>4,200,760</u>	<u>946,189</u>	<u>3,943,540</u>	<u>1,787,137</u>
Investment income:						
Net decrease						
in fair value of investments	(92,804,057)	(3,262,862)	(2,759,737)	(1,735,091)	-	(784,995)
Interest and dividends	43,366,370	1,519,292	672,923	508,841	24,039	-
Less investment expense	<u>(3,969,380)</u>	<u>(139,099)</u>	<u>(53,043)</u>	<u>(11,845)</u>	-	<u>(12,863)</u>
Net investment income	<u>(53,407,067)</u>	<u>(1,882,669)</u>	<u>(2,139,857)</u>	<u>(1,238,095)</u>	<u>24,039</u>	<u>(797,858)</u>
Securities lending activity:						
Securities lending income	5,976,653	209,475	-	-	-	-
Less securities lending expenses	<u>(5,684,889)</u>	<u>(199,255)</u>	-	-	-	-
Net securities lending income	<u>291,764</u>	<u>10,220</u>	-	-	-	-
Repurchase service credit	1,080,008	-	77,669	-	-	-
FICA tax savings	-	-	-	-	385,025	-
Miscellaneous income	7,570	60	-	6,020	-	-
Total additions	<u>(18,652,837)</u>	<u>(597,932)</u>	<u>2,138,572</u>	<u>(285,886)</u>	<u>4,352,604</u>	<u>989,279</u>
DEDUCTIONS:						
Benefits paid to participants	36,676,998	1,660,303	-	230,848	3,864,797	119,049
Refunds	3,735,354	10,994	2,623	-	-	-
Prefunded credit applied	-	-	3,598,019	-	-	-
Transfers to other plans	314,930	-	-	-	297,870	(218,374)
	<u>40,727,282</u>	<u>1,671,297</u>	<u>3,600,642</u>	<u>230,848</u>	<u>4,162,667</u>	<u>(99,325)</u>
Administrative expenses	894,868	14,482	68,301	74,403	128,188	207,528
Total deductions	<u>41,622,150</u>	<u>1,685,779</u>	<u>3,668,943</u>	<u>305,251</u>	<u>4,290,855</u>	<u>108,203</u>
Change in net assets	(60,274,987)	(2,283,711)	(1,530,371)	(591,137)	61,749	881,076
Net assets - beginning of year	<u>1,194,453,949</u>	<u>41,726,105</u>	<u>26,089,630</u>	<u>8,674,886</u>	<u>658,281</u>	<u>6,785,137</u>
Net assets - end of year	<u>\$ 1,134,178,962</u>	<u>\$ 39,442,394</u>	<u>\$ 24,559,259</u>	<u>\$ 8,083,749</u>	<u>\$ 720,030</u>	<u>\$ 7,666,213</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2002 & 2001

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

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

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

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

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

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

B) Fund Financial Statements

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

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

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

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

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

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

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

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



6. Deferred Compensation Plan – voluntary, supplemental retirement plan provided in accordance with Section 457 of the Internal Revenue Code.

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

Operating revenues consist of: sales of goods and services, quasi-external operating transactions with other funds, and other miscellaneous revenue that should be classified as operating.

All other revenues that do not meet the above criteria are classified as non-operating.

D) Budgetary Process

The System operates through a biennial appropriation provided by the State Legislature. The System prepares a biennial budget on the modified accrual basis, which is included in the Governor's budget presented to the General Assembly at the beginning of each legislative session. The General Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. Before signing the appropriation bills, the Governor has line item veto powers over legislation, subject to legislative override. Once passed and signed, the appropriation becomes the system's financial plan for the next two years. Changes to the appropriation are subject to approval by the Emergency Commission.

The State's budgeting system does not include revenues, thus, a Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual statement cannot be prepared as required by accounting principles generally accepted in the United States of America. In its place a Statement of Appropriations has been presented. The Statement of Appropriations has been prepared using the accrual basis of accounting. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under the North Dakota Century Code (NDCC), Section 54-44.1-11. Expenditures not subject to appropriation of a specific amount include professional fees, depreciation expense, benefits and refunds paid to participants, prefunded credits applied and employee reimbursements in the Pretax Benefits Program.

There were no supplemental appropriations during the fiscal year ending June 30, 2002.

Encumbrances, which represent commitments related to unperformed contracts for goods or services, have not been recorded in the financial statements, as encumbrance accounting is not utilized. The legal level of budgetary control is at the appropriation and expenditure line item level, with administrative controls established at lower levels of detail in certain instances.

E) Cash and Investments

Cash and cash equivalents for reporting purposes, includes cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes investments with original maturity of three months or less. Investments are stated at fair value. Fair value is, "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale." Fair value was determined by reference to published market data for publicly traded securities or through the use of independent valuation services and appraisers for other investments. All investments of the fund, except for the Defined Contribution Retirement Plan are to be made by the North Dakota Retirement and Investment Office (RIO). Chapter 21-10-07 of the North Dakota Century Code requires that all investments made by this state agency, be made using the prudent investor rule. Investments of the Defined Contribution Retirement Plan are participant directed and are held by Fidelity Investments.

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

Securities Lending

GASB Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions," establishes accounting and financial reporting standards for securities lending transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets. Cash received as collateral and investments made with that cash must also be reported as assets. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them.

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

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

Types of securities used for lending purposes are equity securities and bonds and notes.

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

All securities loans can be terminated on demand by either the lender or the borrower, although the average term of overall loans is 94 days.

Cash open collateral is invested in a short term investment pool, the Core USA Collateral Section, which had an average weighted maturity of 30 days as of this statement date. Cash collateral may also be invested separately in "term loans", in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower.

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

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

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and Northern Trust (custodian of investments for RIO) has failed to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending. Northern Trust indemnifies the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay income distributions on them.

Derivative Securities

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

F) Accounts Receivable

Accounts receivable primarily include amounts due for contributions, insurance premiums, employee pretax benefit deductions and accrued interest on investments.

G) Fixed Assets and Depreciation

Fixed assets are presented in the accompanying financial statements at cost or estimated historical cost. Donated fixed assets are stated at fair market value at the time of donation. Fixed assets acquired via lease agreements are capitalized at the inception of the agreement. For the year ending June 30, 2002 the System capitalized equipment costing over \$5,000 in accordance with Section 54-27-21 of the North Dakota Century Code.

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



H) Accrued Compensated Absences

Annual leave is a part of permanent employees compensation as set forth in Section 54-06-14 of the North Dakota Century Code. Employees are entitled to earn annual leave based on tenure of employment, within a range of a minimum of one working day per month of employment, to a maximum of two working days per month of employment, to be fixed by rules and regulations adopted by the employing unit. No more than 240 hours of annual leave may be carried forward beyond March 31st of each year. Employees are paid for unused annual leave upon termination or retirement. Permanent employees accrue sick leave from the first day of employment at the rate of eight hours per month with unlimited accumulation. Employees with at least 10 years of state employment are paid one-tenth of their accumulated sick leave under Section 54-06-14 of the North Dakota Century Code when the employee leaves the employ of the state.

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

I) Deferred Contributions / Premiums

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

J) Transfers To Other Plans

Transfers to other plans consist of monies transferred to other alternative retirement programs in accordance with Section 15-10-17 Subsection 13 of the North Dakota Century Code. Employees of institutions under the control of higher education who are members of the Public Employees Retirement System and become entitled to participate in the alternate retirement program are entitled to have an annuity purchased from the employee and employer contributions and related interest from the Public Employees Retirement System in lieu of any other rights under the Public Employees Retirement System.

Transfers to other plans also consist of monies transferred from the Public Employees Retirement System Defined Benefit Plan to the Defined Contribution Retirement Plan pursuant to Section 54-52.6 Subsection 3 of the North Dakota Century Code. Each eligible employee who elects to terminate membership in the Defined Benefit Plan has a lump sum amount transferred to the participating member's account under the

Defined Contribution Retirement Plan. For new employees electing to transfer to the Defined Contribution Retirement Plan, the lump sum transferred is the actual employee and employer contributions plus interest.

NOTE 2**CHANGE IN ACCOUNTING PRINCIPLES**

For the fiscal year beginning July 1, 2001, the System implemented several new accounting standards issued by GASB:

Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments,

Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments: Omnibus, and

Statement No. 38, Certain Financial Statement Note Disclosures.

Statement No. 34 as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial formats and changes in fund types and account groups. In addition to fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result fund reclassifications from those reported in the prior financial statement balances were required.

Statement No. 38 requires certain note disclosures when Statement No. 34 is implemented.

The provisions of these new standards have been incorporated into the financial statements and notes. There were no material changes to the fund equities previously reported.

NOTE 3**DEPOSITS AND INVESTMENTS****DEPOSITS:**

The following summary presents the amount of the System's deposits which are fully insured or collateralized with securities held by the System or by its agent in the System's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the System's name (Category 2) and those deposits which are not collateralized or are collateralized by the pledging financial institution's trust department or agent,

but not in the System's name (Category 3) at June 30, 2002 and 2001. Funds deposited in the Bank of North Dakota are guaranteed by the state of North Dakota (North Dakota Century Code Section 6-09-10).

At June 30, 2002 and 2001 the carrying amount of the System's cash deposits were \$18,320,548 and \$18,246,953 and the bank balances were \$18,743,862 and \$18,528,713. Included in these amounts were certificates of deposit recorded as investments with a carrying value and bank balances of \$16,934,174 and \$15,105,585 at June 30, 2002 and 2001. All of the System's deposits are uncollateralized, a class three risk as defined by the Government Accounting Standards Board.

INVESTMENTS:

Risk Categories:

Governmental Accounting Standards Board (GASB) Statement No. 3 entitled "Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" requires certain financial statement disclosure of deposits and investments such as the disclosure of carrying amounts by type of investment and classification into one of three categories based upon credit risk. Category (1) includes investments insured or registered or securities held by the System or its agent in the System's name. Category (2) includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in System's name. Category (3) includes investments uninsured and unregistered with securities held by the counterparty, or by its trust department or agent, but not in System's name.

The guaranteed investment contract with Blue Cross Blue Shield is not subject to credit risk requirements and is shown as cash and cash equivalents on the financial statements.

All investments of the fund, except for the defined contribution retirement plan, are to be made by RIO. Investments of the Public Employees Retirement System and the Highway Patrolmen's Retirement System are commingled and invested. Earnings on the investments and expenses related to administering the plans are allocated to each plan based on their percentage of ownership or number of participants. The System's investments are pooled with other state investments and managed by the North Dakota Retirement and Investment Office. All pooled investments subject to credit risk classification at the Retirement and Investment Office are catego-

rized in Category 1. These investments include the equity securities, the bonds and notes and the private equity pool.

Those investments not subject to credit risk classification are the mutual funds, guaranteed investment contracts, the real estate pool, the private equity, the short-term investment fund, the deferred compensation plans, and the securities lending short-term collateral investment pool.

The Public Employees Retirement System Board, or vendors contracted for by the board, has exclusive authority to invest and manage the assets of the defined contribution retirement plan. State statute allows each participating member to direct the investment of the individual's employer and employee contributions and earnings to one or more investment options within the available categories of investment as established by the Board. The following investments represent 5% or more of net plan assets at June 30, 2002:

Fidelity Managed Income	
Portfolio Mutual Fund	22.72%
Fidelity Growth Company Mutual Fund	14.93%
Fidelity Freedom 2020 Mutual Fund	9.52%
Fidelity Equity Income	7.56%
Fidelity Spartan US Equity Index	7.12%
Pimco Total Return Admin Mutual Fund	6.36%
Fidelity Diversified International Mutual Fund	6.18%
Fidelity Freedom 2010 Mutual Fund	6.10%

Total investments of the System at fair value as of June 30, 2002 and 2001 consisted of the following:

<u>June 30, 2002</u>	<u>Fair Value</u>
Equity Securities	\$ 554,410,273
Bonds and Notes	442,894,971
Mutual Funds	-
Real Estate Pool	55,871,311
Private Equity	643,147
Private Equity Pool	31,106,926
Short-Term Investment Fund	7,720,084
Guaranteed Investment Contracts	2,911,717
Deferred Compensation Plans:	
Annuities	250,723
Mutual Funds	8,395,972
Securities Lending Short-Term	
Collateral Investment Pool	73,264,448
	<u>\$1,177,469,572</u>



<u>June 30, 2001</u>	<u>Fair Value</u>
Equity Securities	\$ 609,872,194
Bonds and Notes	453,954,428
Mutual Funds	8,012,112
Real Estate Pool	67,827,059
Private Equity	1,205,094
Private Equity Pool	39,789,661
Short-Term Investment Fund	2,975,702
Guaranteed Investment Contracts	878,026
Deferred Compensation Plans:	
Annuities	356,003
Mutual Funds	7,330,449
Securities Lending Short-Term	
Collateral Investment Pool	79,537,494
	<u>\$ 1,271,738,222</u>

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

NOTE 4 INTERFUND AND STATE AGENCY TRANSACTIONS

The June 30, 2002 interfund due from/to other funds are summarized as follows:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Fiduciary:		
Public Employees		
Retirement System	\$ 59,146	\$ 8,206
Highway Patrolmen's		
Retirement System	-	12,143
Retiree Health Insurance		
Credit Fund	-	89,287
Pretax Benefits Program	10,997	-
Proprietary:		
Uniform Group Insurance		
Program	39,493	-
	<u>\$ 109,636</u>	<u>\$ 109,636</u>

The June 30, 2001 interfund due from/to other funds are summarized as follows:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Fiduciary:		
Public Employees		
Retirement System	\$ 224,697	\$ -
Highway Patrolmen's		
Retirement System	-	8,836
Retiree Health Insurance		
Credit Fund	-	73,732
Pretax Benefits Program	11,360	2
Proprietary:		
Uniform Group Insurance		
Program	25,259	178,746
	<u>\$ 261,316</u>	<u>\$ 261,316</u>

The June 30, 2002 due from/to state agencies are summarized as follows:

<u>Fund</u>	<u>Due From State Agencies</u>	<u>Due To State Agencies</u>
Fiduciary:		
Public Employees		
Retirement System:		
OMB Central	\$ 74	\$ -
Human Services	600	-
Job Service North Dakota	118	-
Vocational Education	15	-
State Investment Board	-	7,315
ITD	-	21,884
DOT	-	93
Facilities Management	-	3
Central Duplicating	-	3,970
Total	<u>\$ 807</u>	<u>\$ 33,265</u>
Retiree Health Insurance		
Credit Fund:		
State Investment Board	\$ -	\$ 745
Pretax Benefits Program:		
OMB Central	\$ 33,640	\$ -
ITD	-	226
Central Duplicating	-	98
Total	<u>\$ 33,640</u>	<u>\$ 324</u>
Deferred Compensation Plan:		
ITD	\$ -	\$ 386
DOT	-	577
Central Duplicating	-	87
Total	<u>\$ -</u>	<u>\$ 1,050</u>

<u>Fund</u>	<u>Due From State Agencies</u>	<u>Due To State Agencies</u>
Proprietary:		
Uniform Group Insurance Program:		
Job Service North Dakota	\$ 411	\$ -
Human Services	2,462	-
Adjutant General	820	-
OMB Central	445	-
Veterans Home	411	-
ITD	-	5,897
DOT	-	168
Facilities Management	-	3
Attorney General	-	102
Central Duplicating	-	424
Total	<u>\$ 4,549</u>	<u>\$ 6,594</u>

The June 30, 2001 due from/to state agencies are summarized as follows:

<u>Fund</u>	<u>Due From State Agencies</u>	<u>Due To State Agencies</u>
Fiduciary:		
Public Employees		
Retirement System:		
OMB Central	\$ 193	\$ -
Human Services	714	-
Banking and Finance	25	-
State Investment Board	-	6,402
ITD	-	2,836
DOT	-	82
Facilities Management	-	6
Attorney General	-	330
PERS	-	175
Central Duplicating	-	1,303
Total	<u>\$ 932</u>	<u>\$11,134</u>

Retiree Health Insurance Credit Fund:

State Investment Board	<u>\$ -</u>	<u>\$ 896</u>
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Pretax Benefits Program:

OMB Central	\$31,589	\$ -
ITD	-	488
Facilities Management	-	1
Attorney General	-	51
Central Duplicating	-	203
Total	<u>\$31,589</u>	<u>\$ 743</u>

Deferred Compensation Plan:

ITD	\$ -	\$ 112
DOT	-	48
Facilities Management	-	1
Attorney General	-	157
General Fund	-	1,950
Central Duplicating	-	37
Total	<u>\$ -</u>	<u>\$ 2,305</u>

<u>Fund</u>	<u>Due From State Agencies</u>	<u>Due To State Agencies</u>
Fiduciary:		
Defined Contribution		
Retirement Fund:		
ITD	\$ -	\$ 261
Attorney General	-	11
Total	<u>\$ -</u>	<u>\$ 272</u>

Proprietary:

Uniform Group Insurance Program:

State Library	\$ 350	\$ -
Human Services	1,430	-
Health Department	350	-
PERS	350	175
State Courts	350	-
Insurance Department	349	-
Workers Compensation Bureau	350	-
ITD	-	6,758
DOT	-	180
Facilities Management	-	5
Attorney General	-	498
Central Duplicating	-	183
Total	<u>\$ 3,502</u>	<u>\$ 7,799</u>

The June 30, 2002 operating transfers in/out are summarized as follows:

<u>Fund Type / Fund</u>	<u>Operating Transfer In</u>	<u>Operating Transfer Out</u>
Fiduciary Funds:		
Defined Contribution		
Retirement Fund	\$ 13,704	\$ -
Pretax Benefits Program	-	239,939
Def. Compensation Plan	226,235	-

The June 30, 2001 operating transfers in/out are summarized as follows:

<u>Fund Type / Fund</u>	<u>Operating Transfer In</u>	<u>Operating Transfer Out</u>
Fiduciary Funds:		
Defined Contribution		
Retirement Fund	\$ 79,496	\$ -
Pretax Benefits Program	-	297,870
Def. Compensation Plan	218,374	-



NOTE 5
FIXED ASSETS

A statement of changes in equipment and accumulated depreciation for the Public Employees Retirement System Fiduciary Fund for the year ended June 30, 2002 is as follows:

	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Net Equipment</u>
Balance -			
June 30, 2000	\$ 125,616	\$ 66,968	\$ 58,648
Additions	-	-	-
Deletions	<u>(108,576)</u>	<u>(52,441)</u>	<u>(56,135)</u>
Balance -			
June 30, 2001	\$ 17,040	\$ 14,527	\$ 2,513
Additions	54,388	8,973	45,415
Deletions	-	-	-
Balance -			
June 30, 2002	<u>\$ 71,428</u>	<u>\$ 23,500</u>	<u>\$ 47,928</u>

NOTE 6
LEASE OBLIGATIONS
Operating Lease:

The department has entered into an operating lease for office space until June 30, 2003. The lease contains a clause stating that renewal is dependent on appropriation funding by the State Legislature. Lease obligations for operating and capital leases are payable from all funds of the System. Expenditures for the operating lease were \$77,108 for the year ended June 30, 2002. The future minimum lease payments for the fiscal year ending June 30, 2003 is \$78,915.

Capital Lease:

The department has entered into two capital leases for various computer and printing equipment with a total cost of \$54,388 until June 2007. Lease obligations for operating and capital leases are payable from all funds of the System. The future minimum lease payments and the present value for fiscal years ending June 30 are:

2003	\$ 19,052
2004	19,052
2005	4,332
2006	1,388
2007	<u>1,388</u>
Total minimum lease payments	45,212
Less amount representing interest	<u>3,022</u>
Present value of minimum lease payments	<u>\$ 42,190</u>

NOTE 7
CHANGE IN LONG-TERM LIABILITIES

	<u>Proprietary Fund: Accrued Comp. Absences</u>	<u>Fiduciary Fund: Accrued Comp. Absences</u>	<u>Fiduciary Fund: Capital Lease Payable</u>
Balance -			
June 30, 2000	\$ 36,467	\$ 35,371	\$ 8,019
Increases	2,033	4,640	-
Decreases	-	-	<u>(5,953)</u>
Balance -			
June 30, 2001	38,500	40,011	2,066
Increases	8,089	19,308	54,388
Decreases	-	-	<u>(14,264)</u>
Balance -			
June 30, 2002	<u>\$ 46,589</u>	<u>\$ 59,319</u>	<u>\$ 42,190</u>
Balance -			
due within one year	\$ -	\$ -	\$ 12,269

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

NOTE 8
**NORTH DAKOTA PUBLIC EMPLOYEES
RETIREMENT SYSTEM**

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

The System is required to contribute to PERS at an actuarially determined rate for permanent employees. The System's contributions to PERS for the years ended June 30, 2002, 2001 and 2000, were \$67,107, \$60,657 and \$57,535 equal to the required contributions for each year.

NOTE 9**DESCRIPTION OF PLANS****A) General**

The System administers two defined benefit pension plans and a defined contribution plan. The Public Employees Retirement System (PERS) is a cost-sharing multiple-employer retirement plan. The PERS was established July 1, 1966 as a defined contribution plan and was changed to a defined benefit plan by the 1977 North Dakota Legislature. The PERS is administered in accordance with Chapter 54-52 of the North Dakota Century Code. The Highway Patrolmen's Retirement System (HPRS) was established July 1, 1949 and is administered in accordance with Chapter 39-03 of the North Dakota Century Code. The HPRS is a single- employer defined benefit plan. The North Dakota Defined Contribution Retirement Plan was established on January 1, 2000 and is administered in accordance with Chapter 54-52.6 of the North Dakota Century Code.

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

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

The PERS covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions (Main System). It also covers Supreme and District Court Judges and the National Guard Security Officers and Firefighters. The HPRS covers substantially all sworn officers of the North Dakota Highway Patrol. The Defined Contribution Plan covers state employees who are in positions not classified by the central personnel division of the State of North Dakota. Employees of the judicial branch or the Board of Higher Education and State institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Defined Contribution Plan.

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

	<u>2002</u>	<u>2001</u>
Cities and Park Districts	61	59
Counties	42	41
School Districts	90	81
Other	<u>52</u>	<u>49</u>
Total participating political subdivisions	<u>245</u>	<u>230</u>

Employee membership data is as follows:

	PERS		HPRS	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Retirees and Beneficiaries				
Currently Receiving Benefits	5,130	4,938	86	81
Special Prior Service Retirees	122	137	-	-
Terminated Vested Participants	639	400	2	1
Inactive Participants	2,651	2,730	-	-
Active Plan Participants:				
Vested	12,662	12,292	71	71
Nonvested	<u>4,427</u>	<u>4,464</u>	<u>54</u>	<u>53</u>
Total Plan Membership	<u>25,631</u>	<u>24,961</u>	<u>213</u>	<u>206</u>

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

The defined contribution plan had 295 and 266 participants as of June 30, 2002 and 2001, respectively.

B) Pension Benefits**PERS**

Benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. (Effective August 1, 2001, there was an addition of ad-hoc post-retirement increase for retirees, disableds and beneficiaries equal to 6%, for the Main System and National Guard and two ad-hoc post-retirement increases for retirees and beneficiaries for judges equal to 2% beginning January 1, 2002 and January 1, 2003). Members are entitled to unreduced monthly pension benefits begin-



ning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 120 months of service, for each year of service. The Plan permits early retirement at ages 55-64 with three or more years of service for the Main System and National Guard, and five or more years of service for the Supreme and District Court judges.

The monthly pension benefit for Supreme and District Court judges at normal retirement age (65) is equal to a percentage of average monthly salary using the highest 36 consecutive months out of the last 120 months of service. The percentage is equal to 3.50 percent of average monthly salary multiplied by the first ten years of service, plus 2.80 percent of the average monthly salary times the second ten years of service, plus 1.25 percent of average monthly salary times years of service in excess of twenty years. The judicial retirement formula is only applied to eligible judicial service. Non-judicial service benefits are calculated using the 2.00 percent multiplier.

The monthly pension benefit for the National Guard Security Officers and Firefighters at normal retirement age (55) is equal to 2.00 percent of their average monthly salary, using the highest 36 months out of the last 120 months of service, for each year of service.

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

HPRS

Benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members are entitled to unreduced pension benefits upon attainment of age 55 and ten years of eligible employment or when the sum of age and years of credited service equals or exceeds 80. The annual pension benefit is equal to a percentage of average monthly salary using the highest 36 consecutive months out of the last 120 months of service. The percentage is equal to the sum of

the first 25 years of service multiplied by 3.60 percent and 1.75 percent multiplied by years of service in excess of 25, if any. The Plan permits early retirement at ages 50-54, with ten or more years of service.

Defined Contribution Plan

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

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

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

C) Death and Disability Benefits

PERS

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

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

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25 percent of their final average salary with a minimum benefit

of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the System in the North Dakota Administrative Code.

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

HPRS

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

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

Defined Contribution Plan

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

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

D) Refunds of Member Contributions

Upon termination, if a member of PERS or HPRS is not vested (is not 65 or does not have three years of service for the Main System and National Guard, or five years of service for the

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

E) Contributions

Contribution rates for PERS and HPRS are set by state statute, actuarially determined based on the entry age normal actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost, (2) an amount for amortization of the unfunded accrued liability over an open period of 20 years, and (3) the amount necessary to provide for operating expenses. Contribution rates for the Defined Contribution Plan are set by state statute and are a percentage of salaries and wages.

PERS

Member contributions are established at 4 percent of regular compensation with the exception of Supreme and District Court judge contributions which are established at 5 percent of total compensation. During the 1983-1985 biennium the State and some of the participating political subdivisions implemented the employer pickup provision of the IRS code whereby a portion of all of the required member contributions are made by the employer. The State is paying the full member contribution with the exception of the Supreme and District court judges for which the State is paying 4 of the 5 percent contribution. Some of the political subdivisions are paying all or part of the member contributions.

Employer contributions of 4.12 percent of covered compensation are set by statute. The employer contribution rate for the Supreme and District Court Judges is also set by statute at 14.52 percent and the contribution rate for the National Guard Security Officers and Firefighters is set by the Board at 8.33 percent. The entry age normal cost method determines the amount of contributions necessary to fund: (a) the current service cost, which represents the estimated amount necessary to pay for the benefits earned by members during the current service year and, (b) the prior service cost, which represents the amount necessary to pay for benefits earned prior to the effective date of the plan.



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

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

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

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

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

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

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

HPRS

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

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

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

Annual required contributions	\$ 591,235
Interest on net pension obligations	(46,236)
Adjustment to annual required contributions	<u>40,336</u>
Annual pension costs	585,335
Contributions made	<u>814,035</u>
Increase in net pension obligations	(228,700)
Net pension obligations, beginning of year	<u>(577,953)</u>
(Assets in excess of) net pension obligations, end of year	\$ <u>(806,653)</u>

Defined Contribution Plan

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

NOTE 10

RETIREE HEALTH INSURANCE CREDIT FUND

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

Employee membership data is as follows:

	<u>2002</u>	<u>2001</u>
Retired Participants	3,393	3,306
Active Participants	<u>17,462</u>	<u>17,110</u>
	<u>20,855</u>	<u>20,416</u>

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

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

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

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

Inflation: 4.50% per annum.

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

Actuarial Value of Assets:

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

The Retiree Health Insurance Credit Fund has 17,462 active participants at June 30, 2002. The employers' actuarially required contribution was \$4,653,424 and the actual employer contributions for the period ended June 30, 2002 were \$4,482,993. The amount of net assets held in trust for post employment healthcare benefits at June 30, 2002 is \$23,652,354. The actuarial accrued liability and actuarial unfunded accrued liability at June 30, 2002 is \$68,988,084 and \$42,586,026, respectively. The benefit security ratio for the last five years is 29.7% for 1998, 33.7% for 1999, 36.5% for 2000, 37.8% for 2001 and 38.3% for 2002. The progress of this ratio reveals overall improvement in the Plan's funded condition.

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

	<u>%</u>	<u>Dollar</u>
Net effect of change in retirement age assumption	.00	\$ -
Benefit improvements	.00	-
Changes in plan experience during the year	(.01)	(47,645)
	(.01)	\$(47,645)

The employer contribution for the PERS and the HPRS and the Defined Contribution Plan is set by statute on an actuarially determined basis at 1 percent of covered compensation. Job Service North Dakota reimburses the Retiree Health Insurance Credit Fund monthly for credit received by members of the Retirement Plan for Employees of Job Service North Dakota. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1 percent of their covered compensation to the Retiree Health Insurance Credit Fund.

Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "prefunded credit applied" on the Statement of Changes in Plan Net Assets for the pension trust funds.

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

NOTE 11

DEFERRED COMPENSATION PLAN FOR PUBLIC EMPLOYEES

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

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

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

	<u>2002</u>		<u>2001</u>	
Plan Participation By:				
State of				
North Dakota	\$7,175,856	83%	\$6,439,702	84%
Other				
Jurisdictions	<u>1,470,839</u>	<u>17%</u>	<u>1,246,750</u>	<u>16%</u>
Total Value	<u>\$8,646,695</u>	<u>100%</u>	<u>\$7,686,452</u>	<u>100%</u>



NOTE 12**FEDERAL INCOME TAX STATUS**

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

NOTE 13**UNIFORM GROUP INSURANCE PROGRAM SURPLUS**

The Uniform Group Insurance Program, a proprietary fund, contracts with Blue Cross Blue Shield of North Dakota (BCBS) to provide health care insurance to the employees of the State of North Dakota, or any of its political subdivisions, institutions, departments or agencies. The contract provides for an accounting of premiums paid and claims incurred during the biennium. In accordance with the term of the contract for the 2001 – 2003 biennium, the System is to deposit a total of \$3 million with BCBS. These surplus funds are to be used to pay any claims in excess of the premiums collected. At the end of the contract period, the System receives the remaining surplus funds plus interest. The accumulated surplus and other invested funds in the amount of \$2,911,717 are shown as cash on the System's balance sheet. These funds are being held by BCBS.

Similarly, the Uniform Group Insurance Program contracts with ReliaStar Life Insurance Company to provide life insurance to the employees of the State of North Dakota or any of its political subdivisions, institutions, departments or agencies. The contract provides for an accounting of premiums paid and claims incurred during the biennium, with any surplus shared according to a formula outlined in the contract. Based on ReliaStar final accounting for the 1999-2001 biennium there was a surplus for this contract period of \$179,279. Accumulated surplus and earnings are used to fund rate reductions in the supplemental life program or provide benefit enhancements. The accumulated surplus plus interest was paid to the System during the current fiscal year.

NOTE 14**RISK MANAGEMENT**

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

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies result-

ing from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees and the University System. All state agencies participate in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The System also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The agency pays an annual premium to the Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the agency with blanket fidelity bond coverage in the amount of \$4,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

NOTE 15**RELATED PARTIES**

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

**REQUIRED
SUPPLEMENTARY
INFORMATION**
**Required Supplementary Information
Schedule of Employer Contributions For the six years ended June 30, 2002**
Public Employees Retirement System

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1997	\$ 11,421,000	100%
1998	10,810,265	100
1999	9,698,810	100
2000	13,457,783	100
2001	9,642,770	100
2002	16,811,296	100

Highway Patrolmen's Retirement System

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Net Pension Obligation
1997	\$ 439,900	100%	\$ -
1998	609,384	100	-
1999	521,216	100	-
2000	532,786	139	(208,303)
2001	420,601	187	(577,953)
2002	591,235	138	(806,653)

See Notes to Required Supplementary Schedules

**Required Supplementary Information
Schedule of Funding Progress For the six years ended June 30, 2002**
Public Employees Retirement System (Expressed in Millions)

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Entry Age	Actuarial Value of Assets	Unfunded AAL (UAAL) (Funded Excess)	Ratio of Assets to AAL	Covered Payroll	UAAL (Funded Excess) as a Percentage of Covered Payroll
1997	\$ 646.9	\$ 704.5	\$ (57.6)	108.9%	\$ 359.0	(16.0)%
1998	720.1	801.3	(81.2)	111.3	379.0	(21.4)
1999	842.7	917.0	(74.3)	108.8	397.7	(18.7)
2000	891.9	1,027.0	(135.1)	115.1	409.0	(33.0)
2001	1,008.7	1,115.3	(106.6)	110.6	433.3	(24.6)
2002	1,103.5	1,150.0	(46.5)	104.2	461.3	(10.1)

Highway Patrolmen's Retirement System (Expressed in Millions)

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Entry Age	Actuarial Value of Assets	Unfunded AAL (UAAL) (Funded Excess)	Ratio of Assets to AAL	Covered Payroll	UAAL (Funded Excess) as a Percentage of Covered Payroll
1997	\$ 27.5	\$ 24.9	\$ 2.6	90.5%	\$ 4.2	61.9%
1998	28.9	28.1	.8	97.2	4.3	18.6
1999	32.2	32.0	.2	99.4	4.5	4.4
2000	34.0	35.9	(1.9)	105.6	4.7	(40.4)
2001	38.1	38.8	(0.7)	101.8	4.9	(14.3)
2002	40.5	39.5	1.0	97.4	5.1	19.6

See Notes To Required Supplementary Schedules



NOTE 1 DESCRIPTION OF SCHEDULE OF FUNDING PROGRESS

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

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

NOTE 2 ACTUARIAL ASSUMPTIONS AND METHODS

Funding Method:

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

Asset Valuation Method:

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

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2002, the date of the latest actuarial study include:

- **Investment Return**— A rate of return on the investment of present and future assets of 8 percent.
- **Inflation** — The assumed inflation rate is 4.50% per annum.
- **Salary Scale** — Projected salary increases based upon inflation of 4.5 percent together with wage increases attributable to seniority, merit and "standard of living" increases.
- **Mortality Rates** — Pre- and post-mortality life expectancies of participants based upon 1983 Group Annuity Mortality Tables and the Pension Benefit Guaranty Corporation's Disabled Life Mortality Tables.
- **Withdrawal** — Rates of withdrawal from active service before retirement for reasons other than death, rates of disability and expected retirement ages developed on the basis of an investigation of actual plan experience.
- **Expenses** — Administrative expense of \$720,000 a year for the Public Employees Retirement System and \$16,000 a year for Highway Patrolmen's Retirement System.
- **Post-retirement benefit increase** — There are no post-retirement benefit increase assumptions.

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

June 30, 2002 & 2001

Statement of Appropriations
For the Year Ended June 30, 2002

	Approved 2001-2003 Appropriation	2001-2003 Appropriation Adjustments	Adjusted 2001-2003 Appropriation	Expenditures 2002	Unexpended Appropriation
All Fund Types:					
Salaries and wages	\$ 2,314,750	\$ 33,010	\$ 2,347,760	\$ 1,126,612	\$ 1,221,148
Operating Expenses	1,507,730	-	1,507,730	814,445	693,285
Equipment	12,000	-	12,000	7,781	4,219
Contingency	25,000	-	25,000	-	25,000
	<u>\$ 3,859,480</u>	<u>\$ 33,010</u>	<u>\$ 3,892,490</u>	<u>\$ 1,948,838</u>	<u>\$ 1,943,652</u>

Reconciliation of Administrative Expenses to Appropriated Expenditures

Administrative expenses as reflected in the financial statements	
Pension Trust Funds	\$ 1,471,921
Enterprise Funds	<u>728,796</u>
Total Administrative Expenses	2,200,717
Plus:	
Lease Payments (Net of Interest)	14,263
Contributions Short and Long	<u>674</u>
Less:	
Professional Fees – Not including legal fees which are appropriated	(240,869)
Depreciation Expenses	(8,973)
Allocated Depreciation Charged as Equipment Rent to Other Programs	(5,390)
Changes in Accrued Compensated Absences	(11,106)
FLEX Comp FICA Payments	(307)
Bank Supply Charges	(99)
Miscellaneous	<u>(72)</u>
Total Appropriated Expenditures	<u>\$ 1,948,838</u>

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



Schedule of Administrative Expenses
For the Fiscal Years Ended June 30, 2002 and 2001

	Public Employees Retirement System		Highway Patrolmen's Retirement System		Retiree Health Insurance Credit Fund		Defined Contribution Retirement Fund	
	2002	2001	2002	2001	2002	2001	2002	2001
Personnel Services:								
Salaries	\$ 343,388	\$ 298,284	\$ 2,843	\$ 2,518	\$ 32,556	\$ 29,621	\$ 2,873	\$ 12,454
Social Security	26,270	22,832	217	193	2,491	2,266	219	953
Retirement	29,562	26,195	245	221	2,819	2,582	249	1,136
Insurance	50,606	40,994	420	346	4,685	3,931	414	1,690
Total Personnel Services	449,826	388,305	3,725	3,278	42,551	38,400	3,755	16,233
Professional Services:								
Actuarial	83,829	175,415	8,475	8,475	8,200	8,200	6,945	10,000
Audit	13,358	12,193	111	103	1,173	1,100	103	0
Data Processing	212,802	100,552	1,762	849	11,060	5,790	976	14,017
Consulting	3,724	5,085	30	331	0	0	4,854	15,370
Legal Counsel	9,262	18,993	77	155	814	1,156	72	595
Misc. Outside Services	14,384	10,177	119	86	1,177	879	104	0
Total Professional Services	337,359	322,415	10,574	9,999	22,424	17,125	13,054	39,982
Communication:								
Postage & Mailing Svc	46,944	27,768	389	234	4,168	2,892	368	9,621
Printing	37,270	27,711	309	234	2,303	2,188	203	43
Telephone	9,336	9,279	77	78	772	778	68	29
Total Communication	93,550	64,758	775	546	7,243	5,858	639	9,693
Rentals:								
Equipment Rent	6,684	6,117	126	177	1,137	1,423	100	144
Office Rent	32,338	28,683	268	242	2,900	2,598	256	0
Total Rentals	39,022	34,800	394	419	4,037	4,021	356	144
Miscellaneous:								
Depreciation	8,973	15,519	0	0	0	0	0	0
Dues and Prof Development	8,510	5,650	71	48	632	436	56	0
Insurance	929	68	8	1	83	6	7	0
Miscellaneous	12,394	49,237	103	73	961	675	84	0
Repairs and Maintenance	1,287	987	10	8	113	90	10	0
Supplies	16,829	7,918	139	67	1,788	920	159	665
Travel	14,579	5,211	120	43	1,077	770	95	7,686
Total Miscellaneous	63,501	84,590	451	240	4,654	2,897	411	8,351
Total Administrative Expenses	\$ 983,258	\$ 894,868	\$ 15,919	\$ 14,482	\$80,909	\$ 68,301	\$ 18,215	\$ 74,403

Schedule of Investment Expenses⁽¹⁾
For the Fiscal Years Ended June 30, 2002 and 2001

	Public Employees Retirement System		Highway Patrolmen's Retirement System		Retiree Health Insurance Credit Fund		Defined Contribution Retirement Fund	
	2002	2001	2002	2001	2002	2001	2002	2001
Payments to State Investment Board:								
Investment Fees	\$ 3,486,033	\$ 3,848,920	\$ 120,993	\$ 134,872	\$ 49,785	\$ 53,043	\$ 0	\$ 0
Administrative Fees	116,858	120,460	4,055	4,227	0	0	0	0
	3,602,891	3,969,380	125,048	139,099	49,785	53,043	0	0
Securities Lending Fees	1,755,233	5,684,889	60,959	199,255	0	0	0	0
Payments to Providers:								
Investment Fees	0	0	0	0	0	0	7,005	11,845
Total Investment Expenses	\$ 5,358,124	\$ 9,654,269	\$ 186,007	\$ 338,354	\$ 49,785	\$ 53,043	7,005	\$11,845

⁽¹⁾ All pension trust fund assets, except for the assets of the Defined Contribution Fund, are invested with the North Dakota State Investment Board (SIB). The fees paid to the SIB include reimbursement for investment fees paid by the SIB to investment managers, consultants, and the master custodian and reimbursement for the portion of Retirement and Investment Office administrative fees allocated to the Fund.

Schedule of Consultant Expenses
For the Fiscal Years Ended June 30, 2002 and 2001

	Public Employees Retirement System		Highway Patrolmen's Retirement System		Retiree Health Insurance Credit Fund		Defined Contribution Retirement Plan	
	2002	2001	2002	2001	2002	2001	2002	2001
Actuary Fees:								
The Segal Company	\$ 83,829	\$ 71,637	\$ 8,475	\$ 8,475	\$ 8,200	\$ 8,200	\$ 6,945	\$ 0
Watson Wyatt	0	103,778	0	0	0	0	0	10,000
Audit Fees:								
Brady, Martz & Associates	13,358	12,193	111	103	1,173	1,100	103	0
Disability Consulting Fees:								
Mid Dakota Clinic	3,587	5,085	30	331	0	0	0	0
Miscellaneous Consulting Fees:								
Calhoun Law Group	137	0	0	0	0	0	0	0
Segal Advisors, Inc.	0	0	0	0	0	0	2,799	15,370
The Segal Company	0	0	0	0	0	0	2,055	0
Legal Fees:								
Calhoun Law Group	0	7,387	0	0	0	0	0	0
ND Attorney General	9,262	11,606	77	155	814	1,156	72	595
Totals	\$ 110,173	\$ 211,686	\$ 8,693	\$ 9,064	\$ 10,187	\$ 10,456	\$ 11,974	\$ 25,965



INVESTMENT SECTION

The goal of the Board is to provide income through various investments, together with employer and employee contributions, sufficient to pay benefits accrued under the North Dakota Public Employees Retirement System (System) and to provide for future benefit enhancements. The investment portfolio is very important to achieve this goal.

The investment section includes a report of investment activity prepared by the Investment Director of the State Investment Board (SIB), a summary of the Retirement Board's investment policies, and tables and charts presenting investment results, asset allocation information, and investment fees. A list of the largest stock and bond holdings for the pension investment pools held by the SIB is also presented.

Select information for the voluntary Defined Contribution Retirement Plan is also presented in this section.

INVESTMENT REPORT FROM THE NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE



North Dakota Retirement and Investment Office

*Teachers' Fund for Retirement
State Investment Board*

Steve Cochrane, CFA
Executive Director

Fay Kopp
Deputy Executive Director

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November 20, 2002

Board of Trustees
Members of the System

It is a pleasure to provide the following summary of the North Dakota Public Employees Retirement System investment portfolio and market environment for the fiscal year ended June 30, 2002.

Introduction

For the fiscal year ended June 30, 2002, the North Dakota Public Employees Retirement System (PERS) investment portfolio experienced a total return of -6.83%. The investment return calculations were prepared using a monthly time-weighted rate of return methodology in accordance with AIMR's Performance Presentation Standards.

In what was a difficult year for investors, total returns for the PERS fund were negative in domestic equity, international equity, high yield fixed income and private equity; domestic fixed income, international fixed income, and real estate generated positive returns.

Economic Overview

GDP has been growing, unemployment rolls have been expanding much less quickly and orders are rising through the fiscal year ending June 30, 2002. For the one-year period ended June 30, 2002 GDP rose at an annualized rate of 3.25%. Most forecasters, including the Fed, expect GDP to rise toward 4% in 2003. Optimists suggest that the stumbling stock market and falling dollar are the last gasps from the deflating bubbles of the late 1990's.

Domestic Equity Overview

The Standard and Poor's 500 Index, a broad measure of the largest 500 domestic equities fell 17.99% during the last 12 months. Given that the typically faster growing sectors like technology, telecommunication, and health care lagged the broader market, the growth style fell behind its value-oriented peer again for the year. The small cap stocks outperformed large cap stocks for the fiscal year as the Russell 2000, a broad measure of domestic equity small cap stocks, finished down 8.6%.

International Equity Overview

A slumping U.S. dollar enabled the MSCI EAFE Index to turn a loss of -18.8% in local terms into only a -9.5% loss in dollar returns for the last 12 months. A ballooning trade deficit, a reduction in foreign direct investment, and reluctance by overseas investors to buy U.S. equities helped to drive the dollar lower against virtually all EAFE currencies. The Pacific equities had a difficult year as the MSCI Pacific was down 13.5% partially due to the lackluster performance of Japan, which fell 16.8% for the year. Europe fared a little better during the last 12 months with a negative return of 7.7% in dollar terms. On an absolute basis, the MSCI Emerging Markets Free was the pleasant surprise for the year as it ended up at a positive 1.31%.



Domestic Fixed-Income Overview

The continuation of weak equity markets, accounting irregularities, and terrorist activity drove investors to bonds and as a result, the Lehman Brothers Aggregate Bond Index, led by a solid performance in Treasuries and Agencies, advanced 8.63% for the fiscal year. The credit sector endured another quarter of high volatility and mixed performance as a result of mixed economic news, and credit ratings changes. Despite the market turmoil, the Lehman Brothers Credit Index gained 7.5% for the year, but still trailed Governments by the non-duration adjusted amount of 1.3%. Investors sought the safe haven Treasuries during the last year as the yield curve continued to increase. The high yield market continued to struggle as more corporate blow-ups and downgrades drove the Lehman Brother High Yield Bond Index down 3.60% for the last fiscal year.

International Fixed-Income Overview

The SSB World Non-US Government Bond Index soared for the year ended June 30, 2002, finishing up 15.73%. Bonds were lifted slightly by weakness in the equity market, but un-hedged U.S. based investors benefited from a significant dollar sell-off driven by foreigners repatriating assets amid declining confidence in the U.S. economy. The SSB Euro Government Bond Index rose in dramatic fashion for the year as the unhedged return finished up 24.5% while the Euro Bonds only produced a return of 6.7% in local terms. The falling U.S. dollar has made quite an impact on overseas fixed income payments.

Real Estate Overview

Real estate continues to be a darling asset class in institutional portfolios despite increasing vacancies and declining rents across all property types. Even in this environment, property values continue to hold up relatively well as investors seek a safe haven from the volatile equity markets. A favorable interest rate environment is also supporting values, while un-leveraged buyers are having difficulty competing for product, especially in the apartment/multi-family sector. The public real estate equity markets, as measured by the NAREIT Equity Index, shined again, returning 16.2% for the fiscal year. The private real estate market also held its own for the year as it finished up 5.52%.

Private Equity Overview

Due to the nature of private equity performance measurement, relative comparisons of fund performance with benchmarks are inherently ambiguous. With this in mind, we note that the Post Venture Capital Index declined 44.3% during the fiscal year.

Summary

Fiscal year 2002 was very unkind to investors in equity classes. To the extent that funds were exposed to fixed income, and in particular, Treasury and agency issues, the ravages of the stock market were mitigated by bond returns. While absolute returns remain dismal, we continue to focus on adding relative value in each asset class.

Sincerely,



STEVE COCHRANE, CFA
Executive Director/CIO

INVESTMENT POLICIES

By state law, the System's assets are invested by the North Dakota State Investment Board (SIB). This change became effective July 1, 1989, with the primary purpose being to achieve cost savings through pooling of assets for investment.

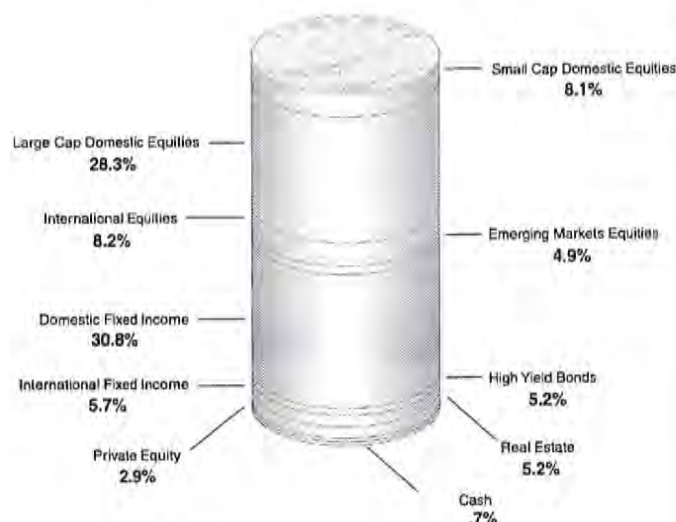
State law requires that the SIB apply the prudent investor rule when investing funds under its supervision. The "prudent investor rule" means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary 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 retirement funds belonging to the System must be invested exclusively for the benefit of its members and in accordance with the System's investment goals and objectives.

The Retirement Board is responsible for establishing policies on investment goals and objectives and asset allocation, which are to be viewed over the

long term. The investment goals are: to accumulate sufficient wealth through a diversified portfolio of investments which must enable the System to pay all current and future retirement benefits and expense obligations of the Fund; to obtain investment returns which allow for future retirement and disability benefit increases; and to obtain investment returns in excess of that needed to allow for increases in a retiree's annuity to maintain the purchasing power of their benefit. The investment objectives are: to achieve a minimum total real rate of return of 5.4% in excess of the annual rate of inflation, however, the absolute total rate of return must be no less than 9.9% net of fees; and the portfolio mix must be in accordance with the asset allocation.

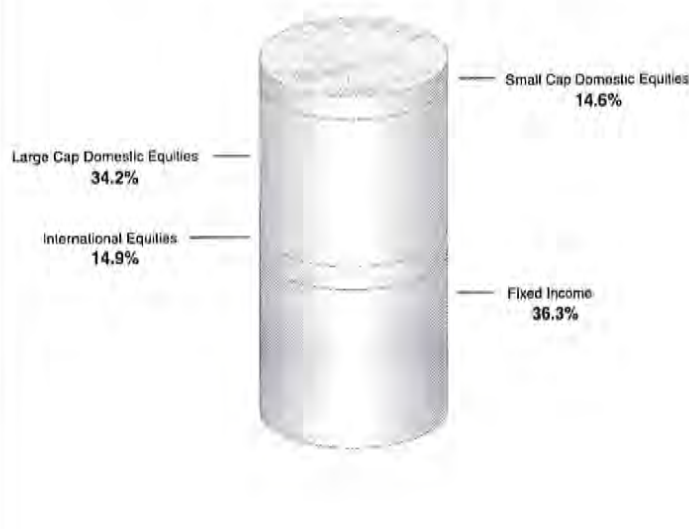
The SIB is responsible for carrying out the Retirement Board's investment goals, objectives and policies; implementing the asset allocation plan submitted by the System, maintaining a separate accounting and preparing periodic investment performance reports for the System funds under their authority.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

**Public Employees and
Highway Patrolmen's Retirement Systems
Asset Allocation – June 30, 2002**



Asset Class	Market Value	Actual %	Policy %
Domestic Large Cap Equity	\$ 304,722,638	28.3%	30.0%
Domestic Small Cap Equity	87,675,705	8.1%	8.0%
International Equity	88,945,233	8.2%	8.0%
Emerging Markets Equity	52,832,524	4.9%	5.0%
Domestic Fixed Income	331,642,751	30.8%	28.0%
High Yield Fixed Income	56,307,203	5.2%	5.0%
International Fixed Income	61,053,375	5.7%	5.0%
Real Estate	55,871,311	5.2%	5.0%
Private Equity	31,750,074	2.9%	5.0%
Cash & Equivalents	7,720,084	.7%	1.0%
Total	\$ 1,078,520,898	100.0%	100.0%

**Retiree Health Insurance Credit Program
Asset Allocation – June 30, 2002**



Asset Class	Market Value	Actual %	Policy %
Domestic Large Cap Equity	\$ 7,940,497	34.2%	35.0%
Domestic Small Cap Equity	3,381,481	14.6%	15.0%
International Equity	3,461,473	14.9%	15.0%
Domestic Fixed Income	8,438,218	36.3%	35.0%
Total	\$ 23,221,669	100.0%	100.0%

Public Employees and Highway Patrolmen's Retirement Systems
Schedule of Investment Results ⁽¹⁾
For the Five Years Ended June 30, 2002

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Annualized</u>	
						<u>3 Year</u>	<u>5 Year</u>
Total Fund	16.08%	10.63%	9.34%	-4.12%	-6.83%	-2.15%	25.66%
CPI	1.60%	1.94%	3.87%	3.19%	0.74%	2.61%	2.25%
Large Cap Domestic Equities	29.17%	19.46%	1.31%	-11.35%	-16.92%	-9.30%	2.86%
S&P 500	30.27%	22.76%	7.24%	-14.83%	-17.99%	-9.18%	3.66%
Small Cap Domestic Equities	15.79%	-6.18%	16.48%	2.40%	-11.03%	2.00%	2.89%
Russell 2000	16.51%	1.50%	14.32%	0.57%	-8.60%	1.67%	4.44%
International Equities	8.92%	13.81%	26.19%	-18.43%	-10.03%	-2.08%	3.08%
MSCI 50% Hedged EAFE	11.36%	8.69%	19.52%	-17.95%	-14.62%	-5.75%	0.27%
Emerging Markets Equities	-27.10%	21.32%	26.42%	-28.86%	-5.05%	-5.13%	-5.45%
MSCI Emerging Markets Free	-39.09%	28.71%	9.48%	-25.83%	1.31%	-6.30%	-8.40%
Domestic Fixed Income	10.82%	3.17%	11.03%	7.10%	2.81%	6.93%	7.11%
Lehmann Brothers Aggregate	10.54%	3.15%	4.57%	11.22%	8.63%	8.10%	7.57%
High Yield Bonds	20.41%	15.24%	-0.86%	-4.22%	-5.84%	-3.66%	4.41%
Lehmann Brothers High Yield Bonds	11.35%	-0.38%	-1.03%	-0.96%	-3.60%	-1.87%	0.95%
International Fixed Income	0.29%	5.49%	-0.23%	-7.22%	17.27%	2.77%	2.81%
Salomon Brothers World Gov't Non-US	0.89%	4.87%	2.42%	-7.43%	15.73%	3.14%	3.03%
Real Estate	11.32%	11.11%	10.87%	12.37%	3.33%	8.78%	9.75%
NCREIF Index	17.50%	13.46%	10.35%	11.15%	5.52%	9.53%	11.72%
Private Equity	27.97%	12.47%	35.19%	2.63%	-29.02%	-0.51%	7.25%
Post Venture Capital Index	29.23%	48.85%	40.35%	-48.23%	-44.29%	-26.03%	-4.88%
Cash	5.94%	5.33%	6.22%	6.12%	2.50%	4.93%	5.21%
90 Day T-bills	5.31%	4.87%	5.53%	5.88%	2.63%	4.67%	4.84%

CPI = Consumer Price Index

S&P 500 = Standard & Poor's Domestic Equity Stock Index

Russell 2000 = Frank Russell Company 2000 Index

EAFE = Europe, Australia and Far East Stock Index

NCREIF = National Council of Real Estate Investment Fiduciaries Index

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

Largest Holdings* at June 30, 2002

Stocks

Pfizer Inc.
 Microsoft Corporation
 American International Group, Inc.
 Citigroup Incorporated
 Kohls Corporation
 Cardinal Health Inc.
 Harley Davidson, Inc.
 Bank of America Corporation
 Johnson & Johnson
 Wal-Mart Stores, Inc.

Bonds

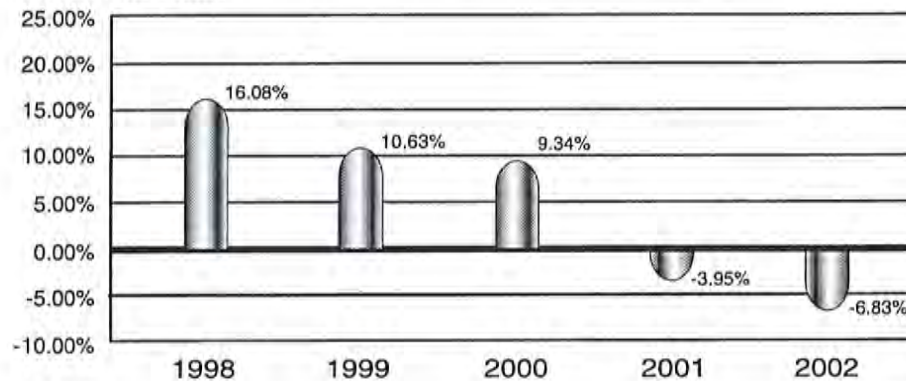
FNMA 5.00% Due 01/15/2007
 U.S. Treasury Bond 8.00% Due 11/15/2021
 GNMA 30 Year Single Family Pass-Throughs 6.50%
 GNMA TBA Pool 6.00% 30 Year July
 FNMA 7.00% TBA Pool 30 Year July
 U.S. Treasury Bonds Inflation Indexed 3.875% Due 04/15/2029
 U.S. Treasury Note 7.875% Due 11/15/2004
 FNMA 30 Year Single Family Mortgage 6.00%
 FNMA Pool 6% Due 12/01/2031
 FNMA Note 5.125% Due 02/13/2004

**LARGEST
 HOLDINGS
 JUNE 30, 2002**

**The System's assets are held by the State Investment Board in pension investment pools.
 The holdings listed above represent the largest percentage of holdings for the entire pension pool.
 A complete list of all holdings is available upon request.*

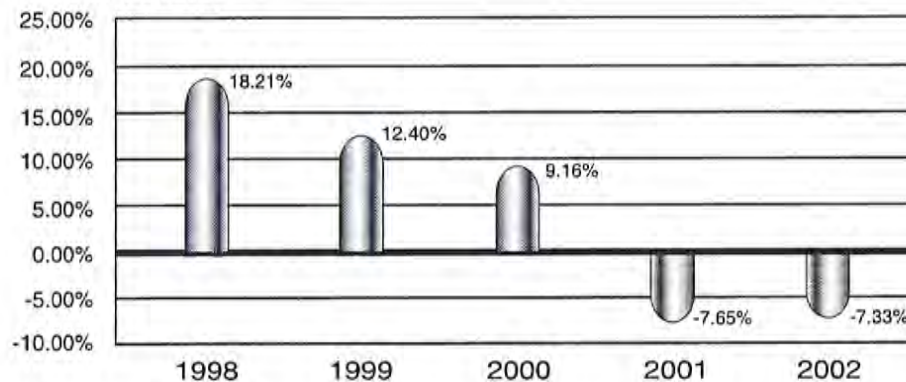
Public Employees and Highway Patrolmen's Retirement Systems Investment Results

RATE OF RETURN



Retiree Health Insurance Credit Program Investment Results

RATE OF RETURN



INVESTMENT FEES

Public Employees and Highway Patrolmen's Retirement System Schedule of Investment Fees

For the Fiscal Year Ended June 30, 2002

	Assets Under Management	Fees
Investment Managers' Fees:		
Large Cap Domestic Equities	\$305 Million	\$ 928,004
Small Cap Domestic Equities	\$88 Million	776,536
International Equities	\$89 Million	342,354
Emerging Markets Equities	\$53 Million	320,821
Domestic Fixed Income	\$332 Million	700,009
High Yield Bonds	\$56 Million	105,841
International Fixed Income	\$61 Million	224,331
Real Estate	\$56 Million	581,787
Private Equity	\$32 Million	1,508,774
Cash	\$8 Million	22,329
Total Investment Managers' Fees ⁽¹⁾		<u>\$ 5,510,786</u>
Other Investment Service Fees:		
Custodian Fees	\$1 Billion	\$ 282,679
Investment Consultant Fees	\$1 Billion	60,892
Total Investment Service Fees		<u>\$ 343,571</u>
Securities Lending Fees	\$1 Billion	<u>\$ 1,816,192</u>

⁽¹⁾Includes fees of \$2,247,331 which were netted against investment income.



Defined Contribution Investments

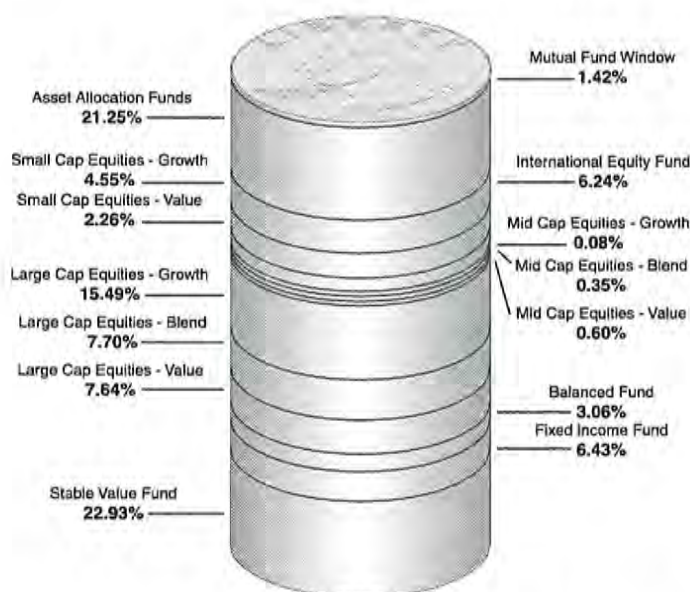
The Defined Contribution Retirement Plan (Plan) is a long-term retirement savings vehicle and is intended as a source of retirement income for eligible participants. Each participating member shall direct the investment of the individual's accumulated employer and employee contributions and earnings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

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

- Delineates investment options for participants to structure an investment strategy that meets their individual return objectives and risk tolerances
- Defines the investment categories offered by the Plan
- Establishes investment objectives for each investment category offered within the Plan
- Establishes benchmarks and performance standards for each investment category to evaluate each option's performance
- Establishes a procedure and methodology for reporting and monitoring
- Defines the procedures for investment fund evaluation and formal fund review.

DEFINED CONTRIBUTION INVESTMENTS

Defined Contribution Retirement Plan Investment Options – June 30, 2002



Investment Options	Market Value	Percent
Stable Value Fund	\$ 1,798,247	22.93%
Fixed Income Fund	503,818	6.43%
Balanced Fund	240,113	3.06%
Large Cap Equities - Value	598,619	7.64%
Large Cap Equities - Blend	603,682	7.70%
Large Cap Equities - Growth	1,214,026	15.49%
Mid Cap Equities - Value	47,070	0.60%
Mid Cap Equities - Blend	27,106	0.35%
Mid Cap Equities - Growth	5,954	0.08%
Small Cap Equities - Value	176,890	2.26%
Small Cap Equities - Growth	356,465	4.55%
International Equity Fund	489,492	6.24%
Asset Allocation Funds	1,665,497	21.25%
Mutual Fund Window	111,340	1.42%
Total	\$ 7,838,319	100.00%

**DEFINED
CONTRIBUTION
INVESTMENTS**
**Defined Contribution Retirement Plan
Schedule of Investment Results
For the Three Years Ended June 30, 2002⁽¹⁾**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>3-year annualized</u>
Stable Value Fund:				
Fidelity Managed Income Portfolio	5.80%	6.00%	5.44%	5.75%
GIC 5 Year Index	7.30%	3.88%	3.56%	4.16%
Fixed Income Fund:				
PIMCO Total Return Bond Fund	4.73%	10.22%	10.73%	8.52%
Lehman Aggregate Bond Index	4.56%	11.23%	8.11%	7.68%
Balanced Fund				
Fidelity Puritan	-1.29%	7.44%	-4.71%	0.35%
65% S&P 500 Index, 35% Lehman Aggregate Bond Index	6.55%	-5.71%	-2.98%	0.79%
Large Cap Equities – Value:				
Fidelity Equity-Income	-7.67%	10.07%	-10.18%	-3.00%
Russell 1000 Value Index	-8.92%	10.33%	-8.95%	-2.92%
Large Cap Equities – Blend:				
Fidelity Spartan 500 Index	7.08%	-14.74%	-18.34%	-9.31%
Fidelity Dividend Growth*	N/A	N/A	-16.96%	-3.63%
S&P 500 Index	7.25%	-14.83%	-18.15%	-8.25%
Large Cap Equities – Growth:				
Fidelity Growth Company	63.91%	-29.28%	-32.04%	-7.64%
Fidelity Blue Chip Growth*	N/A	N/A	-23.01%	-10.70%
Russell 1000 Growth Index	25.66%	-36.17%	-26.49%	-16.15%
Mid Cap Equities – Value:				
Strong Opportunity*	N/A	N/A	-19.55%	-0.80%
Franklin Mutual Shares A*	N/A	N/A	-8.67%	4.36%
Russell Mid Cap Value	N/A	N/A	1.92%	5.17%
Mid Cap Equities – Blend:				
Fidelity Mid Cap Stock*	N/A	N/A	-24.68%	4.98%
S&P Mid Cap 400	N/A	N/A	-18.15%	-8.25%
Mid Cap Equities – Growth:				
Invesco Dynamics*	N/A	N/A	-36.04%	-13.83%
Russell Mid Cap Growth	N/A	N/A	-26.34%	-9.16%
Small Cap Equities – Value:				
Fidelity Low-Priced Stock*	N/A	N/A	15.18%	16.26%
Russell 2000 Value Index	N/A	N/A	8.50%	12.03%
Small Cap Equities – Growth:				
MSDW Small Co Growth B*	N/A	N/A	-16.34%	3.40%
Alger Small Cap Retirement	27.45%	-40.07%	-22.28%	-15.95%
Russell 2000 Growth Index	14.32%	0.65%	-25.00%	-9.63%
International Equity Funds:				
Fidelity Diversified International	32.18%	-14.39%	-0.80%	3.93%
MSCI EAFE	17.16%	-23.69%	-9.31%	-6.78%
Conservative Lifestyle Asset Allocation Funds:				
Fidelity Freedom Income	8.50%	3.25%	0.17%	3.92%
Income Benchmark ⁽²⁾	6.11%	3.68%	0.90%	3.21%
Moderate Lifestyle Asset Allocation Funds:				
Fidelity Freedom 2000	11.10%	-0.19%	-1.76%	2.89%
2000 Benchmark ⁽²⁾	6.84%	-0.17%	-0.63%	2.05%
Moderately Aggressive Lifestyle Asset Allocation Funds:				
Fidelity Freedom 2010	14.67%	-5.54%	-6.47%	0.43%
2010 Benchmark ⁽²⁾	7.80%	-5.28%	-4.35%	-0.65%
Aggressive Lifestyle Asset Allocation Funds:				
Fidelity Freedom 2020	18.01%	-11.07%	-12.17%	-2.68%
2020 Benchmark ⁽²⁾	8.84%	-10.54%	-9.24%	-4.06%
Fidelity Freedom 2030	19.52%	-13.96%	-15.02%	-4.40%
2030 Benchmark ⁽²⁾	9.33%	-13.16%	-11.99%	-5.92%
Fidelity Freedom 2040*	N/A	N/A	-17.17%	N/A
2040 Benchmark ⁽²⁾	N/A	N/A	-13.70%	N/A

All fund returns are reported net of fees.

*2002 is the first fiscal year fund was an investment option.

⁽¹⁾ The Defined Contribution Plan became effective January 1, 2000, therefore, only annualized returns for the three years ended June 30, 2002 are being reported.

⁽²⁾ Benchmarks for the asset allocation funds are customized based on target weightings and market indices for each asset class.





ACTUARIAL SECTION

An actuarial valuation is a mathematical means of determining if the contributions paid by the employee and employer, together with investment earnings, are adequate to pay the retirement benefits guaranteed to current retirees and all future retirees.

Because the Retirement Board is charged with maintaining the soundness of the retirement plans, focus must be placed on long-range goals, rather than the short term receipts and expenses. The actuarial valuation provides this information, allowing the Board to make sound judgements on investment decisions and benefit enhancements.

North Dakota law requires that the Board engage the services of a qualified, competent actuary who will perform an annual actuarial valuation. The Board's actuarial consultant is The Segal Company, Inc. The following pages are the actuarial assumptions and plan provisions which were used to perform the actuarial valuation. The Segal Company also conducted the five-year experience study upon which the current actuarial assumptions are based. The actuarial assumptions used in these valuations were adopted by the Board effective July 1, 2000.

The actuarial valuation for the Public Employees Retirement System includes the PERS Main System, the Judge's System and the National Guard Security/Firefighter's System. Separate valuations are performed for the Highway Patrolmen's Retirement System and the Retiree Health Insurance Credit Program.

**COMMENTS
FROM THE
SEGAL
COMPANY**

**PUBLIC
EMPLOYEES
RETIREMENT
SYSTEM**



THE SEGAL COMPANY

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November 8, 2002

State Retirement Board
North Dakota Public Employees Retirement System
400 East Broadway, Suite 505
Bismarck, ND 58501

Re: Introductory Letter for Actuarial Section for North Dakota
Public Employees Retirement System
Financial Report for Fiscal Year Ended June 30, 2002

Dear Members of the Board:

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

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

Basic Elements

The most recent actuarial valuation prepared as of July 1, 2002 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2002 (obtained from diskettes provided by the Retirement System).
- Assets as of June 30, 2002 (obtained from the Retirement System's independent audited financial statements).
- Actuarial assumptions and methods adopted by the Public Employees Retirement Board.

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

Actuarial Assumptions

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

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

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

The actuarial assumptions used in the July 1, 2002 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement.



Actuarial Funding Method

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

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

The Retirement System had no unfunded accrued actuarial liability as of July 1, 2002.

Calculated and Statutory Contribution Rates

The July 1, 2002 actuarial valuation of the North Dakota Public Employees Retirement System indicates the following contribution requirements:

<u>PERS Plan</u>	<u>Actuarial Required Contribution Rate*</u>	<u>Statutory Employer Contribution Rate</u>	<u>Member Contribution Rate</u>
Main System	4.42%	4.12%	4.00%
Judges	10.29%	14.52%	5.00%
National Guard	0.00%	8.33%	4.00%

*Expressed as a percentage of covered payroll.

Exhibits

The enclosed supporting exhibits prepared by Segal provide further related information regarding the 2002 valuation. Specifically these exhibits are:

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

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

Sincerely,



Leslie L. Thompson A.S.A., M.A.A.A., E.A.
Senior Vice President and Consulting Actuary

**ACTUARIAL
VALUATION
CERTIFICATE**

**NORTH DAKOTA
PUBLIC EMPLOYEES RETIREMENT SYSTEM**

NOVEMBER 8, 2002

Actuarial Valuation Certificate

*This is to certify that we have prepared an Actuarial Valuation
of the System as of July 1, 2002 in accordance with
generally accepted actuarial principles and practices.*

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

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

Leslie Thompson

Leslie L. Thompson, A.S.A., M.A.A.A., E.A.
Senior Vice President and Consulting Actuary

Wally Malles

Wally Malles, A.S.A., M.A.A.A., E.A.



Actuarial Assumptions and Cost Method – Public Employees Retirement System

Mortality Tables

Healthy: 1983 Group Annuity Mortality Table.

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

Disability Incidence Rates

Before Age 65: 42% of Social Security disability incidence rates for males and 30% for females.

Age 65 and Later: Males .25% per year

Females .35% per year

Annual Withdrawal Rates

Main System and National Guard:

First five years of service:

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

After five years service:

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

Judges:

One half of the Main System ultimate rates.

Withdrawal rates end upon eligibility for early retirement.

Retirement Rates for Active Members

Main System:

Age	Unisex Rate
55	4%
56	6
57	6
58	6
59	6
60	8
61	15
62	35
63	25
64	25
65	40
66	20
67	20
68	20
69	20
70	100

Early Retirement Eligibility: The earlier of age 55 and three years of service or Rule of 85.

Judges:

Ages 62 to 64: 35% per year

Age 65 to 69: 50% per year

Age 70: 100%

Early Retirement Eligibility: The earlier of age 55 and five years of service or Rule of 85.

National Guard:

Age 60: 100%

Early Retirement Eligibility: Age 50 and three years of service.

Retirement Age for Inactive Vested Members

Main System and Judges:

The earlier of age 65 or the unreduced retirement date for each individual.

National Guard:

Age 55

Interest Rate

8.00% per annum, net of investment expenses.

Administrative Expenses

Main System: \$710,000 per year

Judges: \$5,000 per year

National Guard: \$5,000 per year

Salary Scale

Main System and National Guard:

Less than five years of service: 7.00% per annum

Five or more years of service:

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

Judges: 5.50% per annum.

Payroll Growth

Main System and National Guard:

4.50% per annum

Judges: 4.00% per annum

Marital Status

At death, 75% of active male members and 60% of active female members are assumed to be married. Males are assumed to be five years older than their female spouses.

Part-time Employees

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

Split Service

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

Actuarial Cost Method

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

Actuarial Value of Assets

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

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

Eligibility: 50% of disabled Judges

Consumer Price Index Increases: 4.5% per annum

Wage Base Increases: 5.0% per annum

Workers' Compensation (for Judges' disability benefit offset): None assumed.**Account Balance Due to****Vested Employer Contribution:**

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

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

Changes in Actuarial**Assumptions or Cost Method –****Public Employees Retirement System**

There were no changes in actuarial assumptions or in the cost method since the preceding actuarial valuation.

Summary of Plan Provisions –**Public Employees Retirement System**

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

1. Normal Service Retirement:

Eligibility:

Main System and Judges:

Attainment of age 65 or age plus service equal to at least 85 (Rule of 85).

National Guard:

Attainment of age 55 and 3 consecutive years of service.

Benefit:

Main System:

2.00% of final average salary multiplied by service.

Judges:

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

National Guard:

2.00% of final average salary multiplied by service.

2. Early Service Retirement:

Eligibility:

Main System:

Attainment of age 55 with 3 years of service.

Judges:

Attainment of age 55 with 5 years of service.

National Guard:

Attainment of age 50 with 3 years of service.



Benefit:**Main System:**

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

Judges:

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

National Guard:

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

3. Disability Benefit:**Eligibility:**

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

Benefit:**Main System and National Guard:**

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

Judges:

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

4. Deferred Vested Retirement:**Eligibility:****Main System and National Guard:**

Three years of service.

Judges: Five years of service.

Benefit:**Main System and Judges:**

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

National Guard:

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

5. Pre-retirement Death Benefits:

Survivor annuity benefits (paid to surviving spouse):

Main System and National Guard:**Eligibility:**

Three years of service and before normal retirement.

Benefit:

One of the following options:

- Lump sum payment of accumulated contributions.
- The member's accrued benefit payable for 60 months.
- 50% of the member's accrued benefit (not reduced on account of age) payable for the spouse's lifetime.
- Continuation portion of 100% Joint and Survivor Annuity (only if participant was eligible for normal retirement).

Judges

Eligibility: Five years of service.

Benefit: One of the following options:

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

Other death benefits:**Main System, National Guard and Judges:**

Eligibility: Not vested or no surviving spouse.

Benefit: Refund of member's accumulated contributions.

6. Refund of Contributions:

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

7. Accumulated Member Contributions:

Member contributions accumulate with interest at the following rates:

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

8. Standard and Optional Forms of Payment:**Main System and National Guard:****Standard form of payment:**

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

Optional forms of payment:

100% joint and survivor annuity, 50% joint and survivor annuity (with pop-up feature), five year certain and life annuity, ten year certain and life annuity, or a level social security income annuity.

Judges:**Standard form of payment:**

50% joint and survivor monthly benefit with a refund of the remaining balance (if any) of accumulated member contributions.

Optional forms of payment:

Life annuity, 100% joint and survivor annuity (with pop-up feature), five-year certain and life annuity, ten-year certain and life annuity, or a level Social Security income annuity.

9. Final Average Salary:

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

10. Contributions:

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

	<u>Full-time Employees</u>	<u>Employer</u>
Main System	4.00%	4.12%
Judges	5.00%	14.52%
National Guard	4.00%	8.33%

Part-time employees in the Main System contribute 8.12%, with no employer contributions.

Effective January 1, 2000:

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

1. For months 1-12 of service credit, \$25 or 1% of the member's monthly salary, whichever is greater.
2. For months 13-24 of service credit, \$25 or 2% of the member's monthly salary, whichever is greater.

Schedule of Active Member Valuation Data – PERS – 1997-2002

<u>July 1</u>	<u>Number of Active Members</u>	<u>Main System Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
1997	15,596	\$ 354.2	\$ 22,710	2.6%
1998	15,954	374.2	23,456	3.3
1999	16,254	392.8	24,165	3.0
2000	16,314	404.6	24,802	2.6
2001	16,694	429.0	25,696	3.6
2002	17,039	457.0	26,824	4.4

<u>July 1</u>	<u>Number of Active Members</u>	<u>Judges Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
1997	51	\$ 3.9	\$ 76,673	2.0%
1998	49	3.9	79,012	3.1
1999	47	3.9	82,329	4.2
2000	48	4.0	82,906	0.7
2001	47	3.9	83,282	0.5
2002	47	4.2	89,649	7.6

<u>July 1</u>	<u>Number of Active Members</u>	<u>National Guard Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
1997	30	\$.9	\$ 29,423	5.2%
1998	32	.9	29,169	(0.9)
1999	33	1.0	30,821	5.7
2000	13	.4	31,874	3.4
2001	15	0.5	32,508	2.0
2002	3	0.1	34,747	6.9



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

11. Rollovers:

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

12. Other Ancillary Benefits:

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

Plan Amendments

There were no changes in plan provisions since the preceeding actuarial valuation.

Retirees and Beneficiaries Added to and Removed from the Rolls – PERS – 1997-2002

Main System

Plan Year	Beginning Balance	Additions	(Removals)	Ending Balance	Average Monthly Benefit	Annual Pension Benefits	% Increase In Annual Benefits
1997	4,036	306	(149)	4,193	\$ 504	\$ 25.3	19.9%
1998	4,193	384	(160)	4,417	523	27.7	9.5
1999	4,417	407	(154)	4,670	546	30.6	10.5
2000	4,670	357	(165)	4,862	600	35.0	14.4
2001	4,862	365	(171)	5,056	653	39.6	13.1
2002	5,056	341	(165)	5,232	668	41.9	5.8

Judges

Plan Year	Beginning Balance	Additions	(Removals)	Ending Balance	Average Monthly Benefit	Annual Pension Benefits	% Increase In Annual Benefits
1997	10	0	0	10	\$ 1,578	\$ 189,332	17.1%
1998	10	2	0	12	1,719	247,487	30.7
1999	12	4	(1)	15	1,640	295,170	19.3
2000	15	1	(1)	15	1,975	355,463	20.4
2001	15	2	(1)	16	2,222	426,631	20.0
2002	16	1	0	17	2,242	457,359	7.2

National Guard

Plan Year	Beginning Balance	Additions	(Removals)	Ending Balance	Average Monthly Benefit	Annual Pension Benefits	% Increase In Annual Benefits
1997	1	0	0	1	\$ 631	\$ 7,573	2.0%
1998	1	1	0	2	1,073	25,743	239.9
1999	2	0	0	2	1,158	27,802	8.0
2000	2	0	0	2	1,158	27,802	0.0
2001	2	1	0	3	998	35,916	29.2
2002	3	0	0	3	998	35,916	0.0

Solvency Test – PERS 1997-2002

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

(Amounts in Millions)

July 1	Aggregate Actuarial Accrued Liabilities				Portion of Actuarial Accrued Liabilities Covered by Assets		
	Member Contributions	Retirees and Beneficiaries, Inactive and Pay-Status Members	Active Member Employer Financed Portion	Actuarial Value of Assets	(1)	(2)	(3)
	(1)	(2)	(3)				
1997	\$ 193.2	\$ 224.0	\$ 229.7	\$ 704.5	100%	100%	100%
1998	204.9	256.4	258.8	801.3	100	100	100
1999	217.9	305.7	319.1	917.0	100	100	100
2000	235.1	324.7	332.1	1,027.0	100	100	100
2001	258.9	368.4	381.4	1,115.3	100	100	100
2002	285.7	389.7	428.1	1,150.0	100	100	100



Analysis of Financial Experience – PERS

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

Main System

<u>Plan Year</u>	<u>June 30, 1999</u>	<u>June 30, 2000</u>	<u>June 30, 2001</u>	<u>June 30, 2002</u>
Employer Cost Rate at Beginning of Year	2.51%	3.34%	2.32%	3.83%
Death after Retirement	-0.04	0.00	0.04	0.01
Death-in-Service	0.00	0.02	0.01	0.02
Withdrawal From Employment	0.02	-0.03	0.07	0.05
Age and Service Retirements	-0.03	-0.07	0.09	0.07
Financial Experience-Investments	-0.94	-0.87	-0.24	0.66
Pay Increases	0.05	0.00	0.01	0.05
Contribution Income	-0.10	-0.06	-0.12	-0.02
Administrative Expenses	0.00	0.00	0.04	0.01
New and Reinstated Members	0.01	0.03	0.04	0.04
Demographic Changes	0.18	0.19	0.13	-0.36
Assumption Changes	0.03	-0.34	0.00	0.00
Amendments	1.60	0.00	1.36	0.00
Miscellaneous	0.05	0.05	0.02	0.02
Impact of Enhanced Benefits due to Portability Enhancement Provision	0.00	0.06	0.06	0.04
Employer Cost Rate at End of Year	3.34%	2.32%	3.83%	4.42%

Judges

<u>Plan Year</u>	<u>June 30, 1999</u>	<u>June 30, 2000</u>	<u>June 30, 2001</u>	<u>June 30, 2002</u>
Employer Cost Rate at Beginning of Year	7.35%	7.36%	6.50%	9.03%
Plan Experience	-2.01	-2.31	-2.17	1.05
Assumption Changes	0.00	1.18	0.00	0.00
Amendments	1.79	0.00	4.43	0.00
Miscellaneous	0.23	0.27	0.27	0.21
Employer Cost Rate at End of Year	7.36%	6.50%	9.03%	10.29%

National Guard

<u>Plan Year</u>	<u>June 30, 1999</u>	<u>June 30, 2000</u>	<u>June 30, 2001</u>	<u>June 30, 2002</u>
Employer Cost Rate at Beginning of Year	3.44%	3.84%	1.74%	3.30%
Plan Experience	-1.02	-2.29	0.14	-3.30
Change in Amortization Schedule	0.00	0.00	0.00	0.00
Amendments	1.36	0.00	1.28	0.00
Miscellaneous	0.06	0.19	0.14	0.00
Employer Cost Rate at End of Year	3.84%	1.74%	3.30%	0.00%

**COMMENTS
FROM
THE SEGAL
COMPANY**

**HIGHWAY
PATROLMEN'S
RETIREMENT
SYSTEM**



THE SEGAL COMPANY

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November 8, 2002

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

Re: Introductory Letter for Actuarial Section for North Dakota
Highway Patrolmen's Retirement System
Financial Report for Fiscal Year Ended June 30, 2002

Dear Members of the Board:

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

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

Basic Elements

The most recent actuarial valuation prepared as of July 1, 2002 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2002 (obtained from diskettes provided by the Retirement System).
- Assets as of June 30, 2002 (obtained from the Retirement System's independent audited financial statements).
- Actuarial assumptions and methods adopted by the Public Employees Retirement Board.

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

Actuarial Assumptions

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

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

The actuarial assumptions used in the July 1, 2002 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement.



Actuarial Funding Method

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

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

The actuarial assumptions and methods used for funding the Retirement System meet the parameters set for disclosure by the Governmental Accounting Standards Board (GASB) Statement #25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

The North Dakota Highway Patrolmen's Retirement Fund had an unfunded actuarial accrued liability of about \$1.0 million as of July 1, 2002.

Calculated and Statutory Contribution Rates

The July 1, 2002 actuarial valuation of the North Dakota Highway Patrolmen's Retirement Fund indicates the following contribution requirements, expressed as a percentage of covered payroll.

<u>Actuarial Required Contribution Rate</u>	<u>Statutory Employer Contribution Rate</u>	<u>Member Contribution Rate</u>
14.59%	16.70%	10.30%

Exhibits

The enclosed supporting exhibits provide further related information regarding the 2002 valuation. Specifically, those exhibits are:

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

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

Sincerely,



Leslie L. Thompson A.S.A., M.A.A.A., E.A.
Senior Vice President and Consulting Actuary

**ACTUARIAL
VALUATION
CERTIFICATE**

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

NOVEMBER 8, 2002

Actuarial Valuation Certificate

*This is to certify that we have prepared an Actuarial Valuation
of the System as of July 1, 2002 in accordance with
generally accepted actuarial principles and practices.*

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

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

Leslie Thompson

Leslie L. Thompson, A.S.A., M.A.A.A., E.A.
Senior Vice President and Consulting Actuary

Wally Malles

Wally Malles, A.S.A., M.A.A.A., E.A.



Actuarial Assumptions and Cost Method – Highway Patrolmen's Retirement System Mortality Tables

Healthy: 1983 Group Annuity Mortality Table.

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

Annual Withdrawal Rates

First five years of service: 5%

After five years of service:

Under age 35: 2% at each age

Age 35 or older: 1% at each age

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

Disability Rates

Age based rates. Sample rates:

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

Retirement Rates

The following annual rates apply for active members:

Age	Eligible for Rule of 80	Not Eligible for Rule of 80
50-54	100%	50%
55+	100%	100%

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

Interest Rate

8.00% per annum, net of investment expenses.

Administrative Expenses

\$16,000 per year.

Salary Scale

Less than five years of service: 7.00% per annum

Five or more years of service:

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

Inflation

4.50% per annum.

Payroll Growth

4.50% per annum.

Marital Status

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

Workers' Compensation

None assumed for disability benefit offset.

Indexing for Benefits of Inactive Vested Members

5% per annum.

Split Service

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

Transfers to Main System

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

Actuarial Cost Method

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

Actuarial Value of Assets

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

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

There were no changes in actuarial assumptions or the actuarial cost method since the preceding valuation.

Summary of Plan Provisions – Highway Patrolmen's Retirement System

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

1. Normal Service Retirement:**Eligibility:**

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

Benefit:

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

2. Early Service Retirement:**Eligibility:**

Attainment of age 50 with 10 years of eligible employment.

Benefit:

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

3. Disability Benefit:**Eligibility:**

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

Benefit:

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

4. Deferred Retirement:**Eligibility:**

10 years of eligible employment.

Benefit:

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

Year	Average Monthly Increase	3-Year Average Increase Factor	Cumulative Salary Factor
<u>Beginning</u>	<u>Increase</u>	<u>Factor</u>	<u>Factor</u>
7/1/92	2.46%	—	—
7/1/93	3.57	—	1.0000
7/1/94	3.00	1.0301	1.0301
7/1/95	2.00	1.0286	1.0595
7/1/96	2.00	1.0233	1.0842
7/1/97	3.00	1.0233	1.1095
7/1/98	1.80	1.0227	1.1347
7/1/99	1.26	1.0202	1.1576
7/1/00	2.00	1.0169	1.1771
7/1/01	1.81	1.0169	1.1971
7/1/02	1.73	1.0185	1.2191

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

5. Pre-retirement Death Benefits:

Survivor annuity benefits (paid to surviving spouse):

Eligibility:

Ten years of service.

Benefit:

One of the following options:

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

Other death benefits:

Eligibility: Less than 10 years of service or no surviving spouse.

Benefit: Refund of member's accumulated contributions.

6. Normal and Optional Forms of Payment:

Normal form of payment:

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

Optional forms of payment:

100% joint and survivor annuity, five year certain and life annuity, and ten year certain and life annuity.

7. Final Average Salary:

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

8. Contributions:

Members:

10.30% of monthly salary.

State of North Dakota:

16.70% of the monthly salary for each participating member.

Plan Amendments –**Highway Patrolmen's Retirement System**

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



**Schedule of Active Member Valuation Data – HPRS
1997 to 2002**

<u>July 1</u>	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>% Change in Average Salary</u>
1997	124	\$ 4.2	\$ 33,518	(0.2)%
1998	121	4.3	35,924	7.2
1999	124	4.5	36,011	0.2
2000	122	4.7	38,152	5.9
2001	124	4.9	39,302	3.0
2002	125	5.1	40,583	3.3

Retirees and Beneficiaries Added to and Removed from the Rolls – HPRS

<u>Plan Year</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Removals)</u>	<u>Ending Balance</u>	<u>Average Monthly Benefit</u>	<u>Annual Pension Benefits</u>	<u>% Increase in Annual Benefits</u>
1997	69	3	(2)	70	\$ 1,570	\$ 1,319,151	12.9%
1998	70	4	(2)	72	1,605	1,386,573	5.1
1999	72	7	(2)	77	1,748	1,614,996	16.5
2000	77	4	(1)	80	1,723	1,654,536	2.4
2001	80	2	(1)	81	1,881	1,828,468	10.5
2002	81	5	(0)	86	1,983	2,046,933	11.9

Solvency Test – HPRS 1997-2002

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

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

(Amounts in Millions)

July 1	Aggregate Actuarial Accrued Liabilities				Portion of Actuarial Accrued Liabilities Covered by Assets		
	Member Contributions	Retirees and Beneficiaries, Inactive and Pay-Status Members	Active Member Employer Financed Portion	Actuarial Value of Assets	(1)	(2)	(3)
	(1)	(2)	(3)				
1997	\$ 6.1	\$ 13.6	\$ 7.8	\$ 24.8	100%	100%	65%
1998	6.8	14.1	8.1	28.1	100	100	89
1999	7.0	16.5	8.7	32.0	100	100	98
2000	7.7	16.7	9.6	35.9	100	100	100
2001	8.4	18.4	11.3	38.8	100	100	100
2002	8.6	20.6	11.3	39.5	100	100	91

Analysis of Financial Experience – HPRS

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

Plan Year	June 30, 1999	June 30, 2000	June 30, 2001	June 30, 2002
Employer Cost Rate at Beginning of Year	11.99%	11.87%	9.18%	12.13%
Plan Experience	-2.96	-3.68	-1.16	2.51
Change in Ammortization Schedule	0.00	0.00	0.00	-0.05
Assumption Changes	0.00	0.99	0.00	0.00
Amendments	2.84	0.00	4.07	0.00
Miscellaneous	0.00	0.00	0.04	0.00
Employer Cost Rate at End of Year	11.87%	9.18%	12.13%	14.59%





THE SEGAL COMPANY

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November 8, 2002

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

Re: Introductory Letter for Actuarial Section for North Dakota
 Public Employees Retirement System Retiree Health Insurance Credit Fund
 Financial Report for Fiscal Year Ended June 30, 2002

Dear Members of the Board:

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

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

Basic Elements

The most recent actuarial valuation prepared as of July 1, 2002 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2002 (obtained from diskettes provided by the Retirement System).
- Assets as of June 30, 2002 (obtained from the Retirement System's independent audited financial statements).
- Actuarial assumptions and methods adopted by the Public Employees Retirement Board.

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

Actuarial Assumptions

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

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

The actuarial assumptions used in the July 1, 2002 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement.

COMMENTS FROM THE SEGAL COMPANY

RETIREE HEALTH INSURANCE CREDIT FUND

Actuarial Funding Method

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

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

The North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund's unfunded actuarial accrued liability amounted to \$42.6 million as of July 1, 2002. The unfunded actuarial accrued liability is being amortized by level percentage-of-payroll payments over a fixed period that ends June 30, 2030.

Calculated and Statutory Contribution Rates

The July 1, 2002 actuarial valuation of the North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund indicates the following contribution requirements: the actuarially determined employer-pay contribution rate is .98%, while the statutory contribution rate is 1.00% of payroll.

Exhibits

The enclosed supporting exhibits provide further related information regarding the 2002 valuation. Specifically, they are:

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

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

Sincerely,



Leslie L. Thompson A.S.A., M.A.A.A., E.A.
Senior Vice President and Consulting Actuary



**ACTUARIAL
VALUATION
CERTIFICATE**

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

NOVEMBER 8, 2002

Actuarial Valuation Certificate

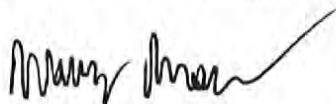
*This is to certify that we have prepared an Actuarial Valuation
of the System as of July 1, 2002 in accordance with
generally accepted actuarial principles and practices.*

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

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



Leslie L. Thompson, A.S.A., M.A.A.A., E.A.
Senior Vice President and Consulting Actuary



Wally Malles, A.S.A., M.A.A.A., E.A.

Actuarial Assumptions and Cost Method – Retiree Health Insurance Credit Fund

Mortality Tables

Healthy: 1983 Group Annuity Mortality Table.

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

Annual Withdrawal Rates

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

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

Select Period

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

Ultimate Period

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

Disability Incidence Rates

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

Sample rates for PERS are:

Age	Males	Females
25	0.036%	0.026%
30	0.046	0.033
35	0.062	0.044
40	0.092	0.066
45	0.151	0.108
50	0.255	0.182
55	0.424	0.303

Retirement Rates for Active Members

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

Annual Rates for the Main System are as follows:

Age	Unisex Rate
55	4%
56	6
57	6
58	6
59	6
60	8
61	15
62	35
63	25
64	25
65	40
66	20
67	20
68	20
69	20
70	100

Participation Rates

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

Main System and National Guard:

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

Judges and Highway Patrol:

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



Joint and Survivor Option Election Rates

Main System, Judges and National Guard:
50% of male retirees and 15% of female retirees will elect a joint and survivor form of pension from the retirement system in which they participated.

Highway Patrol:

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

Interest Rate

8.0% per annum, net of investment expenses

Inflation

4.50% per annum

Administrative Expenses

\$65,000 per year.

Marital Status:

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

Highway Patrol:

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

Optional Defined Contribution Plan

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

Actuarial Cost Method

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

Actuarial Value of Assets

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

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

There were no changes in actuarial assumptions or the cost method since the preceding actuarial valuation.

Summary of Plan Provisions –**Retiree Health Insurance Credit Fund**

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

1. Normal Retirement**Age requirement:**

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

Highway Patrol: Age 55 or Rule of 80.

National Guard: Age 55.

Service requirement:

Main System and Judges: None.

Highway Patrol: 10 years.

National Guard: 3 consecutive years.

Other requirements:

Participation in the North Dakota Uniform Group Insurance Program.

Benefit amount:

A monthly stipend equal to \$4.50 times service.

2. Early Retirement**Age requirement:**

Main System and Judges: Age 55.

Highway Patrol and National Guard: Age 50.

Service requirement:

Main System and National Guard: 3 years.

Judges: 5 years.

Highway Patrol: 10 years.

Benefit amount:

Main System and Judges:

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

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

Highway Patrol and National Guard:

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

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

3. Disability Retirement

Age requirement: None

Service requirement: 6 months

Other requirements: As required by applicable pension plan

Benefit amount: Same as Normal Retirement

Benefit

4. Pre-Retirement Death Benefit

Age requirement: None

Service requirement:

Main System and National Guard: 3 years.

Judges: 5 years.

Highway Patrol: 10 years.

Benefit amount:

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

5. Post-Retirement Death Benefit

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

6. Alternative Options

If benefits from the member's Retirement Plan are paid under single life, level Social Security, or 5 or 10 year term certain options (without a continuation to the spouse after the certain period ends), actuarially reduced health credit benefits may be elected for the spouse. Alternative options in the Retiree Health Insurance Credit Fund include 50% and 100% joint and survivor annuities.

7. Service

Members receive credit for each year and month of employment.

8. Contributions

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

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

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



**Retired Members, Average Benefit, and Active Member/Retiree Comparison –
Retiree Health Insurance Credit Fund
1997 - 2002**

<u>July 1</u>	<u>Number of Retired Members</u>	<u>Average Annual Benefit</u>	<u>Active Members Per Retiree</u>
1997	2,639	\$ 1,116	6.0
1998	2,812	1,115	5.7
1999	3,015	1,109	5.5
2000	3,169	1,116	5.3
2001	3,306	1,116	5.2
2002	3,393	1,128	5.1

**Funding Progress – Retiree Health Insurance Credit Fund
1997 - 2002**

(Amounts in Millions)

<u>July 1</u>	<u>Total Actuarial Accrued Liability</u>	<u>Total Actuarial Value of Assets</u>	<u>Assets as of % of Total Actuarial Accrued Liability</u>
1997	\$ 51.8	\$ 13.7	26.4%
1998	54.7	16.3	29.8
1999	57.6	19.4	33.7
2000	61.9	22.6	36.5
2001	65.5	24.8	37.9
2002	69.0	26.4	38.3

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

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

<u>Plan Year</u>	<u>June 30, 1999</u>	<u>June 30, 2000</u>	<u>June 30, 2001</u>	<u>June 30, 2002</u>
Employer Cost Rate at Beginning of Year	1.02%	0.99%	1.02%	0.99%
Plan Experience	-0.03	0.00	-0.03	-0.01
Assumption and Method Changes	0.00	0.03	0.00	0.00
Miscellaneous	0.00	0.00	0.00	0.00
Employer Cost Rate at End of Year	0.99%	1.02%	0.99%	0.98%





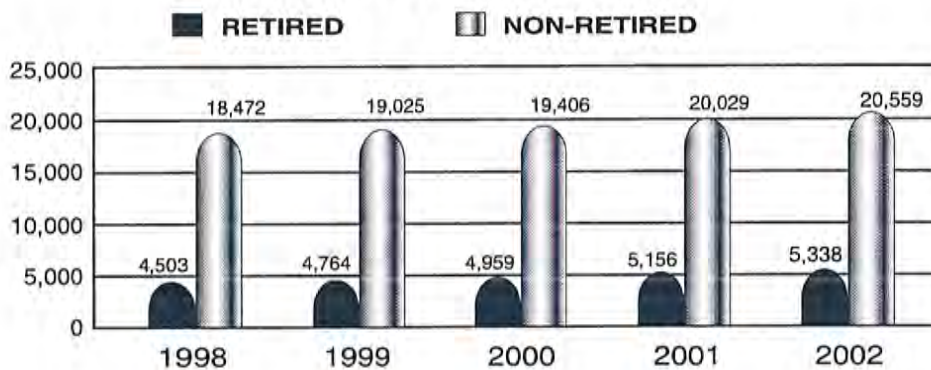
STATISTICAL SECTION

Retirement System Membership – PERS and HPRS As of June 30

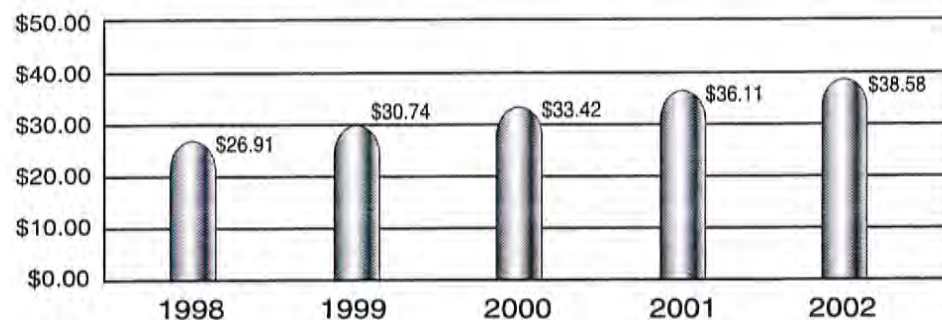
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
State Agencies	10,958	11,079	11,025	11,351	11,451
Cities	322	362	377	390	404
Counties	3,108	3,213	3,311	3,313	3,433
School Districts	3,714	3,992	4,302	4,574	4,815
Other Political Subdivisions	<u>370</u>	<u>379</u>	<u>391</u>	<u>401</u>	<u>456</u>
Total Non-Retired ⁽¹⁾	18,472	19,025	19,406	20,029	20,559
Retired Members & Beneficiaries	<u>4,503</u>	<u>4,764</u>	<u>4,959</u>	<u>5,156</u>	<u>5,338</u>
Total Membership	22,975	23,789	24,365	25,185	25,897
Administrative Expenses	\$ 618,230	\$ 731,362	\$ 814,350	\$ 909,350	\$ 999,177
Administrative Cost per Member	\$ 26.91	\$ 30.74	\$ 33.42	\$ 36.11	\$ 38.58

⁽¹⁾ Total non-retired members includes all contributing members plus all non-contributing members who have not begun to receive retirement benefits.

Retirement System Membership



Annual Administrative Cost Per Member



Revenues by Source Fiscal Year Ended June 30

	FY Ended June 30	Member Contributions ⁽¹⁾	Employer Contributions	Investment Income	Miscellaneous Income	Total	Employer Contributions as a % of Covered Payroll
Public Employees Retirement System:	1997	\$ 14,320,237	\$ 14,435,989	\$ 143,090,676	\$ 9,259	\$ 171,856,161	4.02%
	1998	15,061,818	15,078,427	134,886,733	9,230	165,036,208	3.98
	1999	16,152,785	15,873,917	108,255,409	3,874	140,285,985	3.99
	2000	16,618,771	16,521,248	103,230,684	10,530	136,381,233	4.04
	2001	17,353,268	17,101,628	(53,115,303)	7,570	(18,652,837)	3.95
	2002	18,439,125	18,244,655	(78,163,075)	12,301	(41,466,994)	3.95
Highway Patrolmen's Retirement System:	1997	395,459	641,179	5,080,715	59	6,117,412	15.43
	1998	430,585	698,132	4,763,168	65	5,891,950	16.06
	1999	442,441	717,357	3,795,110	36	4,954,944	16.06
	2000	457,079	741,089	3,603,516	65	4,801,749	15.92
	2001	486,332	788,125	(1,872,449)	60	(597,932)	16.17
	2002	501,850	814,035	(2,712,925)	85	(1,396,955)	16.05

⁽¹⁾ Member contributions include statutory contributions and service purchases. Contributions for repurchased service credit were \$1,059,313 and \$1,080,008 for the fiscal years ended June 30, 2002 and 2001.

Expenses by Type Fiscal Year Ended June 30

	FY Ended June 30	Benefits	Administrative Expenses	Transfers and Refunds	Total
Public Employees Retirement System:	1997	\$ 23,314,065	\$ 565,778	\$ 3,477,574	\$ 27,357,417
	1998	26,696,621	605,241	4,292,281	31,594,143
	1999	29,150,704	718,396	3,920,011	33,789,111
	2000	34,026,828	800,529	12,545,193 ⁽¹⁾	47,372,550
	2001	36,676,998	894,868	4,050,284	41,622,150
	2002	40,871,330	983,258	3,467,354	45,321,942
Highway Patrolmen's Retirement System:	1997	1,215,732	15,710	42,121	1,273,563
	1998	1,329,615	12,989	0	1,342,604
	1999	1,453,640	12,966	4,784	1,471,390
	2000	1,629,020	13,821	6,576	1,649,417
	2001	1,660,303	14,482	10,994	1,685,779
	2002	1,928,173	15,919	122,434	2,066,526

⁽¹⁾ Includes transfers of \$8,544,005 to the new optional Defined Contribution Plan

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

FY Ended June 30	Annuities ⁽¹⁾		Refunds			Total
	Retirant	Survivor	Death	Separation	Transfers	
1997	\$ 22,750,307	\$ 1,693,435	\$ 86,055	\$ 3,301,240	\$ 218,455	\$ 28,049,492
1998	25,948,775	1,952,504	124,957	4,075,399	216,882	32,318,517
1999	28,281,417	2,274,824	48,103	3,790,658	134,137	34,529,139
2000	32,992,363	2,567,201	96,284	3,858,678	8,693,091	48,207,617
2001	35,369,114	2,776,478	191,709	3,746,348	314,930	42,398,579
2002	39,527,603	3,138,775	133,125	3,252,235	337,553	46,389,291

⁽¹⁾ Includes disability benefits

Schedule of Retired Members by Type of Benefit – PERS
As of June 30, 2002

Monthly Amount	Total	Main System			
		Type of Pension			
		Normal	Early	Disability	Service *
Total	4,641	1,675	1,580	291	1,095
Less than \$200	748	334	374	29	11
\$200 - \$ 399	1,191	474	588	121	8
400 - 599	810	323	367	94	26
600 - 799	474	208	153	33	80
800 - 999	339	96	51	10	182
1,000 - 1,199	276	78	23	2	173
1,200 - 1,399	212	51	11	-	150
1,400 - 1,599	137	30	3	1	103
1,600 - 1,799	115	23	3	-	89
1,800 - 1,999	79	15	3	-	61
2,000 - 2,199	73	11	1	1	60
2,200 - 2,399	51	7	3	-	41
2,400 - 2,599	40	4	-	-	36
2,600 - 2,799	34	8	-	-	26
2,800 - 2,999	13	4	-	-	9
3,000 & Over	49	9	-	-	40
Life	3,102	1,163	1,176	229	534
Level Social Security Payment	71	-	13	-	58
Joint & 100% Survivor	684	271	181	31	201
Joint & 50% Survivor	544	160	113	21	250
10 Year C & L	189	65	79	6	41
5 Year C & L	51	18	18	4	11
Total	4,641	1,675	1,580	291	1,095

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

Schedule of Average Benefit Payments – PERS
As of June 30, 2002

	Main System						Total
	Years of Credited Service						
	<10	10-14	15-19	20-24	25-29	>=30	
1998							
Number of Retirees	655	855	769	537	428	599	3,843
Average Monthly Benefit	\$176	\$277	\$394	\$563	\$896	\$1,371	\$562
Average Years of Service	6.43	12.35	17.36	22.26	27.09	35.16	18.93
1999							
Number of Retirees	708	894	812	568	470	650	4,102
Average Monthly Benefit	\$193	\$304	\$435	\$626	\$994	\$1,516	\$627
Average Years of Service	6.47	12.32	17.38	22.26	27.11	35.15	19.00
2000							
Number of Retirees	764	907	833	606	493	683	4,286
Average Monthly Benefit	\$ 199	\$ 304	\$ 438	\$ 641	\$ 1,014	\$ 1,538	\$ 637
Average Years of Service	6.46	12.30	17.37	22.27	27.15	35.08	18.99
2001							
Number of Retirees	811	936	863	634	528	707	4,479
Average Monthly Benefit	\$ 214	\$ 327	\$ 475	\$ 700	\$ 1,099	\$ 1,668	\$ 691
Average Years of Service	6.42	12.30	17.40	22.29	27.18	35.13	18.99
2002							
Number of Retirees	841	942	891	684	542	741	4,641
Average Monthly Benefit	\$ 213	\$ 331	\$ 482	\$ 726	\$ 1,114	\$ 1,688	\$ 705
Average Years of Service	6.39	12.30	17.39	22.29	27.18	35.03	19.05



Schedule of Retired Members by Type of Benefit – PERS
As of June 30, 2002

Monthly Amount	Total	Judges			
		Type of Pension			
		Normal	Early	Disability	Service *
Total	11	6	3	0	2
Less than \$200	-	-	-	-	-
\$200 - \$ 399	-	-	-	-	-
400 - 599	-	-	-	-	-
600 - 799	-	-	-	-	-
800 - 999	-	-	-	-	-
1,000 - 1,199	-	-	-	-	-
1,200 - 1,399	2	1	-	-	1
1,400 - 1,599	-	-	-	-	-
1,600 - 1,799	3	2	1	-	-
1,800 - 1,999	-	-	-	-	-
2,000 - 2,199	-	-	-	-	-
2,200 - 2,399	-	-	-	-	-
2,400 - 2,599	-	-	-	-	-
2,600 - 2,799	1	1	-	-	-
2,800 - 2,999	-	-	-	-	-
3,000 & Over	5	2	2	-	1
Life	1	1	-	-	-
Level Social Security Payment	-	-	-	-	-
Joint & 100% Survivor	7	5	1	-	1
Joint & 50% Survivor	3	-	2	-	1
10 Year C & L	-	-	-	-	-
5 Year C & L	-	-	-	-	-
Total	11	6	3	0	2

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

Schedule of Average Benefit Payments – PERS
As of June 30, 2002

	Judges						Total
	Years of Credited Service						
	<10	10-14	15-19	20-24	25-29	>=30	
1998							
Number of Retirees	1	4	1	2	0	0	8
Average Monthly Benefit	\$ 1,143	\$ 1,479	\$ 2,879	\$ 3,522	\$ 0	\$ 0	\$ 2,123
Average Years of Service	8.50	10.71	17.33	21.79	0.00	0.00	14.03
1999							
Number of Retirees	1	5	3	1	0	0	10
Average Monthly Benefit	\$ 1,166	\$ 1,722	\$ 2,789	\$ 4,040	\$ 0	\$ 0	\$ 2,218
Average Years of Service	8.50	11.30	18.61	23.25	0.00	0.00	14.41
2000							
Number of Retirees	1	5	2	1	0	0	9
Average Monthly Benefit	\$ 1,189	\$ 1,756	\$ 3,069	\$ 4,121	\$ 0	\$ 0	\$ 2,248
Average Years of Service	8.50	11.30	18.29	23.25	0.00	0.00	13.87
2001							
Number of Retirees	1	5	3	2	0	0	11
Average Monthly Benefit	\$ 1,213	\$ 1,791	\$ 3,087	\$ 3,940	\$ 0	\$ 0	\$ 2,222
Average Years of Service	8.50	11.30	18.61	23.63	0.00	0.00	15.28
2002							
Number of Retirees	1	5	3	2	0	0	11
Average Monthly Benefit	\$ 1,237	\$ 1,827	\$ 3,244	\$ 4,019	\$ 0	\$ 0	\$ 2,558
Average Years of Service	8.50	11.30	18.61	23.63	0.00	0.00	15.28

Schedule of Retired Members by Type of Benefit – PERS
As of June 30, 2002

National Guard

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

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

Schedule of Average Benefit Payment – PERS
As of June 30, 2002

National Guard

Years of Credited Service

	<10	10-14	15-19	20-24	25-29	>=30	Total
1998							
Number of Retirees	0	0	1	1	0	0	2
Average Monthly Benefit	\$0	\$0	\$631	\$1,514	\$0	\$0	\$1,073
Average Years of Service	0.00	0.00	19.17	22.17	0.00	0.00	20.67
1999							
Number of Retirees	0	0	1	1	0	0	2
Average Monthly Benefit	\$0	\$0	\$682	\$1,635	\$0	\$0	\$1,159
Average Years of Service	0.00	0.00	19.17	22.17	0.00	0.00	20.67
2000							
Number of Retirees	0	0	1	1	0	0	2
Average Monthly Benefit	\$0	\$0	\$ 682	\$ 1,635	\$0	\$0	\$ 1,159
Average Years of Service	0.00	0.00	19.17	22.17	0.00	0.00	20.67
2001							
Number of Retirees	0	1	1	1	0	0	3
Average Monthly Benefits	\$0	\$ 537	\$ 723	\$ 1,733	\$0	\$0	\$ 998
Average Years of Service	0.00	11.08	19.17	22.17	0.00	0.00	17.47
2002							
Number of Retirees	0	1	1	1	0	0	3
Average Monthly Benefits	\$0	\$ 537	\$ 723	\$ 1,733	\$0	\$0	\$ 998
Average Years of Service	0.00	11.08	19.17	22.17	0.00	0.00	17.47



Schedule of Retired Members by Type of Benefit – HPRS
As of June 30, 2002

Monthly Amount	Total	Type of Pension			
		Normal	Early	Disability	Rule of 80
Total	66	36	1	1	28
Less than \$200	-	-	-	-	-
\$200 - \$ 399	3	3	-	-	-
400 - 599	4	4	-	-	-
600 - 799	-	-	-	-	-
800 - 999	-	-	-	-	-
1,000 - 1,199	1	1	-	-	-
1,200 - 1,399	2	2	-	-	-
1,400 - 1,599	1	-	-	1	-
1,600 - 1,799	3	2	-	-	1
1,800 - 1,999	1	1	-	-	-
2,000 - 2,199	7	5	1	-	1
2,200 - 2,399	6	3	-	-	3
2,400 - 2,599	10	6	-	-	4
2,600 - 2,799	11	4	-	-	7
2,800 - 2,999	3	-	-	-	3
3,000 & Over	14	5	-	-	9
Life	9	3	-	1	5
Level Social Security Payment	-	-	-	-	-
Joint & 100% Survivor	10	3	-	-	7
Joint & 50% Survivor	47	30	1	-	16
10 Year C & L	-	-	-	-	-
5 Year C & L	-	-	-	-	-
Total	66	36	1	1	28

Schedule of Average Benefit Payment – HPRS
As of June 30, 2002

	Years of Credited Service						Total
	<10	10-14	15-19	20-24	25-29	>=30	
1998							
Number of Retirees	1	1	5	4	29	13	53
Average Monthly Benefit	\$1,374	\$1,023	\$339	\$1,283	\$2,224	\$2,393	\$1,978
Average Years of Service	2.25	13.50	16.30	21.88	28.35	31.15	26.63
1999							
Number of Retirees	1	1	5	4	34	13	58
Average Monthly Benefit	\$ 1,374	\$1,070	\$354	\$1,342	\$2,390	\$2,491	\$2,125
Average Years of Service	2.25	13.50	16.30	21.88	28.17	31.15	26.68
2000							
Number of Retirees	1	1	5	4	35	13	59
Average Monthly Benefits	\$ 1,374	\$ 1,070	\$ 354	\$ 1,342	\$ 2,353	\$ 2,491	\$ 2,107
Average Years of Service	2.25	13.50	16.30	21.88	28.13	31.15	26.69
2001							
Number of Retirees	1	1	5	4	37	13	61
Average Monthly Benefits	\$ 1,456	\$ 1,133	\$ 375	\$ 1,421	\$ 2,542	\$ 2,620	\$ 2,267
Average Years of Service	2.25	13.5	16.30	21.88	28.15	31.15	26.72
2002							
Number of Retirees	1	1	5	4	42	13	66
Average Monthly Benefits	\$ 1,456	\$ 1,133	\$ 375	\$ 1,421	\$ 2,602	\$ 2,850	\$ 2,371
Average Years of Service	2.25	13.50	16.30	21.88	28.24	31.41	27.00

SCHEDULE OF PARTICIPATING EMPLOYERS

STATE AGENCIES:
 ADJUTANT GENERAL ARMY NATL GRD
 AERONAUTICS COMMISSION
 AGRICULTURAL PROD UTIL COMM
 ATTORNEY GENERAL'S OFFICE
 BANK OF NORTH DAKOTA
 BEEF COMMISSION
 BISMARCK STATE COLLEGE
 BOARD OF NURSING
 CENTRAL DUPLICATING - OMB
 CHILDREN'S SERV COOR COMMITTEE
 DAIRY PROMOTION COMMISSION
 DEPT OF AGRICULTURE
 DEPT OF BANKING & FINANCE
 DEPT OF COMMERCE
 DEPT OF HUMAN SERVICES
 DEPARTMENT OF CORRECTIONS
 DEPARTMENT OF TRANSPORTATION
 DEVELOPMENTAL CENTER
 DICKINSON STATE UNIVERSITY
 EDUCATION STANDARDS & PRACTICE
 FIELD SERVICES DIVISION
 GAME & FISH DEPT
 GOVERNOR'S OFFICE
 HIGHWAY PATROL
 HISTORICAL SOCIETY
 HOUSING FINANCE AGENCY
 INDIAN AFFAIRS COMMISSION
 INDUSTRIAL COMMISSION
 INFORMATION TECHNOLOGY DEPARTMENT
 INSURANCE DEPARTMENT
 JAMES RIVER CORRECTIONAL CENTER
 JAMESTOWN STATE HOSPITAL
 JOB SERVICE NORTH DAKOTA
 LAND DEPARTMENT
 LEGISLATIVE COUNCIL
 MAYVILLE STATE UNIVERSITY
 MILK MARKETING BOARD
 MILL & ELEVATOR ASSOCIATION
 MINOT STATE UNIVERSITY
 MUNICIPAL BOND BANK
 ND BARLEY COUNCIL
 ND CORN UTILIZATION COUNCIL
 ND COUNCIL ON THE ARTS
 ND DEPARTMENT OF HEALTH
 ND DEPARTMENT OF LABOR
 ND DIV OF EMERGENCY MANAGEMENT
 ND OILSEED COUNCIL
 ND SOYBEAN COUNCIL
 ND ST BOARD OF COSMETOLOGY
 ND ST COLLEGE OF SCIENCE
 ND STATE LIBRARY
 ND SUPREME COURT
 ND TOURISM DEPARTMENT
 ND UNIVERSITY SYSTEM
 ND VETERANS HOME
 ND WHEAT COMMISSION
 ND YOUTH CORRECTIONAL CENTER
 NORTH DAKOTA STATE UNIVERSITY
 OFFICE OF ADM HEARING
 OFFICE OF MANAGEMENT & BUDGET
 PARKS & RECREATION DEPARTMENT
 PROTECTION & ADVOCACY PROJECT
 PUBLIC EMPLOYEES RETIREMENT
 PUBLIC INSTRUCTION
 PUBLIC SERVICE COMMISSION
 RADIO COMMUNICATIONS
 RETIREMENT & INVESTMENT OFFICE
 ROUGH RIDER INDUSTRIES
 SCHOOL FOR THE BLIND
 SCHOOL FOR THE DEAF
 SECRETARY OF STATE
 SECURITIES COMMISSIONER
 SOIL CONSERVATION COMMITTEE
 STATE AUDITOR'S OFFICE
 STATE BAR BOARD
 STATE FAIR ASSN
 STATE PAROLE BOARD
 STATE PENITENTIARY
 STATE SEED DEPARTMENT
 STATE TREASURER'S OFFICE
 TAX DEPARTMENT
 TECHNOLOGY TRANSFER, INC
 UND - LAKE REGION
 UNIVERSITY OF NORTH DAKOTA
 VALLEY CITY STATE UNIVERSITY
 VETERANS AFFAIRS DEPARTMENT

VOCATIONAL & TECHNICAL ED
 WATER COMMISSION
 WILLISTON STATE COLLEGE
 WORKER'S COMPENSATION BUREAU
 Total = 90

COUNTIES:
 ADAMS COUNTY
 BENSON COUNTY
 BILLINGS COUNTY
 BOTTINEAU COUNTY
 BOWMAN COUNTY
 BURKE COUNTY
 BURLEIGH COUNTY
 CASS COUNTY
 CAVALIER COUNTY
 DICKEY COUNTY
 DIVIDE COUNTY
 DUNN COUNTY
 EDDY COUNTY
 EMMONS COUNTY
 FOSTER COUNTY
 GRAND FORKS COUNTY
 GRANT COUNTY
 GRIGGS COUNTY
 HETTINGER COUNTY
 LAMOURE COUNTY
 LOGAN COUNTY
 MCHENRY COUNTY
 MCINTOSH COUNTY
 MCKENZIE COUNTY
 MCLEAN COUNTY
 MOUNTRAIL COUNTY
 NELSON COUNTY
 PEMBINA COUNTY
 PIERCE COUNTY
 RAMSEY COUNTY
 RANSOM COUNTY
 RENVILLE COUNTY
 RICHLAND COUNTY
 SLOPE COUNTY
 STARK COUNTY
 STEELE COUNTY
 STUTSMAN COUNTY
 TRAILL COUNTY
 WALSH COUNTY
 WARD COUNTY
 WELLS COUNTY
 WILLIAMS COUNTY
 Total = 42

SCHOOLS:
 APPLE CREEK ELEMENTARY SCHOOL
 BELCOURT SCHOOL DIST #7
 BELFIELD PUBLIC SCHOOL #13
 BERTHOLD PUBLIC SCHOOL DIST
 BEULAH PUBLIC SCHOOL #27
 BILLINGS COUNTY SCHOOL DISTRICT
 BISMARCK PUBLIC SCHOOLS
 BOTTINEAU PUBLIC SCHOOL
 BOWMAN PUBLIC SCHOOL DIST #1
 CAVALIER PUBLIC SCHOOLS
 CENTRAL CASS PUBLIC SCHOOL #7
 DEVILS LAKE PUBLIC SCHOOL
 DICKEY LAMOURE MULTIDIST SP ED
 DICKINSON PUBLIC SCHOOLS
 DIVIDE COUNTY SCHOOL DIST #1
 DRAYTON PUBLIC SCHOOL #19
 DUNSEITH SCHOOL DISTRICT #1
 ELLENDALE PUBLIC SCHOOL #40
 ENDERLIN PUBLIC SCHOOL
 FARGO PUBLIC SCHOOLS
 FT. TOTTEN SCHOOL DISTRICT #30
 GLENBURN PUBLIC SCHOOL
 GLEN ULLIN PUBLIC SCHOOL #48
 GRAFTON PUBLIC SCHOOL DIST #3
 HALLIDAY PUBLIC SCHOOL
 HARVEY PUBLIC SCHOOL DIST #38
 HAZEN PUBLIC SCHOOL DIST #3
 HILLSBORO PUBLIC SCHOOL
 JAMESTOWN PUBLIC SCHOOL #1
 KILLDEER PUBLIC SCHOOL #16
 KINDRED PUBLIC SCHOOL DIST #2
 KULM PUBLIC SCHOOL DIST #7
 LAKE REGION SPECIAL ED UNIT
 LAKOTA PUBLIC SCHOOL DISTRICT #66
 LAMOURE SCHOOL DISTRICT #8



LARIMORE PUBLIC SCHOOL
 LIDGERWOOD PUBLIC SCHOOL
 LINTON PUBLIC SCHOOL
 LISBON PUBLIC SCHOOL
 LITTLE HEART PUBLIC SCHOOL DIST #4
 MANDAN PUBLIC SCHOOL DIST #1
 MANDAREE PUBLIC SCHOOL #36
 MANVEL PUBLIC SCHOOL
 MAPLETON PUBLIC SCHOOL
 MAPLE VALLEY SCHOOL DISTRICT
 MCCLUSKY PUBLIC SCHOOLS
 MCKENZIE CTY PUBLIC SCHOOL #1
 MIDWAY PUBLIC SCHOOL DIST #128
 MINOT PUBLIC SCHOOL DIST #1
 MINTO PUBLIC SCHOOL DIST #20
 MOHALL PUBLIC SCHOOL
 MOTT/REGENT PUBLIC SCHOOL DIST #1
 MT PLEASANT SCHOOL DIST #4
 NAPOLEON PUBLIC SCHOOL DIST #2
 NEW PUBLIC SCHOOL #8
 NEW SALEM SCHOOL DIST #7
 NEW TOWN PUBLIC SCHOOL #1
 NEWBURG UNITED PUBLIC SCHOOL
 NORTHERN CASS SCHOOL DIST #97
 NORTH SHORE SCHOOL DIST #158
 OAKES PUBLIC SCHOOLS
 OLIVER-MERCER SPECIAL ED UNIT
 PARK RIVER PUBLIC SCHOOLS
 PEACE GARDEN SPECIAL SERVICES
 PEMBINA PUBLIC SCHOOL
 RICHLAND SCHOOL DIST #44
 ROLETTE COUNTY ALT ED CONSORT
 RUGBY PUBLIC SCHOOL DIST #5
 SHELDON PUBLIC SCHOOL
 SOLEN PUBLIC SCHOOL DIST #3
 SOURIS VALLEY SPECIAL SERVICES
 ST JOHN SCHOOL DIST #3
 STANLEY PUBLIC SCHOOL DIST #2
 SURREY SCHOOLS
 SWEET BRIAR SCHOOL DIST #17
 TGU SCHOOL DIST #60
 TIOGA PUBLIC SCHOOL
 TURTLE LAKE MERCER SCHOOL DISTRICT
 UNDERWOOD SCHOOL DIST #8
 UNITED PUBLIC SCHOOL DISTRICT
 VALLEY CITY MULTI-DIST VOC CT
 VALLEY CITY PUBLIC SCHOOL
 WARWICK PUBLIC SCHOOL
 WEST FARGO PUBLIC SCHOOL #6
 WESTHOPE PUBLIC SCHOOL #17
 WHITE SHIELD SCHOOL DIST #85
 WILLISTON PUBLIC SCHOOL #1
 WILTON PUBLIC SCHOOL DISTRICT
 YELLOWSTONE SCHOOL DIST #14
 ZEELAND PUBLIC SCHOOLS
Total = 90

CITIES:

CITY OF ASHLEY
 CITY OF BELFIELD
 CITY OF BOWMAN
 CITY OF CARRINGTON
 CITY OF CAVALIER
 CITY OF COOPERSTOWN
 CITY OF CROSBY
 CITY OF DRAYTON
 CITY OF ELGIN
 CITY OF ELLENDALE
 CITY OF EMERADO
 CITY OF FESSENDEN
 CITY OF FINLEY
 CITY OF GLENBURN
 CITY OF GRAFTON
 CITY OF GRANVILLE
 CITY OF GWINNER
 CITY OF HANKINSON
 CITY OF HARVEY
 CITY OF HARWOOD
 CITY OF HATTON
 CITY OF HETTINGER
 CITY OF KENMARE
 CITY OF LARIMORE
 CITY OF LAMOURS
 CITY OF LINCOLN
 CITY OF LINTON
 CITY OF MAPLETON
 CITY OF MCVILLE
 CITY OF MEDORA

CITY OF MICHIGAN
 CITY OF MINTO
 CITY OF MOTT
 CITY OF NAPOLEON
 CITY OF NECHE
 CITY OF NEW ENGLAND
 CITY OF NEW LEIPZIG
 CITY OF NEW ROCKFORD
 CITY OF NEW TOWN
 CITY OF NORTHWOOD
 CITY OF OAKES
 CITY OF PARK RIVER
 CITY OF PEMBINA
 CITY OF POWERS LAKE
 CITY OF RAY
 CITY OF ROLLA
 CITY OF RUGBY
 CITY OF SCRANTON
 CITY OF STANLEY
 CITY OF SURREY
 CITY OF THOMPSON
 CITY OF TIOGA
 CITY OF TOWNER
 CITY OF UNDERWOOD
 CITY OF VELVA
 CITY OF WALHALLA
 CITY OF WATFORD CITY
 CITY OF WEST FARGO
 CITY OF WESTHOPE
 CITY OF WILTON
 CITY OF ZEELAND
Total = 61

OTHER POLITICAL SUBDIVISIONS:

BARNES COUNTY SOIL CONSERVATION DIST
 BISMARCK RURAL FIRE PROTECTION
 BOARD OF MEDICAL EXAMINERS
 BOARD OF PHARMACY
 BOWMAN CITY PARK BOARD
 BURLEIGH COUNTY SOIL CONSERVATION
 CARNEGIE REGIONAL LIBRARY
 CASS COUNTY SOIL CONSERVATION DIST
 CASS CTY WATER RESOURCE DIST
 CAVALIER COUNTY JOB DEVELOPMENT
 CAVALIER COUNTY HEALTH DISTRICT
 CAVALIER COUNTY HOUSING AUTHORITY
 CENTRAL VALLEY HEALTH UNIT
 CITY-COUNTY HEALTH DISTRICT
 CONSOLIDATED WASTE LTD
 CUSTER DIST HEALTH UNIT
 DEVILS LAKE BASIN JOINT WATER
 DUNSEITH COMMUNITY NURSE HOME
 ELECTRICAL BOARD
 EMMONS DISTRICT HEALTH UNIT
 FIRST DISTRICT HEALTH UNIT
 GARRISON DIVERSION CONSERVATION DISTRICT
 GRAFTON PARK DISTRICT
 GRAND FORKS CTY WATER RESOURCE
 GRIGGS COUNTY LIBRARY
 KIDDER COUNTY DISTRICT HEALTH UNIT
 LAKE METIGOSHE REC SERV DISTRICT
 LAKE REGION DISTRICT HEALTH UNIT
 MCINTOSH CITY HOUSING AUTHORITY
 MCINTOSH DISTRICT HEALTH UNIT
 MERCER CTY SOIL CONSERVATION DISTRICT
 ND ST BOARD OF ACCOUNTANCY
 NELSON COUNTY SOIL CONSERVATION
 NELSON-GRIGGS DIST HEALTH UNIT
 PLUMBING BOARD
 R & T WATER SUPPLY ASSOCIATION
 RAMSEY COUNTY SOIL CONSERVATION DISTRICT
 REAL ESTATE COMMISSION
 RICHLAND COUNTY AREA VOC TECH
 RURAL UTILITIES OF RAMSEY CTY
 SARGENT CTY DIST HEALTH UNIT
 S W DISTRICT HEALTH UNIT
 SOUTHWEST WATER AUTHORITY
 STUTSMAN CO HOUSING AUTHORITY
 TRAILL CTY WATER RESOURCE DIST
 TRAILL DISTRICT HEALTH UNIT
 UPPER MISSOURI HEALTH UNIT
 WALSH CITY WATER RESOURCE DIST
 WALSH COUNTY HOUSING AUTHORITY
 WARD COUNTY WATER RESOURCE DIST
 WATFORD CITY PARK DIST
 WELLS COUNTY DIST HEALTH UNIT
Total = 52

**Deferred Compensation Program
Schedule of Assets**

By Provider

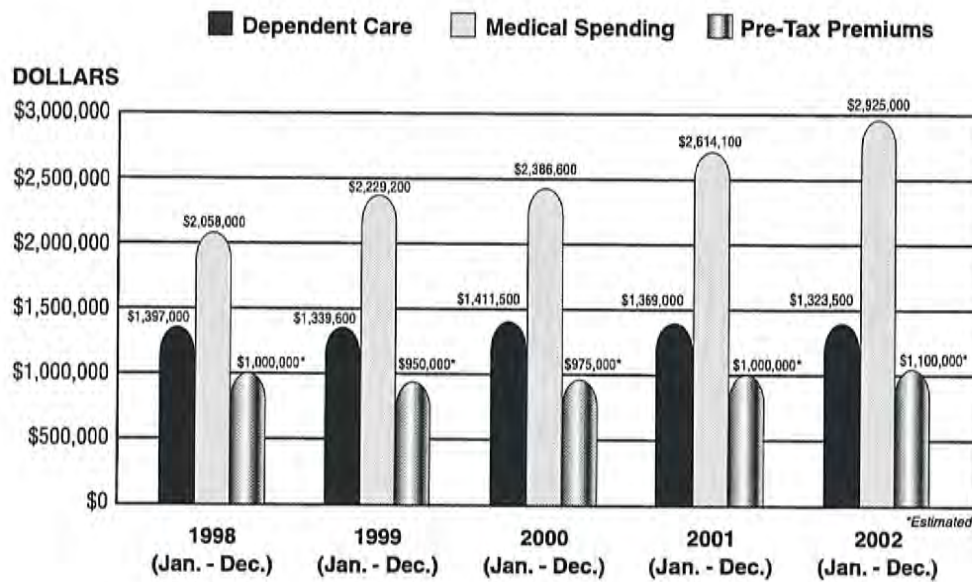
	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02
Aetna	\$ 2,052,235	\$ 1,580,407	\$ 1,631,909	\$ 1,371,510	\$ 1,204,650
American Express Financial Advisors	15,046,248	----	----	----	----
Bank of North Dakota	2,049,985	2,308,615	2,558,319	2,714,110	2,917,814
The Equitable	41,550,448	32,203,884	33,047,681	28,807,160	22,424,207
Great West Life	263,776	364,473	----	----	----
The Hartford	1,820,128	3,782,673	5,372,109	6,176,828	6,210,009
Jackson National	1,486,011	1,713,161	1,633,441	1,271,183	1,100,184
John Kinnard ⁽¹⁾	110,495	122,067	111,789	74,467	35,274
Kemper	1,519,864	1,913,566	2,693,930	2,611,732	2,522,224
Lincoln National	4,974,853	6,524,299	8,563,190	7,678,043	5,629,852
Manhattan Life	1,788	----	----	----	----
Nationwide	----	10,314,806	12,465,661	10,869,181	8,578,288
New York Life ⁽¹⁾	1,765,388	1,104,597	1,118,653	863,482	694,345
NDPERS Companion Plan ⁽¹⁾	----	4,141,310	5,585,780	6,748,503	7,917,076
Prudential	9,025	----	----	----	----
ReliaStar	101,482	----	----	----	----
Safeco Life	1,067,536	1,567,773	1,760,140	1,608,008	1,213,011
Sunset Life	284,339	294,980	315,374	338,294	362,938
United Services Life	232,942	----	----	----	----
VALIC	367,134	589,117	1,190,959	943,251	884,995
Waddell & Reed	<u>1,720,344</u>	<u>2,632,449</u>	<u>3,828,708</u>	<u>3,591,244</u>	<u>3,155,836</u>
Total ⁽²⁾	\$ 76,424,021	\$ 71,158,177	\$ 81,877,643	\$ 75,666,996	\$ 64,850,703

⁽¹⁾As of January 1, 1999, the System is the trustee for these deferred compensation assets and is reporting them as a trust fund in the June 30, 2001 and June 30, 2002 financial statements.

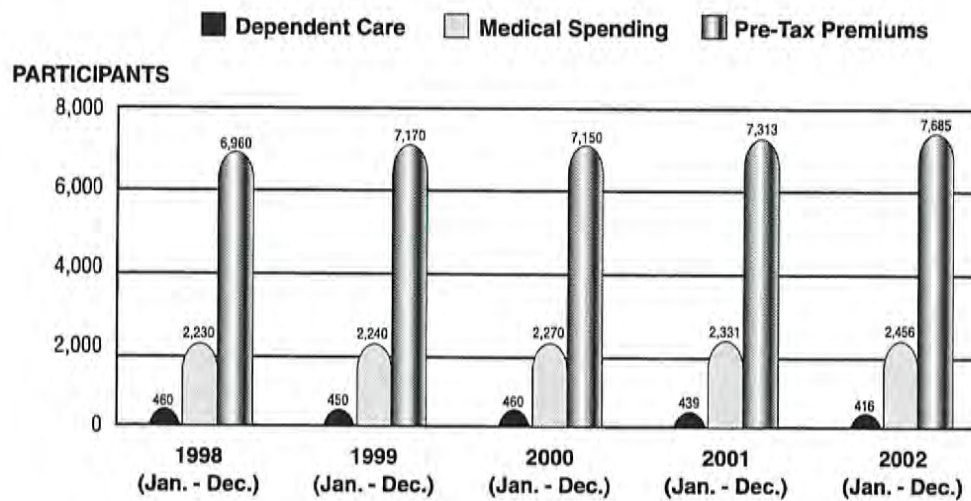
All other assets are being held in trust, by the respective provider company, for the exclusive benefit of participants and their beneficiaries. Accordingly, these assets are not included in the System's financial statements.

⁽²⁾Prior to January 1, 1999, the System included account balances for deferred compensation accounts that had been annuitized and were in payout status. Due to changes made to IRC Section 457, the System no longer reports these balances. This change resulted in approximately \$13.1 million being removed from the assets reported on this schedule.

FLEXCOMP PARTICIPATION



FLEXCOMP PARTICIPATION

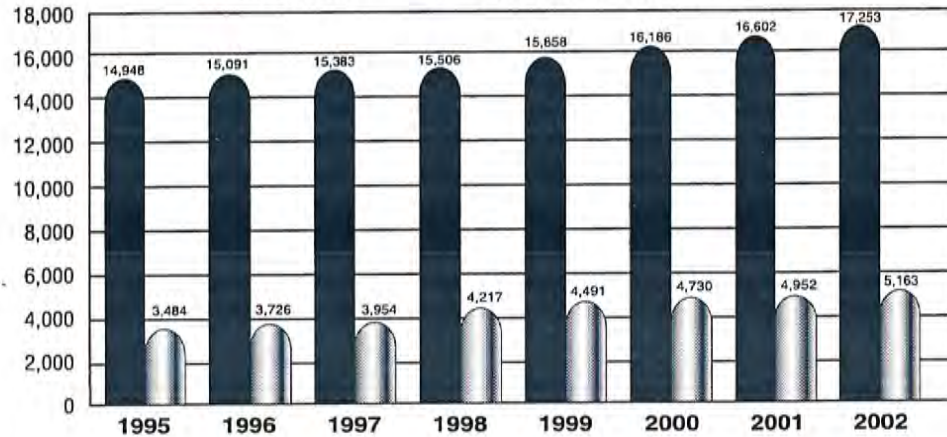


STATISTICS

GROUP HEALTH INSURANCE PROGRAM

Average Number of Contracts in Force

■ ACTIVES ■ RETIREES/INACTIVES



Health Insurance Premium Active State Contracts

■ SINGLE PLAN ■ FAMILY PLAN

