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, 2003

North Dakota Public Employees Retirement System

An Agency of the State of North Dakota

Introduction 2

Financial 13

Investment 45

Actuarial 53

Statistics 79

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2003

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

In compliance with the Americans with Disabilities Act, this document can be provided in alternate formats.
To request an alternate format, please call PERS ADA Coordinator at 701-328-3918, or toll-free: 1-800-803-7377.

Introductory Section
GFOA Certificate of Achievement 2
PPCC Achievement Award 3

Letter of Transmittal 4
The Retirement Board 9
Administrative Organization 10
Consulting and Professional Services 11

Financial Section
Introduction 13
Independent Auditor's Report 14
Management's Discussion and Analysis 15

Basic Financial Statements:
Fund Financial Statements:
Statements of Net Assets – Proprietary Funds 18
Statements of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds 18
Statements of Cash Flows – Proprietary Funds 19
Statements of Plan Net Assets – Fiduciary Funds 20
Statements of Changes in Plan Net Assets – Fiduciary Funds 24
Notes to the Financial Statements 26

Required Supplementary Information:
Schedule of Employer Contributions 40
Schedule of Funding Progress 40
Notes to Required Supplementary Schedules 41

Supplemental Information:
Statement of Appropriations 42
Schedule of Administrative Expenses - Fiduciary Funds 43
Schedule of Investment Expenses - Fiduciary Funds 44
Schedule of Consultant Expenses - Fiduciary Funds 44

Investment Section
Introduction 45
Report on Investment Activity 46
Investment Policies 48
Asset Allocation 48
Investment Results 49
Largest Holdings 49
Schedule of Investment Fees 50
Defined Contribution Investments 51
Defined Contribution Investment Results 52

Actuarial Section
Introduction 53

Public Employees Retirement System:
Actuary's Certification Letter 54
Actuarial Assumptions and Cost Method 57
Changes in Actuarial Assumptions or Cost Methods 58
Summary of Plan Provisions 58
Schedule of Active Member Valuation Data 60
Plan Amendments 61
Retirees and Beneficiaries Added To and Removed From the Rolls 61
Solvency Test 62
Analysis of Financial Experience 63

Highway Patrolmen's Retirement System:
Actuary's Certification Letter 64
Actuarial Assumptions and Cost Method 67
Changes in Actuarial Assumptions or Cost Methods 67
Summary of Plan Provisions 67
Plan Amendments 68
Schedule of Active Member Valuation Data 69
Retirees and Beneficiaries Added To and Removed From the Rolls 69
Solvency Test 70
Analysis of Financial Experience 70

Retiree Health Insurance Credit Fund:
Actuary's Certification Letter 71
Actuarial Assumptions and Cost Method 74
Changes in Actuarial Assumptions or Cost Methods 75
Summary of Plan Provisions 75
Plan Amendments 76
Retired Members, Average Benefit, and Active/Retiree Comparison 77
Funding Progress 77
Analysis of Financial Experience 77

Statistical Section
Retirement:
Retirement System Membership 80
Revenues by Source and Expenses by Type 81
Schedule of Benefit Expenses by Type 81
Schedule of Retired Members by Type and Schedule of Average Benefit Payments 82
Schedule of Participating Employers 86

Deferred Compensation:
Schedule of Assets by Provider 88

FlexComp:
FlexComp Participation 89

Group Insurance:
Health Insurance Contracts in Force 90
Health Insurance Premiums 90

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, 2002

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

President

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)

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 12, 2003

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, 2003. 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, a narrative introduction and overview in the Management's Discussion and Analysis, 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, 2003.

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 17,160 contributing members and 5,507 retirees and beneficiaries currently receiving benefits. HPRS has 131 contributing members and 85 retirees and beneficiaries. The employers participating in PERS include 87 state agencies and 260 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 65% 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, 2003 is $25.4 million, an increase of 7.17% over the previous year. The assets earned an annualized rate of return of 3.39% for the fiscal year ended June 30, 2003, -4.00% for the last three years and 1.66% for the last five years. As of fiscal year end, the program's actuarial value of assets is 38.2% of the actuarial accrued liability, which is about level with the previous year. 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. During the past year, participation in the plan remained relatively constant. There are 22,947 active and retired contracts under this plan as of June 30, 2003, a slight increase from last year at this time. Total covered lives, including spouses and dependents, are 54,652. As of June 30, 2003 there were 152 political subdivisions participating in the group health program, also a slight increase. The health insurance premiums paid to Blue Cross Blue Shield for the fiscal year ended June 30, 2003 totaled $101.7 million. Managed care initiatives such as the Preferred Provider Option and Exclusive Provider Option continue to be an important component of the plan design. However, with medical and prescription drug costs rising at rates of 10%-15%, the System faces the challenge of finding other means for containing costs such as disease management, employee wellness initiatives and employer-based wellness programs.

Group Life Insurance. The System began administering the group life insurance plan in 1971. There are 17,131 active and 3,645 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, 2003 totaled $2.4 million. As of fiscal year end, there is $857 million of life insurance in force for all participants covered by this plan, a 2.9% 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 and on January 1, 2003, a vision plan was offered. There are approximately 3,900 participants in the dental plan, 2,500 participants in the vision 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 three 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 14,300 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 $10.9 million; provider companies hold the remaining plan assets of $58.9 million in custodial accounts for the exclusive benefit of participants and their beneficiaries. Approximately 6,000 employees participate in this program, a 3% 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 increased slightly in 2003 to approximately 97% of eligible employees in the premium conversion option, 6% in the dependent care account, and 34% in the medical spending account. Employee salary reductions into the program also increased by 9%, 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 2003 North Dakota Legislature. All changes were effective August 1, 2003 unless otherwise noted.
• Transferred the administration of the Job Service Retirement System and the OASIS Retirement System to NDPERS
• Established a new retirement plan for North Dakota Law Enforcement Officers
• Allows rollovers from 457 and 403(b) plans be accepted by the defined benefit plan for purchasing eligible service credit
• Allows employers to purchase service credit for employees
• Modified the dual membership provisions of the defined benefit plan
• Expanded eligibility for retirees in NDPERS group insurance plan (effective April 2003)
• Allows NDPERS to accept domestic relations orders for accounts in the 457 Deferred Compensation Program

In addition to the legislative benefit changes, the following significant activities occurred during the fiscal year:
• The investment goals, objectives and policies for the defined benefit retirement plan were updated in December 2002
• A voluntary vision plan for state employees and retirees was implemented effective January 1, 2003
• The Health Insurance Portability and Accountability Act of 1996 (HIPAA) privacy, security and transaction provisions that affected the agency were implemented within the established timeframes
• Agency staff were involved on the ConnectND project team, which is the implementation of the PeopleSoft ERP software system that will replace North Dakota's current administrative computer systems
• Decision was made to replace current FlexComp administration software with the PeopleSoft Flexible Spending Account module effective January 1, 2004

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 2003 and 2002:

(Millions) Revenue Type	Fiscal Year 2003	Fiscal Year 2002	Change in $ s	Percentage Change
Employee Contributions	$ 20.3	$ 18.9	$ 1.4	7.4%
Employer Contributions	20.0	19.1	.9	4.7
Investments	55.8	-80.9	136.7	169.0
Total	$ 96.1	$ -42.9	$ 139.0	324.0%
Expense Type				
Benefits	$ 45.8	$ 42.8	$ 3.0	7.0%
Refunds and Transfers	2.7	3.6	-0.9	-25.0
Administrative Expenses	1.1	1.0	0.1	10.0
Total	49.6	$ 47.4	$ 2.2	4.6%

Investment earnings increased from the previous year as a result of the fund experiencing a positive return on investments of 5.46% for the fiscal year ended 6/30/2003, compared to a negative return on investments of -6.83% for the prior fiscal year. Benefit payments are higher than the previous fiscal year because there are more retired members and beneficiaries receiving benefits from the System. Fewer employees took refunds/transfers during the current fiscal year which resulted in a decrease of -25.0%. Administrative expenses increased over last fiscal year primarily due to increased actuarial costs for legislative work.

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, 2003 actuarial valuation reports the actuarial value of assets for PERS at $1,166.5 million, which is 98% of the actuarial accrued liabilities of $1,188.8 million. The actuarial value of assets for HPRS is $39.6 million, which is 93% of the actuarial accrued liabilities of $42.4.

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, 2003 is $1.125 billion, which is 4.3% higher than the previous year. During the fiscal year ended June 30, 2003, 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 reviewed and revised by the Retirement Board in December 2002. 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 an annualized rate of return of 5.46% for the fiscal year ended June 30, 2003. The annualized rate of return was -1.91% for the last three years and 2.68% 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, 2003 is $9.1 million, which is a 16.7% increase 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 Eide Bailly LLP, under the direction of the North Dakota State Auditor. The auditors' opinion was unqualified for the System for the year ended June 30, 2003.

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, 2002. 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 seven consecutive years (fiscal years ended June 30, 1996 - 2002). 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. Copies of this report are available to members and other interested parties upon request or it can be downloaded from the System's website.

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: Weldee Baetsch, Howard Sage, Rosey Sand, David Gunkel, Sandi Tabor, Jon Strinden, Arvy Smith.

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

Jon Strinden
Chairman
Term expires 7/31/2006

Arvy Smith
Health Department Appointee

Sandi Tabor
Attorney General Appointee
Term expires 12/31/2004

Weldee Baetsch
Retiree elected
Term expires 6/30/2004

David Gunkel
Member elected
Term expires 6/30/2004

Rosey Sand
Member elected
Term expires 6/30/2007

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:
Eide Bailly, LLP
Bismarck, ND

Dental Insurance Carrier:
ReliaStar
Minneapolis, MN

Disability Consultant:
Mid Dakota Clinic
Bismarck, ND

Employee Assistance Program Vendors:
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

Vision Insurance Carrier:
Ameritas Life Insurance Corporation
Lincoln, NE

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, 2003, was performed by Eide Bailly LLP. 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

EideBailly LLP

Consultants • Certified Public Accountants

Governor John Hoeven
The Legislative Assembly

Sparb Collins, Executive Director
North Dakota Public Employees Retirement System

We have audited the accompanying financial statements of the business-type activities and fiduciary funds of the North Dakota Public Employees Retirement System, a department of the State of North Dakota, as of and for the year ended June 30, 2003, which collectively comprise the North Dakota Public Employees Retirement System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the North Dakota Public Employees Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of North Dakota Public Employees Retirement System as of June 30, 2002, were audited by other auditors whose report dated August 22, 2002, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the North Dakota 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 North Dakota 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, 2003 and 2002, 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 North Dakota Public Employees Retirement System as of June 30, 2003, and the respective changes in net plan assets, changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated August 29, 2003 on our consideration of the North Dakota Public Employees Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management's Discussion and Analysis (MD&A) and the Schedules of Employer Funding, Schedule of Funding Progress and Notes to Required Supplementary Information on pages 40 through 41 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Dakota Public Employees Retirement System's basic financial statements. The Schedule of Investment Expenses and Administrative Expenses – Fiduciary Funds, the Statement of Appropriations, introductory section, investment section, actuarial section, and statistical tables are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Investment Expenses and Administrative Expenses – Fiduciary Funds and the Statement of Appropriations has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section, and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

EideBailly LLP

Bismarck, North Dakota
August 29, 2003

Management's Discussion and Analysis
June 30, 2003

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, 2003. 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, 2003 and 2002, the funding ratio (actuarial value of assets divided by actuarial accrued liability) for each of the funds is shown below:

	2003	2002
Public Employees Retirement System	98.1%	104.2%
Highway Patrolmen Retirement System	93.4%	97.4%
Retiree Health Insurance Credit Fund	38.2%	38.3%

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.

The funding ratios have decreased as a result of lower investment income due to the national economic slowdown during the past three years. 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, increased $51,968,655 during the fiscal year ended June 30, 2003. The increase was primarily due to positive earnings on investment during the last quarter of the fiscal year.

Public Employees Retirement System	$ 45,448,695
Highway Patrolmen Retirement System	1,087,787
Retiree Health Insurance Credit Fund	1,722,643
Defined Contribution Retirement Fund	1,251,752
Pretax Benefits Fund	209,504
Deferred Compensation Plan	2,248,274
Total increase in plan net assets	$ 51,968,655

Uniform Group Insurance Program

• Net assets increased by $299,912, or 14%, from the prior fiscal year.

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 financial 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, 2003, 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, 2003 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, 2003 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, 2003, 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, 2003 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.

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 2003 and 2002 are summarized below. The information in the tables below is condensed from the financial statements.

Statement of Fiduciary Net Assets

	June 30, 2003	% Change	June 30, 2002	% Change
Assets				
Cash	$ 1,624,391	35.8%	$ 1,196,021	-0.1%
Receivables	5,702,001	-6.1%	6,071,045	-25.6%
Investments, at fair value	1,170,193,191	4.6%	1,118,227,581	-7.3%
Securities lending collateral	66,940,289	-8.6%	73,264,448	-7.9%
Equipment, net of accumulated depr.	35,932	-25.0%	47,928	18.1%
Total assets	1,244,495,804	3.8%	1,198,807,023	-7.5%
Liabilities				
Long-term liabilities outstanding	66,511	-25.5%	89,240	58.5%
Other liabilities	68,095,168	-8.4%	74,352,313	-7.8%
Total liabilities	68,161,679	-8.4%	74,441,553	-7.7%
Net assets available for benefits	$ 1,176,334,125	4.6%	$1,124,365,470	-7.4%

For the fiscal year ended June 30, 2003, plan net assets increased by $51,968,655 (4.6%) which is the result of a recovery in the investment markets during the last quarter of the fiscal year. For fiscal year ended June 30,2002, net assets decreased $90,285,137, or -7.4%, which was attributable to less favorable market conditions in 2002 than in 2001.

As of June 30, 2003, cash balances were higher than the previous year primarily due to the timing of cash receipts. The decrease in receivables was due to a decrease in investment receivables and securities lending collateral also decreased. The decrease in long-term liabilities reflects the lease payments that were made throughout the fiscal year and other liabilities were lower as a result of the decrease in securities lending obligations.

Statement of Changes in Fiduciary Net Assets

	June 30, 2003	% Change	June 30, 2002	% Change
Additions				
Contributions	$ 51,618,467	5.7%	$ 48,855,760	7.3%
Investment income (loss)	57,196,809	-167.9%	(84,248,637)	42.5%
Other	2,075,045	32.4%	1,567,168	0.7%
Total additions	110,890,321	-427.8%	(33,825,709)	180.6%
Deductions				
Benefit payments	54,557,747	6.8%	51,105,284	11.3%
Refunds/Transfers	2,903,992	-25.2%	3,882,223	-11.0%
Administrative expenses	1,459,927	-0.8%	1,471,921	6.1%
Total deductions	58,921,666	4.4%	56,459,428	9.2%
Changes in net assets available for benefits	$ 51,968,655	157.6%	$ (90,285,137)	41.7%

Additions – Additions to fund benefits are accumulated through contributions and returns on invested funds. Contributions for the year ended June 30, 2003 increased by $2.7 million, or 5.7%, over 2002; contributions for the year ended June 30, 2002 increased $3.1 million, or 6.8%, over 2001. This year, the plans experienced positive investment earnings totaling $57.2 million, compared to investment losses of $84.2 million in 2002. The increase in Other Additions is primarily due to an increase in service purchase contributions.

Deductions – Expenses include benefit payments, refunds/transfers, and administrative expenses. Expenses for the year ended June 30, 2003 totaled $58.9 million, an increase of $2.5 million over 2002. In the previous fiscal year, expenses 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 as a result of an increase in the number of benefit recipients. This increase was partially offset by a decrease in the number of refunds issued.

Statement of Proprietary Fund Net Assets

	June 30, 2003	% Change	June 30, 2002	% Change
Assets				
Cash	$ 3,275,873	5.6%	$ 3,102,070	9.9%
Receivables	155,806	165.3%	58,718	29.7%
Total assets	3,431,679	8.6%	3,160,788	10.2%
Liabilities				
Long-term liabilities outstanding	$ 50,244	7.8%	46,589	21.0%
Other liabilities	940,613	-3.4%	973,289	-8.0%
Total liabilities	990,857	-2.8%	1,019,878	-7.0%
Net assets – unrestricted	$ 2,440,822	14.0%	$ 2,140,910	20.9%

As of June 30, 2003, net assets are $2.4 million, which is14% higher than a year ago. This increase is due to higher cash and receivable balances as of fiscal year end.

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

	June 30, 2003	% Change	June 30, 2002	% Change
Operating Revenues				
Administrative Fee	$ 873,759	2.3%	$ 853,727	13.0%
Miscellaneous	–	-100.0%	2,537	100.0%
Non-Operating Revenues				
Investment Income	134,154	-44.7%	242,652	-20.9%
Total Revenues	1,007,913	-8.3%	1,098,916	3.5%
Operating Expenses				
Administrative expenses	708,001	-2.9%	728,796	23.2%
Change in Net Assets	$ 299,912	-19.0%	$ 370,120	123.7%

Net assets increased by $299,912 for the fiscal year ended June 30, 2003, which is 19% less than the increase of $370,120 for the previous fiscal year. This was primarily the result of a decrease in investment income caused by lower interest rates.

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, 2003 and 2002

	Uniform Group Insurance Program 2003	2002
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,275,873	$ 3,102,070
Accounts receivable	121,816	14,676
Due from fiduciary funds	32,352	39,493
Due from other state agencies	1,638	4,549
Total current assets	3,431,679	3,160,788
Total assets	3,431,679	3,160,788
LIABILITIES		
CURRENT LIABILITIES		
Salaries payable	38,776	38,097
Accounts payable	15,894	14,539
Due to other state agencies	4,203	6,594
Amounts held in custody for others	786,689	751,284
Deferred premiums	95,051	162,775
Total current liabilities	940,613	973,289
NONCURRENT LIABILITIES		
Accrued compensated absences	50,244	46,589
Total liabilities	990,857	1,019,878
NET ASSETS		
UNRESTRICTED	2,440,822	2,140,910
Total net assets	$ 2,440,822	$2,140,910

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

	Uniform Group Insurance Program 2003	2002
OPERATING REVENUES:		
Administrative fee	$ 873,759	$ 853,727
Miscellaneous Income	–	2,537
Total operating revenues	873,759	856,264
OPERATING EXPENSES:		
Salaries and wages	448,306	448,981
Operating expenses	144,887	139,551
Professional fees	61,212	71,151
Data processing	53,596	69,113
Total operating expenses	708,001	728,796
Operating income (loss)	165,758	127,468
NON-OPERATING REVENUES:		
Investment income	134,154	242,652
	134,154	242,652
Change in net assets	299,912	370,120
Total net assets – beginning of year	2,140,910	1,770,790
Total net assets – end of year	$ 2,440,822	$ 2,140,910

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

Statement of Cash Flows
Proprietary Funds
For the years ended June 30, 2003 and 2002

	Uniform Group Insurance Program 2003	2002
Cash Flows From Operating Activities:		
Premiums collected	$ 105,552,973	$ 103,244,660
Administrative fees collected	744,352	936,977
Payments to suppliers	(260,731)	(284,421)
Premiums paid	(105,552,973)	(103,244,660)
Payments to employees	(443,972)	(439,415)
Miscellaneous Income	-	2,537
Net Cash Provided By Operating Activities	39,649	215,678
Cash Flows From Noncapital Financing Activities:		
Due to fiduciary funds	-	(178,746)
Cash Flows From Investing Activities:		
Investment Income	134,154	243,435
Net Cash Provided By Investing Activities	134,154	243,435
Net Increase in Cash and Cash Equivalents	173,803	280,367
Cash and Cash Equivalents Balance – Beginning of Year	3,102,070	2,821,703
Cash and Cash Equivalents Balance – End of Year	$ 3,275,873	$ 3,102,070
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income	$ 165,758	$ 127,468
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Premiums collected and BCBS surplus used	105,552,973	103,244,660
Premiums paid	(105,552,973)	(103,244,660)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(107,140)	1,037
(Increase) decrease in due from fiduciary funds	7,141	(14,234)
(Increase) decrease in due from other state agencies	2,911	(1,047)
Increase in salaries payable	679	1,477
Increase in accrued compensated absences	3,655	8,089
Increase (decrease) in accounts payable	1,355	(3,401)
Increase (decrease) in due to other state agencies	(2,391)	(7,799)
Increase (decrease) in amounts held in custody for others	35,405	(10,058)
Increase in due to fiduciary funds	–	6,594
(Increase) decrease in deferred premiums	(67,724)	107,552
Total adjustments	(126,109)	88,210
Net cash provided by operating activities	$ 39,649	$ 215,678

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

Statement of Plan Net Assets
Fiduciary Funds
June 30, 2003

ASSETS	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan
Cash	$ 998,107	$ -	$ 34,355	$ -	$ 591,929	$ -
Receivables						
Contribution receivable	3,078,447	-	360,217	85,437	-	-
Interest receivable	1,473,518	50,144	150,607	-	-	-
Accounts receivable	1,459	-	-	-	409,860	-
Due from fiduciary funds	60,438	-	-	-	31,664	-
Due from other state agencies	165	-	-	-	45	-
Total receivables	4,614,027	50,144	510,824	85,437	441,569	-
Investments, at fair value						
Domestic equities	443,846,997	15,104,317	12,558,676	-	-	-
International equities	170,006,609	5,785,403	3,708,874	-	-	-
Fixed income	-	-	8,658,263	2,160,777	-	-
International fixed income	52,242,350	1,777,831	-	-	-	-
Domestic fixed income	309,697,230	10,539,139	-	-	-	-
Real estate	55,768,070	1,897,813	-	-	-	-
Mutual funds	-	-	-	6,921,064	-	10,740,352
Annuities	-	-	-	-	-	152,075
Venture capital	49,387,768	1,680,688	-	-	-	-
Invested cash	7,310,128	248,767	-	-	-	-
Total investments	1,088,259,152	37,033,958	24,925,813	9,081,841	-	10,892,427
Invested securities lending collateral	64,737,251	2,203,038	-	-	-	-
Equipment (net of accumulated depreciation)	35,932	-	-	-	-	-
Total assets	$ 1,158,644,469	$ 39,287,140	$ 25,470,992	$ 9,167,278	$ 1,033,498	$ 10,892,427

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

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan
LIABILITIES						
Salaries payable	$ 41,344	$ -	$ -	$ -	$ 7,643	$ 9,479
Accounts payable	892,493	-	9,491	-	3,069	1,400
Due to fiduciary funds	21,333	17,402	85,719	-	-	-
Due to other state agencies	41,889	-	785	-	419	571
Securities lending collateral	64,737,251	2,203,038	-	-	-	-
Accrued compensated absences	46,495	-	-	-	9,446	7,469
Capital lease payable	24,943	-	-	-	-	-
Total liabilities	$ 65,805,748	$ 2,220,440	$ 95,995	$ -	$ 20,577	$ 18,919
NET ASSETS						
Held in trust for pension benefits	$ 1,092,838,721	$ 37,066,700	$ -	$ 9,167,278	$ -	$ 10,873,508
Held in trust for postemployment healthcare benefits	-	-	25,374,997	-	-	-
Held in trust for pretax benefits	-	-	-	-	1,012,921	-
(A schedule of pension funding progress for each plan is presented on page 40)						
Total net assets held in trust	$ 1,092,838,721	$ 37,066,700	$ 25,374,997	$ 9,167,278	$ 1,012,921	$ 10,873,508

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

Statement of Plan Net Assets
Fiduciary Funds
June 30, 2002

ASSETS	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan
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 fiduciary funds	59,146	-	-	-	10,997	-
Due from other state agencies	807	-	-	-	33,640	-
Total receivables	5,028,747	73,613	496,736	77,207	394,742	-
Investments, at fair value						
Domestic equities	379,330,497	13,067,846	11,321,978	-	-	-
International equities	137,056,203	4,721,554	3,461,473	-	-	-
Fixed income	-	-	8,438,218	1,798,248	-	-
International fixed income	59,020,145	2,033,230	-	-	-	-
Domestic fixed income	375,030,251	12,919,703	-	-	-	-
Real estate pool	54,010,656	1,860,655	-	-	-	-
Venture capital	30,692,716	1,057,357	-	-	-	-
Invested cash	7,462,987	257,098	-	-	-	-
Annuities	-	-	-	-	-	250,723
Mutual funds	-	-	-	6,040,071	-	8,395,972
Total investments	1,042,603,455	35,917,443	23,221,669	7,838,319	-	8,646,695
Invested securities lending collateral	70,824,559	2,439,889	-	-	-	-
Equipment (net of accumulated depreciation)	47,928	-	-	-	-	-
Total assets	$1,119,234,154	$ 38,430,945	$ 23,753,690	$ 7,915,526	$ 826,013	$ 8,646,695

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

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan
LIABILITIES						
Salaries payable	$ 39,285	$ -	$ -	$ -	$ 7,158	$ 9,517
Accounts payable	853,920	-	11,304	-	6,868	2,524
Due to fiduciary 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	42,190	-	-	-	-	-
Total liabilities	$ 71,844,128	$ 2,452,032	$ 101,336	$ -	$ 22,596	$ 21,461
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	$1,047,390,026	$ 35,978,913	$ 23,652,354	$ 7,915,526	$ 803,417	$ 8,625,234

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, 2003

	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	$ 19,212,733	$ 833,074	$ 4,712,819	$ 494,579	$ -	$ -
From employee	18,265,346	513,812	4,938	480,174	4,550,282	2,237,139
Transfers from other plans	-	-	-	55,890	-	-
From external plans	-	-	-	22,454	-	79,675
From pretax benefits fund	-	-	-	2,493	-	153,059
Total contributions	37,478,079	1,346,886	4,717,757	1,055,590	4,550,282	2,469,873
Investment income						
Net increase in fair value of investments	21,524,461	707,680	284,302	122,320	-	260,687
Interest and dividends	35,740,851	1,225,239	623,496	205,362	5,246	-
Less investment expense	(3,456,439)	(118,602)	(46,489)	(8,366)	-	(68,552)
Net investment income	53,808,873	1,814,317	861,309	319,316	5,246	192,135
Securities lending activity						
Securities lending income	1,174,788	40,280	-	-	-	-
Less securities lending expenses	(985,655)	(33,800)	-	-	-	-
Net securities lending income	189,133	6,480	-	-	-	-
Repurchase service credit	1,493,418	-	116,821	-	-	-
FICA tax savings	-	-	-	-	452,111	-
Miscellaneous income	9,184	56	-	3,439	16	-
Total additions	92,978,687	3,167,739	5,695,887	1,378,345	5,007,655	2,662,008
DEDUCTIONS						
Benefits paid to participants	43,733,098	2,044,071	-	120,661	4,503,630	263,217
Refunds	2,672,201	19,412	937	-	-	-
Prefunded credit applied	-	-	3,893,070	-	-	-
Transfers to other plans	55,890	-	-	-	155,552	-
	46,461,189	2,063,483	3,894,007	120,661	4,659,182	263,217
Administrative expenses	1,068,803	16,469	79,237	5,932	138,969	150,517
Total deductions	47,529,992	2,079,952	3,973,244	126,593	4,798,151	413,734
Change in net assets	45,448,695	1,087,787	1,722,643	1,251,752	209,504	2,248,274
Net assets - beginning of year	1,047,390,026	35,978,913	23,652,354	7,915,526	803,417	8,625,234
Net assets - end of year	$ 1,092,838,721	$ 37,066,700	$ 25,374,997	$ 9,167,278	$ 1,012,921	$ 10,873,508

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	35,624,467	1,315,885	4,487,414	1,043,403	4,237,797	2,146,794
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	(3,602,891)	(125,048)	(49,785)	(7,005)	-	(60,289)
Net investment income	(78,393,861)	(2,720,934)	(1,640,148)	(963,457)	9,332	(778,364)
Securities lending activity						
Securities lending income	1,986,019	68,968	-	-	-	-
Less securities lending expenses	(1,755,233)	(60,959)	-	-	-	-
Net securities lending income	230,786	8,009	-	-	-	-
Repurchase service credit	1,059,313	-	76,322	-	-	-
FICA tax savings	-	-	-	-	414,609	-
Miscellaneous income	12,301	85	-	3,587	498	453
Total additions	(41,466,994)	(1,396,955)	2,923,588	83,533	4,662,236	1,368,883
DEDUCTIONS						
Benefits paid to participants	40,871,330	1,928,173	-	233,541	4,193,201	133,081
Refunds	3,329,079	122,434	3,626	-	-	-
Prefunded credit applied	-	-	3,745,958	-	-	-
Transfer to external plans	-	-	-	-	-	48,870
Transfers to other plans	138,275	-	-	-	239,939	-
	44,338,684	2,050,607	3,749,584	233,541	4,433,140	181,951
Administrative expenses	983,258	15,919	80,909	18,215	145,709	227,911
Total deductions	45,321,942	2,066,526	3,830,493	251,756	4,578,849	409,862
Change in net assets	(86,788,936)	(3,463,481)	(906,905)	(168,223)	83,387	959,021
Net assets - beginning of year	1,134,178,962	39,442,394	24,559,259	8,083,749	720,030	7,666,213
Net assets - end of year	$ 1,047,390,026	$ 35,978,913	$ 23,652,354	$ 7,915,526	$ 803,417	$ 8,625,234

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

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. The carrying amount and fair value of securities on loan are the same.

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 interest sensitivity of 38 days as of this statement date. Cash collateral may also be invested separately in "term loans," in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower.

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

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

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

Accounts Receivable and Credit Policy

Accounts receivable primarily include amounts due for contributions, insurance premiums, employee pretax benefit deductions and accrued interest on investments. Management reviews all receivables at year-end and assesses collectibility.

All remaining receivables are considered collectible.

Capital Assets and Depreciation
Capital assets are presented in the accompanying financial statements at cost or estimated historical cost. Donated capital assets are stated at fair market value at the time of donation. Capital assets acquired via lease agreements are capitalized at the inception of the agreement. For the year ending June 30, 2003 the System capitalized equipment costing over $5,000 in accordance with Section 54-27-21 of the North Dakota Century Code.

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

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.

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.

Transfers to Other Plans
Transfers to other plans 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 Deferred Contribution Retirement Plan, the lump sum transferred is the actual employee and employer contributions plus interest.

Reclassification
Certain amounts for the year ended June 30, 2002, have been reclassified to conform with the presentation of the June 30, 2003 amounts. The reclassifications have no effect on net income for the year ended June 30, 2002.

NOTE 2
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, 2003 and 2002. 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, 2003 and 2002 the carrying amount of the System's cash deposits were $15,361,713 and $18,320,548 and the bank balances were $15,842,820 and $18,743,862. Included in these amounts were certificates of deposit recorded as investments with a carrying value and bank balances of $13,674,347 and $16,934,174 at June 30, 2003 and 2002. 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 invest-

ments 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 counter party, 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 categorized 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:

	2003	2002
Fidelity Managed Income Portfolio Mutual Fund	23.57%	22.72%
Fidelity Growth Company Mutual Fund	13.19%	14.93%
Fidelity Freedom 2020 Mutual Fund	9.74%	9.52%
Fidelity Equity Income	7.70%	7.56%
Fidelity Spartan US Equity Index	6.57%	7.12%
Pimco Total Return Admin Mutual Fund	6.94%	6.36%
Fidelity Diversified International Mutual Fund	5.27%	6.18%
Fidelity Freedom 2010 Mutual Fund	5.28%	6.10%

Total investments of the System at fair value as of June 30, 2003 and 2002 consisted of the following:

June 30, 2003	Fair Value
Equity Securities	$ 651,010,876
Bonds and Notes	371,401,243
Real Estate Pool	57,665,883
Venture Capital	51,068,456
Guaranteed Investment Contracts	3,212,899
Mutual Funds	6,921,064
Invested Cash	7,558,895
Deferred Compensation Plans:	
Annuities	152,075
Mutual Funds	10,740,352
Securities Lending Short-Term Collateral Investment Pool	66,940,289
	$1,226,672,032

June 30, 2002	Fair Value
Equity Securities	$ 548,959,551
Bonds and Notes	442,305,622
Real Estate Pool	55,871,311
Venture Capital	31,750,073
Guaranteed Investment Contracts	2,911,717
Mutual Funds	6,040,071
Invested Cash	7,720,084
Deferred Compensation Plans:	
Annuities	250,723
Mutual Funds	8,395,972
Securities Lending Short-Term Collateral Investment Pool	73,264,448
	$1,177,469,572

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 3
DUE TO/ FROM FIDUCIARY FUNDS AND STATE AGENCY TRANSACTIONS

The June 30, 2003 due from/to fiduciary funds are summarized as follows:

Fund	Due From Fiduciary Funds	Due To Fiduciary and Proprietary Funds
Fiduciary		
Public Employees Retirement System	$ 60,438	$ 21,333
Highway Patrolmen's Retirement System	-	17,402
Retiree Health Insurance Credit Fund	-	85,719
Pretax Benefits Program	31,664	-
Proprietary		
Uniform Group Insurance Program	32,352	-
	$ 124,454	$ 124,454

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

Fund	Due From Fiduciary Funds	Due To Fiduciary and Proprietary Funds:
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	-
	$ 109,636	$ 109,636

The June 30, 2003 due from/to state agencies are summarized as follows:

Fund	Due From State Agencies	Due To State Agencies
Fiduciary		
Public Employees Retirement System		
Land Department	$ 25	$ -
Human Services	100	-
Job Service North Dakota	40	-
State Investment Board	-	9,661
ITD	-	29,859
DOT	-	73
Attorney General	-	824
Central Services	-	1,472
Total	$ 165	$ 41,889
Retiree Health Insurance Credit Fund		
State Investment Board	$ -	$ 785
Pretax Benefits Program		
Adjutant General	$ 45	$ -
ITD	-	214
Central Services	-	180
Attorney General		25
Total	$ 45	$ 419
Deferred Compensation Plan		
ITD	$ -	$ 389
Attorney General	-	22
Central Services	-	160
Total	$ -	$ 571
Proprietary		
Uniform Group Insurance Program		
Dept. of Agriculture	$ 411	$ -
Independent Study	409	-
Grafton State School	409	-
ND Parks & Tourism	409	-
ITD	-	2,630
Attorney General	-	678
Central Services	-	895
Total	$ 1,638	$ 4,203

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

Fund	Due From State Agencies	Due To State Agencies
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	$ 807	$ 33,265
Retiree Health Insurance Credit Fund		
State Investment Board	$ -	$ 745
Pretax Benefits Program		
OMB Central	$ 33,640	$ -
ITD	-	226
Central Duplicating	-	98
Total	$ 33,640	$ 324
Deferred Compensation Plan		
ITD	$ -	$ 386
DOT	-	577
Central Duplicating	-	87
Total	$ -	$ 1,050
Proprietary		
Uniform Group Insurance Program		
Job Service North Dakota	$ 411	$ -
Human Services	2,462	-
Adjutant General	820	-
OMB Central	445	-
Veterans Homes	411	
ITD	-	5,897
DOT	-	168
Facilities Management	-	3
Attorney General	-	102
Central Duplicating	-	424
Total	$ 4,549	$ 6,594

The June 30, 2003 operating transfers in/out are summarized as follows:

Fund Type / Fund	Transfer In	Transfer Out
Fiduciary Funds:		
Defined Contribution Retirement Fund	$ 58,383	$ -
Pretax Benefits Program	-	155,552
Def. Compensation Plan	153,059	-
Public Employees Retirement System	-	55,890

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

Fund Type / Fund	Transfer In	Transfer Out
Fiduciary Funds		
Defined Contribution Retirement Fund	$ 151,979	$ -
Pretax Benefits Program	-	239,939
Def. Compensation Plan	226,235	-
Public Employees Retirement System	-	138,275

NOTE 4
CAPITAL ASSETS

A statement of changes in equipment and accumulated depreciation for the Public Employees Retirement System Fiduciary Fund for the years ended June 30, 2003 and 2002 is as follows:

	Equipment	Accumulated Depreciation	Net Equipment
Balance - June 30, 2001	$ 17,040	$ 14,527	$ 2,513
Additions	54,388	8,973	45,415
Deletions	-	-	-
Balance - June 30, 2002	$ 71,428	$ 23,500	$ 47,928
Additions	-	11,996	(11,996)
Deletions	-	-	-
Balance - June 30, 2003	$ 71,428	$ 35,496	$ 35,932

NOTE 5
LEASE OBLIGATIONS

Operating Lease:

The department has entered into an operating lease for office space until June 30, 2005. 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 $78,915 and $77,108 for the years ended June 30, 2003 and 2002. The future minimum lease payments for the fiscal year ending June 30, 2004, and 2005 are $ 80,525.

Capital Lease
The department has entered into two capital leases for various computer and printing equipment with a total cost of $54,388 and accumulated depreciation of $19,850. This lease expires in 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 ended June 30 are:

2004	$ 19,052
2005	4,332
2006	1,388
2007	1,388
Total minimum lease payments	$ 26,160
Less amount representing interest	1,217
Present value of minimum lease payments	$ 24,943

NOTE 6
CHANGE IN LONG-TERM LIABILITIES

	Proprietary Fund Accrued Comp. Absences	Fiduciary Fund Accrued Comp. Absences	Fiduciary Fund Capital Lease Payable
Balance – June 30, 2001	$ 38,500	$ 40,011	$ 2,066
Increases	31,099	39,581	54,388
Decreases	(23,010)	(20,273)	(14,264)
Balance – June 30, 2002	$ 46,589	$ 59,319	$ 42,190
Increases	31,238	39,757	-
Decreases	(27,583)	(35,666)	(17,247)
Balance – June 30, 2003	$ 50,244	$ 63,410	$ 24,943
Balance-due within one year	$ 2,211	$ 2,790	$ 19,052

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 7
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, 2003, 2002, and 2001, were $69,496, $67,107, and $60,657 equal to the required contributions for each year.

NOTE 8
DESCRIPTION OF PLANS

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:

	2003	2002
Cities and Park Districts	65	61
Counties	43	42
School Districts	98	90
Other	54	52
Total participating political subdivisions	260	245

Employee membership data is as follows:

	PERS		HPRS	
	2003	2002	2003	2002
Retirees and Beneficiaries Currently Receiving Benefits	5,411	5,130	85	86
Special Prior Service Retirees	96	122	-	-
Terminated				
Vested Participants	850	639	2	2
Inactive Participants	3,108	2,651	2	-
Active Plan Participants:				
Vested	12,978	12,662	71	71
Nonvested	4,182	4,427	60	54
Total Plan Membership	26,625	25,631	220	213

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 participants as of June 30, 2003 and 2002, respectively.

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 beginning 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 services, 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 statue. 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 rollover or periodic distribution.

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.

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.

Contributions

Contribution rates for PERS and HPRS are set by 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	$ 748,658
Interest on net pension obligations	(64,532)
Adjustment to annual required contributions	56,297
Annual pension costs	740,423
Contributions made	833,074
Increase in net pension obligations	(92,651)
Net pension obligations, beginning of year	(806,653)
(Assets in excess of) net pension obligations, end of year	$ (899,304)

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

NOTE 9
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:

	2003	2002
Retired Participants	3,519	3,393
Active Participants	17,545	17,462
	21,064	20,855

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 Healthy 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 17,545 active participants at June 30, 2003. The employers' actuarially required contributions was $4,894,636 and the actual employer contributions for the period ended June 30, 2003 were $4,712,819. The amount of net assets held in trust for post employment health-care benefits at June 30, 2003 is $25,374,997. The actuarial accrued liability and actuarial unfunded accrued liability at June 30, 2003 is $71,976,336 and $44,502,613, respectively. The benefit security ratio for the last five years is 33.7% for 1999, 36.5% for 2000, 37.8% for 2001, 38.3% for 2002 and 38.2% for 2003. The progress of this ratio reveals overall improvement in the Plan's funded condition.

There were no changes in actuarial assumptions, asset method or plan experience that effected the employer's contribution rate.

The employer contribution for the PERS and HPRS and the Defined Contribution Plan are 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 "pre-funded 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 of 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 employees, ore 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 10
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 fair value as investments as follows:

	2003		2002	
Plan Participation By:				
State of North Dakota	$ 8,903,391	82%	$7,175,856	83%
Other Jurisdictions	1,989,036	18%	1,470,839	17%
Total Value	$ 10,892,427	100%	$8,646,695	100%

NOTE 11
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 12
UNIFORM GROUP INSURANCE 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 $3,212,899 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, department 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 2001-2003 biennium there was no surplus for this contract period.

NOTE 13
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 resulting 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 120-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 Workers 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 14
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, 2003

Public Employees Retirement System

Year Ended June 30	Annual Required Contribution	Percentage Contributed
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
2003	20,644,235	93

Highway Patrolmen's Retirement System

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Net Pension Obligation
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)
2003	748,658	111	(899,304)

See Notes to Required Supplementary Schedules

Required Supplementary Information
Schedule of Funding Progress For the six years ended June 30, 2003

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
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)
2003	1,188.8	1,166.5	22.3	98.1	479.5	4.7

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
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
2003	42.4	39.6	2.8	93.4	5.4	51.9

See Notes To Required Supplementary Schedules

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

June 30, 2003 & 2002

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 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, 2003, 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.

Statement of Appropriations

For the Year Ended June 30, 2003

	Approved 2001-2003 Appropriation	2001-2003 Appropriation Adjustments	Adjusted 2001-2003 Appropriation	Expenditures 2003	Expenditures 2002
All Fund Types:					
Salaries and wages	$ 2,314,750	$ 33,010	$ 2,347,760	$ 1,153,348	$ 1,126,612
Operating Expenses	1,507,730	25,000	1,532,730	691,315	814,445
Equipment	12,000	-	12,000	1,825	7,781
Contingency	25,000	(25,000)	-	-	-
	$ 3,859,480	$ 33,010	$ 3,892,490	$ 1,846,488	$ 1,948,838

Reconciliation of Administrative Expenses to Appropriated Expenditures

	2003	2002
Administrative expenses as reflected in the financial statements		
Pension Trust Funds	$ 1,459,927	$ 1,471,921
Enterprise Funds	708,001	728,796
Total Administrative Expenses	2,167,928	2,200,717
Plus:		
Lease Payments (Net of Interest)	17,247	14,263
Contributions Short and Long	257	674
Less:		
Professional Fees	(311,883)	(240,869)
Depreciation Expenses	(11,996)	(8,973)
Allocated Depreciation Charged as Equipment Rent to Other Programs	(7,290)	(5,390)
Changes in Accrued Compensated Absences	(7,747)	(11,106)
Flex Comp FICA Payments	(28)	(307)
Bank Supply Charges	-	(99)
Miscellaneous	-	(72)
Total Appropriated Expenditures	$ 1,846,488	$ 1,948,838

Schedule of Administrative Expenses
Fiduciary Funds
For the Fiscal Years Ended June 30, 2003 and 2002

	Public Employees Retirement System		Highway Patrolmen's Retirement System		Retiree Health Insurance Credit Fund		Defined Contribution Retirement Fund		Pretax Benefits Program		Deferred Compensation Program	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Personnel Services:												
Salaries	$360,358	$343,388	$2,983	$2,843	$32,656	$32,556	$2,759	$2,873	66,481	60,793	80,605	82,487
Social security	27,366	26,270	227	217	2,490	2,491	210	219	5,090	4,654	6,165	6,317
Retirement	28,444	29,562	235	245	2,763	2,819	233	249	5,852	5,371	7,270	7,422
Insurance	52,674	50,606	436	420	4,703	4,685	397	414	10,554	9,894	11,836	11,942
Total Personnel Services	468,842	449,826	3,881	3,725	42,612	42,551	3,599	3,755	87,977	80,712	105,876	108,168
Professional Services:												
Actuarial	171,693	83,829	9,050	8,475	9,000	8,200	0	6,945	0	0	0	0
Audit	12,696	13,358	105	111	1,112	1,173	94	103	2,618	1,642	2,328	1,497
Data processing	221,899	212,802	1,837	1,762	10,854	11,060	917	976	2,031	2,547	4,620	49,335
Consulting	10,493	3,724	83	30	0	0	0	4,854	16,561	18,855	2,576	21,730
Legal counsel	8,400	9,262	70	77	1,020	814	86	72	1,141	1,060	1,545	2,037
Misc outside services	3,168	14,384	26	119	217	1,177	18	104	140	241	707	2,600
Total Professional Services	428,349	337,359	11,171	10,574	22,203	22,424	1,115	13,054	22,491	24,345	11,776	77,199
Communication:												
Postage & mailing svc	59,046	46,944	489	389	4,969	4,168	420	368	7,552	10,652	6,624	7,736
Printing	14,503	37,270	120	309	1,385	2,303	117	203	3,205	6,686	5,853	8,613
Telephone	7,387	9,336	61	77	696	772	59	68	1,217	1,327	1,962	1,183
Total Communication	80,936	93,550	670	775	7,050	7,243	596	639	11,974	18,665	14,439	17,532
Rentals:												
Equipment rent	9,254	6,684	171	126	1,493	1,137	126	100	2,728	2,154	2,454	2,346
Office rent	33,065	32,338	274	268	2,902	2,900	245	256	6,819	6,669	6,228	6,216
Total Rentals	42,319	39,022	445	394	4,395	4,037	371	356	9,547	8,823	8,682	8,562
Miscellaneous:												
Depreciation	11,996	8,973	0	0	0	0	0	0	0	0	0	0
Dues and prof development	6,835	8,510	57	71	369	632	31	56	322	295	161	2,838
Insurance	933	929	8	8	82	83	7	7	192	192	171	170
Miscellaneous	11,229	12,394	93	103	869	961	73	84	2,152	2,788	2,706	2,874
Repairs and maintenance	1,046	1,287	9	10	78	113	7	10	208	225	238	266
Supplies	8,546	16,829	71	139	892	1,788	75	159	4,014	9,110	1,575	3,053
Travel	7,772	14,579	64	120	687	1,077	58	95	92	554	4,893	7,249
Total Miscellaneous	48,357	63,501	302	451	2,977	4,654	251	411	6,980	13,164	9,744	16,450
Total Administrative Expenses	$1,068,803	$983,258	$16,469	$15,919	$79,237	$80,909	$5,932	$18,215	$138,969	$145,709	$150,517	$227,911

Schedule of Investment Expenses – Fiduciary Funds
For the Fiscal Years Ended June 30, 2003 and 2002

	Public Employees Retirement System		Highway Patrolmen's Retirement System		Retiree Health Insurance Credit Fund		Defined Contribution Retirement Fund		Pretax Benefits Program		Deferred Compensation Program	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Payments to State Investment Board:												
Investment Fees	$ 3,328,487	$ 3,486,033	$ 114,208	$ 120,993	$46,489	$ 49,785	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Administrative Expenses	127,952	116,858	4,394	4,055	0	0	0	0	0	0	0	0
	3,456,439	3,602,891	118,602	125,048	46,489	49,785	0	0	0	0	0	0
Securities Lending Fees	985,655	1,755,233	33,800	60,959	0	0	0	0	0	0	0	0
Payments to Providers:												
Investment Fees	0	0	0	0	0	0	8,366	7,005	0	0	68,552	60,289
Total Investment Expenses	$ 4,442,094	$ 5,358,124	$ 152,402	$ 186,007	$46,489	$ 49,785	$ 8,366	$ 7,005	$ 0	$ 0	$ 68,552	$ 60,289

Schedule of Consultant Expenses – Fiduciary Funds
For the Fiscal Years Ended June 30, 2003 and 2002

	Public Employees Retirement System		Highway Patrolmen's Retirement System		Retiree Health Insurance Credit Fund		Defined Contribution Retirement Fund		Pretax Benefits Program		Deferred Compensation Program	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Actuary Fees:												
Gabriel, Roeder & Smith	$ 43,472	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
The Segal Company	128,221	83,829	9,050	8,475	9,000	8,200	0	6,945	0	0	0	0
Audit Fees:												
Brady, Martz & Associates	8,614	13,358	70	111	745	1,173	63	103	1,772	1,642	1,576	1,497
Eide Bailly LLP	4,082	0	35	0	367	0	31	0	846	0	752	0
Disability Consulting Fees:												
Mid Dakota Clinic	4,271	3,587	34	30	0	0	0	0	0	0	0	0
Miscellaneous Consulting Fees:												
Apple Creek Consulting	555	0	4	0	0	0	0	0	114	0	102	0
Calhoun Law Group	325	137	0	0	0	0	0	0	0	0	0	0
LR Wechsler LTD	5,342	0	45	0	0	0	0	0	1,102	0	979	0
Segal Advisors, Inc.	0	0	0	0	0	0	0	2,799	0	0	0	5,417
The Segal Company	0	0	0	0	0	0	0	2,055	15,345	18,855	1,495	16,313
Legal Fees:												
ND Attorney General	8,400	9,262	70	77	1,020	814	86	72	1,141	1,060	1,545	2,037
Totals	$ 203,282	$ 110,173	$ 9,308	$ 8,693	$ 11,132	$ 10,187	$ 180	$ 11,974	$ 20,320	$ 21,557	$ 6,449	$ 25,264

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

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone: 701-328-9885
Toll free: 800-952-2970
FAX: 701-328-9897
www.discovernd.com/rio

November 1, 2003

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, 2003.

Introduction

For the fiscal year ended June 30, 2003, the North Dakota Public Employees Retirement System (PERS) investment portfolio experienced a total return of 5.46%. The investment return calculations were prepared using a monthly time-weighted rate of return methodology in accordance with AIMR's Performance Presentation Standards.

Economic Overview

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

Domestic Equity Overview

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

International Equity Overview

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

Domestic Fixed-Income Overview

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

International Fixed-Income Overview

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

Real Estate Overview

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

Private Equity Overview

Due to the nature of private equity performance measurement, relative comparisons of fund performance with benchmarks are inherently ambiguous. Rather than recognizing any particular index as being representative of opportunity in the year's markets, it is worth noting that PERS' private equity allocation fell 9.65% for the period.

Summary

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

Sincerely,

STEVE COCHRANE, CFA
Executive Director/CIO

INVESTMENT 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 State of North Dakota to pay all current and future retirement benefits and expense obligations of the Fund; to obtain investment returns in excess of that needed to allow for future retirement benefit increases to provide career employees with a retirement income, which when augmented by Social Security, must approximate 90% of final average salary; to obtain investment returns in excess of that needed to allow for the disability retirement benefit increase which will approximate 35-45% of final average salary; 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 6.0% in excess of the annual rate of inflation, however, the absolute total rate of return must be no less than 10.5% net of fees; 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, 2003

Asset Class	Market Value	Actual %	Policy %
Domestic Large Cap Equity	$ 338,447,408	30.1%	30.0%
Domestic Small Cap Equity	120,503,906	10.7%	10.0%
International Equity	119,185,720	10.6%	10.0%
Emerging Markets Equity	56,606,292	5.0%	5.0%
Domestic Fixed Income	259,885,720	23.1%	24.0%
High Yield Fixed Income	60,350,649	5.4%	5.0%
International Fixed Income	54,020,181	4.8%	5.0%
Real Estate	57,665,883	5.1%	5.0%
Private Equity	51,068,456	4.5%	5.0%
Cash & Equivalents	7,558,895	.7%	1.0%
Total	$ 1,125,293,110	100.0%	100.0%

Retiree Health Insurance Credit Program Asset Allocation – June 30, 2003

Asset Class	Market Value	Actual %	Policy %
Domestic Large Cap Equity	$ 8,785,820	35.3%	35.0%
Domestic Small Cap Equity	3,772,856	15.1%	15.0%
International Equity	3,708,874	14.9%	15.0%
Domestic Fixed Income	8,658,263	34.7%	35.0%
Total	$ 24,925,813	100.0%	100.0%

Public Employees and Highway Patrolmen's Retirement Systems
Schedule of Investment Results [1]
For the Five Years Ended June 30, 2003

	1999	2000	2001	2002	2003	Annualized 3 Year	5 Year
Total Fund	10.63%	9.34%	-4.12%	-6.83%	5.46%	-1.91%	2.68%
CPI	1.94%	3.87%	3.19%	0.74%	2.10%	2.01%	2.38%
Large Cap Domestic Equities	19.46%	1.31%	-11.35%	-16.92%	0.74%	-9.47%	-2.13%
S&P 500	22.76%	7.24%	-14.83%	-17.99%	0.25%	-11.20%	-1.61%
Small Cap Domestic Equities	-6.18%	16.48%	2.40%	-11.03%	1.50%	-2.58%	0.21%
Russell 2000	1.50%	14.32%	0.57%	-8.60%	-1.64%	-3.30%	0.97%
International Equities	13.81%	26.19%	-18.43%	-10.03%	-7.71%	-12.18%	-0.28%
MSCI 50% Hedged EAFE	8.69%	19.52%	-17.95%	-14.62%	-11.24%	-14.65%	-4.18%
Emerging Markets Equities	21.32%	26.42%	-28.86%	-5.05%	7.82%	-10.03%	2.24%
MSCI Emerging Markets Free	28.71%	9.48%	-25.83%	1.31%	6.96%	-7.02%	2.52%
Domestic Fixed Income	3.17%	11.03%	7.10%	2.81%	11.92%	7.22%	7.32%
Lehmann Brothers Aggregate	3.15%	4.57%	11.22%	8.63%	10.40%	10.08%	7.54%
High Yield Bonds	15.24%	-0.86%	-4.22%	-5.84%	20.28%	2.75%	4.38%
Lehmann Brothers High Yield Bonds	-0.38%	-1.03%	-0.96%	-3.60%	22.76%	5.43%	2.93%
International Fixed Income	5.49%	-0.23%	-7.22%	17.27%	18.27%	8.77%	6.25%
Salomon Brothers World Gov't Non-US	4.87%	2.42%	-7.43%	15.73%	17.90%	8.10%	6.29%
Real Estate	11.11%	10.87%	12.37%	3.33%	7.97%	7.85%	9.08%
NCREIF Index	13.46%	10.35%	11.15%	5.52%	7.64%	8.21%	9.79%
Private Equity[2]	12.47%	35.19%	2.63%	-29.02%	-9.65%	-13.02%	0.04%
Cash	5.33%	6.22%	6.12%	2.50%	1.99%	3.52%	4.42%
90 Day T-bills	4.87%	5.53%	5.88%	2.63%	1.53%	3.33%	4.08%

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.
[2] It has been determined that there is no benchmark that is an accurate reflection of the System's investments in this asset class.

Largest Holdings* at June 30, 2003

LARGEST HOLDINGS JUNE 30, 2003

Stocks	Bonds
Bank of America Corporation	U.S. Treasury Notes Dated 02-15-2000 6.5% Due 02-15-2010
Pfizer Inc.	GNMA TBA Pool 6.00% 30 Year
Verizon Communications	U.S. Treasury Bonds Dated 04-29-1999 8.00% Due 11-15-2021
Microsoft Corporation	U.S. Treasury Notes Dated 11-15-1994 7.875% Due 11-15-2004
Altria Group Incorporated	U.S. Treasury Bond 7.875% 02-15-2021
Bear Stearns Companies Incorporated	FNMA TBA Pool 7.00% 30 Year
Sprint Corporation	Federal Home Loan Banks 6.375% Due 08-15-2006
Citigroup Incorporated	Federal National Mortgage Assoc. Bonds 6.375% 08-15-2007
Occidental Pete Corporation	U.S. Treasury Notes Dated 02-15-1998 5.5% Due 02-15-2008
Chevron Texaco Corporation	U.S. Treasury Bonds Inflation Index Linked 3.875% 04-15-2029

**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.*

INVESTMENT FEES

Public Employees and Highway Patrolmen's Retirement System
Schedule of Investment Fees
For the Fiscal Year Ended June 30, 2003

	Assets Under Management	Fees
Investment Managers' Fees:		
Large Cap Domestic Equities	$338 Million	$ 808,001
Small Cap Domestic Equities	$121 Million	772,948
International Equities	$119 Million	505,650
Emerging Markets Equities	$57 Million	306,059
Domestic Fixed Income	$260 Million	793,771
High Yield Fixed Income	$60 Million	103,764
International Fixed Income	$54 Million	229,494
Real Estate	$58 Million	555,882
Private Equity	$51 Million	2,704,557
Cash	$8 Million	17,201
Total Investment Managers' Fees[1]		$ 6,797,327
Other Investment Service Fees:		
Custodian Fees	$1 Billion	$ 242,054
Investment Consultant Fees	$1 Billion	66,219
SIB Administrative Fees	$1 Billion	132,347
Total Investment Service Fees		$ 440,620
Securities Lending Fees	$1 Billion	$ 1,019,455

[1]Includes fees of $3,662,906 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 Retirement Plan Investment Options – June 30, 2003

Investment Options	Market Value	Percent
Stable Value Fund	$ 2,160,777	23.78%
Fixed Income Fund	636,310	7.01%
Balanced Fund	249,713	2.75%
Large Cap Equities - Value	705,867	7.77%
Large Cap Equities - Blend	65,048	0.72%
Large Cap Equities - Growth	1,230,216	13.55%
Mid Cap Equities - Value	42,257	0.47%
Mid Cap Equities - Blend	47,765	0.53%
Mid Cap Equities - Growth	6,339	0.07%
Small Cap Equities - Value	200,899	2.21%
Small Cap Equities - Growth	375,324	4.13%
International Equity Fund	482,791	5.32%
Asset Allocation Funds	1,979,958	21.80%
Mutual Fund Window	898,577	9.89%
Total	$ 9,081,841	100.0%

DEFINED CONTRIBUTION INVESTMENTS

Defined Contribution Retirement Plan
Schedule of Investment Results
For the Three Years Ended June 30, 2003[1]

	2001	2002	2003	3-year annualized
Stable Value Fund:				
Fidelity Managed Income Portfolio	6.00%	5.44%	4.85%	5.43%
GIC 5 Year Index	3.88%	3.56%	1.09%	2.24%
Fixed Income Fund:				
PIMCO Total Return Bond Fund	10.22%	10.73%	10.93%	10.63%
Lehman Aggregate Bond Index	11.23%	8.11%	10.40%	10.08%
Balanced Fund				
Fidelity Puritan	7.44%	-4.71%	3.79%	2.05%
65% Russell 1000 Index, 35% Lehman Aggregate Bond Index	-5.71%	-2.98%	2.98%	3.40%
Large Cap Equities – Value:				
Fidelity Equity-Income	10.07%	-10.18%	-2.19%	-1.11%
Russell 1000 Value Index	10.33%	-8.95%	-1.02%	-0.19%
Large Cap Equities – Blend:				
Fidelity Spartan 500 Index	-14.74%	-18.34%	0.19%	-11.29%
Fidelity Dividend Growth*	N/A	-16.96%	4.33%	-3.79%
S&P 500 Index	-14.83%	-18.15%	0.25%	-11.19%
Large Cap Equities – Growth:				
Fidelity Growth Company	-29.28%	-32.04%	5.67%	-20.22%
Fidelity Blue Chip Growth*	N/A	-23.01%	-0.30%	-15.75%
Russell 1000 Growth Index	-36.17%	-26.49%	2.94%	-21.54%
Mid Cap Equities – Value:				
Strong Opportunity*	N/A	-19.55%	0.79%	-5.87%
Franklin Mutual Shares A*	N/A	-8.67%	1.68%	5.37%
Russell Mid Cap Value	N/A	1.92%	-0.64%	7.86%
Mid Cap Equities – Blend:				
Fidelity Mid Cap Stock*	N/A	-24.68%	-0.57%	-8.56%
S&P Mid Cap 400	N/A	-18.15%	-0.71%	0.99%
Mid Cap Equities – Growth:				
Invesco Dynamics*	N/A	-36.04%	3.17%	-24.49%
Russell Mid Cap Growth	N/A	-26.34%	7.35%	-18.49%
Small Cap Equities – Value:				
Fidelity Low-Priced Stock*	N/A	15.18%	0.25%	15.17%
Russell 2000 Value Index	N/A	8.50%	-3.80%	10.93%
Small Cap Equities – Growth:				
MSI Small Co Growth B*	N/A	-16.34%	2.52%	-14.29%
Alger Small Cap Retirement	-40.07%	-22.28%	-1.17%	-22.79%
Russell 2000 Growth Index	0.65%	-25.00%	0.69%	-16.66%
International Equity Funds:				
Fidelity Diversified International	-14.39%	-0.80%	-0.87%	-5.58%
MSCI EAFE	-23.69%	-9.31%	-6.46%	-13.52%
Conservative Lifestyle Asset Allocation Funds:				
Fidelity Freedom Income	3.25%	0.17%	4.87%	2.75%
Income Benchmark[2]	3.68%	0.90%	4.98%	3.16%
Moderate Lifestyle Asset Allocation Funds:				
Fidelity Freedom 2000	-0.19%	-1.76%	5.11%	1.01%
2000 Benchmark[2]	-0.17%	-0.63%	5.33%	1.98%
Moderately Aggressive Lifestyle Asset Allocation Funds:				
Fidelity Freedom 2010	-5.54%	-6.47%	6.15%	-2.12%
2010 Benchmark[2]	-5.28%	-4.35%	5.36%	-1.01%
Aggressive Lifestyle Asset Allocation Funds:				
Fidelity Freedom 2020	-11.07%	-12.17%	4.54%	-6.53%
2020 Benchmark[2]	-10.54%	-9.24%	4.13%	-5.26%
Fidelity Freedom 2030	-13.96%	-15.02%	2.90%	-9.05%
2030 Benchmark[2]	-13.16%	-11.99%	2.81%	-7.83%
Fidelity Freedom 2040*	N/A	-17.17%	2.13%	N/A
2040 Benchmark[2]	N/A	-13.70%	2.26%	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

SEGAL

THE SEGAL COMPANY
6300 S. Syracuse Way, Suite 750 Englewood, CO 80111
T 303.714.9900 F 303.714.9990 www.segalco.com

November 21, 2003

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, 2003

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, 2003 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2003 (obtained from files provided by the Retirement System).
- Assets as of June 30, 2003 (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, 2003 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 North Dakota Public Employees Retirement System had an unfunded accrued actuarial liability of about $22.4 million as of July 1, 2003.

Calculated and Statutory Contribution Rates
The July 1, 2003 actuarial valuation of the North Dakota Public Employees Retirement System indicates the following contribution requirements:

PERS Plan	Actuarial Required Contribution Rate*	Statutory Employer Contribution Rate	Member Contribution Rate
Main System	5.51%	4.12%	4.00%
Judges	12.10%	14.52%	5.00%
National Guard	2.76%	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 2003 valuation. Specifically these exhibits are:

- Actuarial Valuation Certificate
- Actuarial Assumptions and Cost Method
- Changes in Actuarial Assumptions or Cost Methods
- Summary of Plan Provisions
- Changes in Plan Provisions
- 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,

John J. Garrett, ASA, MAAA
Vice President

ACTUARIAL VALUATION CERTIFICATE

NORTH DAKOTA
PUBLIC EMPLOYEES RETIREMENT SYSTEM

NOVEMBER 21, 2003

Actuarial Valuation Certificate

This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2003 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 our opinion, the assumptions used in the aggregate are reasonably related to the experience of the System and to reasonable expectations.

Leslie L. Thompson, FSA, MAAA, EA
Senior Vice President and Actuary

John J. Garrett, ASA, MAAA
Vice President

Wally Malles, ASA, MAAA, EA
Assistant Actuary

Actuarial Assumptions and Cost Method – Public Employees Retirement System
(Adopted July 1, 2000)

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:
Males: 42% of OASDI disability incidence rates.
Females: 30% of OASDI disability incidence rates.
Age 65 and Later: Males .25% per year
Females .35% per year

Sample rates are as follows:

Age	Male	Female
20	0.03%	0.02%
30	0.05	0.03
40	0.09	0.07
50	0.25	0.18
60	0.68	0.49

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

Ultimate rates after five years of 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. Early retirement eligibility is as follows:

Main System:
Earlier of (i) age 55 and three years of service, and (ii) eligibility for Rule of 85.

Judges:
Earlier of (i) age 55 and five years of service, and (ii) eligibility for Rule of 85.

National Guard:
Age 50 and three years of service.

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

Judges:
Ages 62 to 64: 35% per year
Age 65 to 69: 50% per year
Age 70: 100%

National Guard:
Age 60: 100%

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:

Age	Percentage Increase	Age	Percentage 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 for all years of service.

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 payroll growth 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 the earlier of 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:
Eligibility:
Main System and National Guard:
Three years of service.

Judges:
Five years of service.

Benefit:
Main System and National Guard:
One of the following options:
• Lump sum payment of member's accumulated contributions with interest.
• The member's accrued benefit payable for 60 months to the surviving spouse.
• 50% of the member's accrued benefit (not reduced on account of age) payable for the surviving spouse's lifetime.
• Continuation portion of 100% Joint and Survivor Annuity (only if participant was eligible for normal retirement).

Judges:
One of the following options:
• Lump sum payment of member's accumulated contributions with interest.
• 100% of the member's accrued benefit (not reduced on account of age) payable for the surviving spouse's lifetime.

Other death benefits:
Main System, National Guard and Judges:
Eligibility: Not vested or no surviving spouse.

Benefit: Lump sum payment of member's accumulated contributions with interest.

6. Refund of Member Contributions:
Paid to terminated non-vested members and terminated vested members who choose refund in lieu of a monthly retirement benefit.

7. Accumulated Member Contributions:
Member contributions accumulate with interest at the following rates:

Time Period	Interest Rate
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:

Standard Form of Payment

Main System and National Guard:

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

Judges:

Monthly benefit for life, with 50% payable to an eligible survivor.

Optional forms of payment:

Life annuity (for Judges), 50% joint and survivor annuity (for Main System and National Guard), 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:

	Full-time Employees	Employer
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,

Schedule of Active Member Valuation Data – PERS – 1998-2003

Main System

July 1	Number of Active Members	Total Payroll (millions)	Average Annual Salary	Percent Increase In Average Salary
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
2003	17,101	474.60	27,751	3.5

Judges

July 1	Number of Active Members	Total Payroll (millions)	Average Annual Salary	Percent Increase In Average Salary
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
2003	47	4.5	95,993	7.1

National Guard

July 1	Number of Active Members	Total Payroll (millions)	Average Annual Salary	Percent Increase In Average Salary
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
2003	12	0.4	35,395	1.9

2. For months 13-24 of service credit, $25 or 2% of the member's monthly salary, whichever is greater.
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. 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
Since the preceding actuarial valuation, the following change in plan provisions was effective:

Judges:
• Post-retirement Adjustment – The benefits for members in pay status as of December 31, 2002, increased by 2.00%, effective January 1, 2003.

Retirees and Beneficiaries Added to and Removed from the Rolls – PERS – 1998-2003

Main System

	Additions			(Removals)					
Plan Year	Beginning Number	Counts	Annual Pension Benefits*	Counts	Annual Pension Benefits*	Ending Number	Average Annual Benefits	Annual Pension Benefits*	% Increase In Annual Benefits
1998	4,193	384	–	(160)	–	4,417	$ 6,276	$ 27.7	9.5%
1999	4,417	407	–	(154)	–	4,670	6,552	30.6	10.5
2000	4,670	357	$ 2.7	(165)	$ (0.6)	4,862	7,200	35.0	14.4
2001	4,862	365	3.4	(171)	(0.7)	5,056	7,836	39.6	13.1
2002	5,056	341	3.1	(165)	(0.8)	5,232	8,016	41.9	5.8
2003	5,232	416	4.7	(162)	(0.8)	5,486	8,319	45.6	8.8

*In millions

Judges

	Additions			(Removals)					
Plan Year	Beginning Number	Counts	Annual Pension Benefits*	Counts	Annual Pension Benefits*	Ending Number	Average Annual Benefits	Annual Pension Benefits	% Increase In Annual Benefits
1998	10	2	–	0	–	12	$ 20,624	$ 247,487	30.7%
1999	12	4	–	(1)	–	15	19,678	295,170	19.3
2000	15	1	$ 28,758	(1)	$ (28,194)	15	23,698	355,463	20.4
2001	15	2	80,114	(1)	(15,741)	16	26,664	426,631	20.0
2002	16	1	18,760	0	0	17	26,903	457,359	7.2
2003	17	1	56,137	0	0	18	29,036	522,643	14.3

National Guard

	Additions			(Removals)					
Plan Year	Beginning Number	Counts	Annual Pension Benefits*	Counts	Annual Pension Benefits*	Ending Number	Average Annual Benefits	Annual Pension Benefits	% Increase In Annual Benefits
1998	1	1	–	0	–	2	$12,872	$25,743	239.9%
1999	2	0	–	0	$ 0	2	13,901	27,802	8.0
2000	2	0	$ 0	0	0	2	13,901	27,802	0.0
2001	2	1	6,446	0	0	3	11,972	35,916	29.2
2002	3	0	0	0	0	3	11,972	35,916	0.0
2003	3	0	0	0	0	3	11,972	35,916	0.0

**Annual pension benefits added and removed were not able to be calucalted for plan years ended 1998 and 1999.*

Solvency Test — PERS
1998-2003

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)

	Aggregate Actuarial Accrued Liabilities				Portion of Actuarial Accrued Liabilities Covered by Assets		
July 1	Member Contributions (1)	Retirees and Beneficiaries, Inactive and Pay-Status Members (2)	Active Member Employer Financed Portion (3)	Actuarial Value of Assets	(1)	(2)	(3)
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
2003	309.4	427.1	452.3	1,166.5	100	100	95

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

Plan Year Ended	June 30, 2000	June 30, 2001	June 30, 2002	June 30, 2003
Employer Cost Rate at Beginning of Year	**3.34%**	**2.32%**	**3.83%**	**4.42%**
Death after Retirement	0.00	0.04	0.01	0.00
Death-in-Service	0.02	0.01	0.02	0.03
Withdrawal From Employment	-0.03	0.07	0.05	0.05
Age and Service Retirements	-0.07	0.09	0.07	0.10
Financial Experience-Investments	-0.87	-0.24	0.66	0.94
Pay Increases	0.00	0.01	0.05	-0.08
Contribution Income	-0.06	-0.12	-0.02	0.02
Administrative Expenses	0.00	0.04	0.01	0.01
New and Reinstated Members	0.03	0.04	0.04	0.04
Demographic Changes	0.19	0.13	-0.36	-0.03
Assumption Changes	-0.34	0.00	0.00	0.00
Amendments	0.00	1.36	0.00	0.00
Miscellaneous	0.05	0.02	0.02	-0.02
Impact of Enhanced Benefits due to Portability Enhancement Provision	0.06	0.06	0.04	0.03
Employer Cost Rate at End of Year	**2.32%**	**3.83%**	**4.42%**	**5.51%**

Judges

Plan Year Ended	June 30, 2000	June 30, 2001	June 30, 2002	June 30, 2003
Employer Cost Rate at Beginning of Year	**7.36%**	**6.50%**	**9.03%**	**10.29%**
Plan Experience	-2.31	-2.17	1.05	1.67
Assumption Changes	1.18	0.00	0.00	0.00
Amendments	0.00	4.43	0.00	0.00
Miscellaneous	0.27	0.27	0.21	0.14
Employer Cost Rate at End of Year	**6.50%**	**9.03%**	**10.29%**	**12.10%**

National Guard

Plan Year Ended	June 30, 2000	June 30, 2001	June 30, 2002	June 30, 2003
Employer Cost Rate at Beginning of Year	**3.84%**	**1.74%**	**3.30%**	**0.00%**
Plan Experience	-2.29	0.14	-3.30	2.60
Amendments	0.00	1.28	0.00	0.00
Miscellaneous	0.19	0.14	0.00	0.16
Employer Cost Rate at End of Year	**1.74%**	**3.30%**	**0.00%**	**2.76%**

COMMENTS FROM THE SEGAL COMPANY

HIGHWAY PATROLMEN'S RETIREMENT SYSTEM

SEGAL

THE SEGAL COMPANY
6300 S. Syracuse Way, Suite 750 Englewood, CO 80111
T 303.714.9900 F 303.714.9990 www.segalco.com

November 21, 2003

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, 2003

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 the System on an actuarial reserve basis.

Basic Elements

The most recent actuarial valuation prepared as of July 1, 2003 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2003 (obtained from files provided by the Retirement System).
- Assets as of June 30, 2003 (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 Governmental 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, 2003 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 North Dakota Highway Patrolmen's Retirement Fund had an unfunded actuarial accrued liability of about $2.9 million as of July 1, 2003.

Calculated and Statutory Contribution Rates
The July 1, 2003 actuarial valuation of the North Dakota Highway Patrolmen's Retirement Fund indicates the following contribution requirements, expressed as a percentage of covered payroll.

Actuarial Required Employer Contribution Rate	Statutory Employer Contribution Rate	Member Contribution
16.96%	16.70%	10.30%

Exhibits
The enclosed supporting exhibits, prepared by Segal, provide further related information regarding the 2003 valuation. Specifically, those exhibits are:
- Actuarial Valuation Certificate
- Actuarial Assumptions and Cost Method
- Changes in Actuarial Assumptions or Cost Methods
- Summary of Plan Provisions
- Changes in Plan Provisions
- 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,

John J. Garrett, ASA, MAAA
Vice President

ACTUARIAL VALUATION CERTIFICATE

NORTH DAKOTA
HIGHWAY PATROLMEN'S RETIREMENT SYSTEM

NOVEMBER 21, 2003

Actuarial Valuation Certificate

This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2003 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 our opinion, the assumptions used in the aggregate are reasonably related to the experience of the System and to reasonable expectations.

Leslie L. Thompson, FSA, MAAA, EA
Senior Vice President and Actuary

John J. Garrett, ASA, MAAA
Vice President

Wally Malles, ASA, MAAA, EA
Assistant Actuary

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

(Adopted July 1, 2000)

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 Incidence 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 (for selected ages):

Age	Annual 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 plus 1.75% of final average salary 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 Beginning	Average Monthly Increase	3-Year Average Increase Factor	Cumulative Salary Factor
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
7/1/03	0.00	1.0118	1.2335

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 member's accumulated contributions with interest.
- 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: Lump sum payment of member's accumulated contributions with interest.

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.

Member's contributions earn interest at an annual rate of 7.5% compounded monthly.

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
1998 to 2003

July 1	Number of Active Members	Total Payroll (millions)	Average Annual Salary	% Change in Average Salary
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
2003	131	5.4	40,928	0.9

North Dakota Highway Patrolmen's Retirement System
Retirees and Beneficiaries Added to and Removed from the Rolls, 1998-2003

	Additions			(Removals)					
Plan Year	Beginning Number	Counts	Annual Pension Benefits*	Counts	Annual Pension Benefits*	Ending Number	Average Annual Benefits	Annual Pension Benefits	% Increase In Annual Benefits
1998	70	4	–	(2)	–	72	$ 19,258	$ 1,386,573	5.1%
1999	72	7	–	(2)	–	77	20,974	1,614,996	16.5
2000	77	4	$ 69,950	(1)	$ 30,411	80	20,682	1,654,536	2.4
2001	80	2	75,771	(1)	(2,451)	81	22,574	1,828,468	10.5
2002	81	5	218,675	0	0	86	23,802	2,046,933	11.9
2003	86	2	78,403	(3)	(46,864)	85	24,429	2,076,506	1.4

*Annual pension benefits added and removed were not able to be calculated for plan years ended 1998 and 1999.

Solvency Test — HPRS
1998-2003

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)

	Aggregate Actuarial Accrued Liabilities				Portion of Actuarial Accrued Liabilities Covered by Assets		
July 1	Member Contributions (1)	Retirees and Beneficiaries, Inactive and Pay-Status Members (2)	Active Member Employer Financed Portion (3)	Actuarial Value of Assets	(1)	(2)	(3)
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
2003	9.2	21.2	12.0	39.6	100	100	77

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 Ended	June 30, 2000	June 30, 2001	June 30, 2002	June 30, 2003
Employer Cost Rate at Beginning of Year	**11.87%**	**9.18%**	**12.13%**	**14.59%**
Plan Experience	-3.68	-1.16	2.51	2.50
Change in Ammortization Schedule	0.00	0.04	-0.05	-0.13
Assumption Changes	0.99	0.00	0.00	0.00
Amendments	0.00	4.07	0.00	0.00
Miscellaneous	0.00	0.00	0.00	0.00
Employer Cost Rate at End of Year	**9.18%**	**12.13%**	**14.59%**	**16.96%**

COMMENTS FROM THE SEGAL COMPANY

RETIREE HEALTH INSURANCE CREDIT FUND

SEGAL

THE SEGAL COMPANY
6300 S. Syracuse Way, Suite 750 Englewood, CO 80111
T 303.714.9900 F 303.714.9990 www.segalco.com

November 21, 2003

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, 2003

Dear Members of the Board:

The North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund is a funded retiree health plan. The programs 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, 2003 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2003 (obtained from files provided by the Retirement System).
- Assets as of June 30, 2003 (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, 2003 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 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 $44.5 million as of July 1, 2003. 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, 2003 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 prepared by Segal provide further related information regarding the 2003 valuation. Specifically, they are:

- Actuarial Valuation Certificate
- Actuarial Assumptions and Cost Method
- Changes in Actuarial Assumptions or Cost Methods
- Summary of Plan Provisions
- Changes in Plan Provisions
- 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,

John J. Garrett, ASA, MAAA
Vice President

NORTH DAKOTA
PUBLIC EMPLOYEES RETIREMENT SYSTEM
RETIREE HEALTH INSURANCE CREDIT FUND

NOVEMBER 21, 2003

Actuarial Valuation Certificate

This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2003 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 our opinion, the assumptions used in the aggregate are reasonably related to the experience of the System and to reasonable expectations.

Leslie L. Thompson, FSA, MAAA, EA
Senior Vice President and Actuary

John J. Garrett, ASA, MAAA
Vice President

Wally Malles, ASA, MAAA, EA
Assistant Actuary

Actuarial Assumptions and Cost Method – Retiree Health Insurance Credit Fund

(Adopted July 1, 2000)

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

	Year of Employment				
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

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
20	0.03%	0.02%
30	0.05	0.03
40	0.09	0.07
50	0.25	0.18
60	0.68	0.49

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:
65% of male retirees and 20% 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 1998 - 2003

July 1	Number of Retired Members	Average Annual Benefit	Active Members Per Retiree
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
2003	3,519	1,128	5.0

Funding Progress – Retiree Health Insurance Credit Fund 1998 - 2003

(Amounts in Millions)

July 1	Total Actuarial Accrued Liability	Total Actuarial Value of Assets	Assets as of % of Total Actuarial Accrued Liability
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
2003	72.0	27.5	38.2

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

Plan Year Ended	June 30, 2000	June 30, 2001	June 30, 2002	June 30, 2003
Employer Cost Rate at Beginning of Year	**0.99%**	**1.02%**	**0.99%**	**0.98%**
Plan Experience	0.00	-0.03	-0.01	0.00
Assumption and Method Changes	0.03	0.00	0.00	0.00
Miscellaneous	0.00	0.00	0.00	0.00
Employer Cost Rate at End of Year	**1.02%**	**0.99%**	**0.98%**	**0.98%**

STATISTICAL SECTION

Retirement System Membership – PERS and HPRS
As of June 30

	1999	2000	2001	2002	2003
State Agencies	11,079	11,025	11,351	11,451	11,688
Cities	362	377	390	404	431
Counties	3,213	3,311	3,313	3,433	3,530
School Districts	3,992	4,302	4,574	4,815	5,083
Other Political Subdivisions	379	391	401	456	521
Total Non-Retired [1]	19,025	19,406	20,029	20,559	21,253
Retired Members & Beneficiaries	4,764	4,959	5,156	5,338	5,592
Total Membership	23,789	24,365	25,185	25,897	26,845
Administrative Expenses	$ 731,362	$ 814,350	$ 909,350	$ 999,177	$ 1,085,272
Administrative Cost per Member	$ 30.74	$ 33.42	$ 36.11	$ 38.58	$ 40.43

[1] *Total non-retired members includes all contributing members plus all non-contributing members who have not begun to receive retirement benefits.*

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:	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
	2003	19,758,764	19,212,733	53,998,006	9,184	92,978,687	4.01
Highway Patrolmen's Retirement System:	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
	2003	513,812	833,074	1,820,797	56	3,167,739	15.54

[1] Member contributions include statutory contributions and service purchases. Contributions for repurchased service credit were $1,493,418 and $1,059,313 for the fiscal years ended June 30, 2003 and 2002.

Expenses by Type
Fiscal Year Ended June 30

	FY Ended June 30	Benefits	Administrative Expenses	Transfers and Refunds	Total
Public Employees Retirement System:	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
	2003	43,733,098	1,068,803	2,728,091	47,529,992
Highway Patrolmen's Retirement System:	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
	2003	2,044,071	16,469	19,412	2,079,952

[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	Annuities [1]		Refunds			
June 30	Retirant	Survivor	Death	Separation	Transfers	Total
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	3,451,513	138,275	46,389,291
2003	42,260,036	3,373,214	143,919	2,691,613	55,890	48,524,672

[1] Includes disability benefits

Schedule of Retired Members by Type of Benefit – PERS
As of June 30, 2003

Main System

		Type of Pension			
Monthly Amount	Total	Normal	Early	Disability	Service *
Total	4,880	1,713	1,641	308	1,218
Less than $199	765	335	389	30	11
$200 - $ 399	1,230	477	613	132	8
400 - 599	832	325	380	100	27
600 - 799	491	222	153	32	84
800 - 999	364	102	55	10	197
1,000 - 1,199	300	83	26	2	189
1,200 - 1,399	230	51	12	-	167
1,400 - 1,599	156	33	3	1	119
1,600 - 1,799	123	22	3	-	98
1,800 - 1,999	89	17	3	-	69
2,000 - 2,199	83	11	1	1	70
2,200 - 2,399	57	7	3	-	47
2,400 - 2,599	42	4	-	-	38
2,600 - 2,799	36	7	-	-	29
2,800 - 2,999	19	5	-	-	14
3,000 & Over	63	12	-	-	51
Life	3,268	1,206	1,217	244	601
Level Social Security Payment	77	-	13	-	64
Joint & 100% Survivor	734	281	198	34	221
Joint & 50% Survivor	560	149	112	21	278
10 Year C & L	189	60	83	4	42
5 Year C & L	52	17	18	5	12
Total	4,880	1,713	1,641	308	1,218

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

Schedule of Average Benefit Payments – PERS
As of June 30

Main System

	Years of Credited Service						
	<10	10-14	15-19	20-24	25-29	>=30	Total
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
2003							
Number of Retirees	891	969	918	725	594	783	4,880
Average Monthly Benefits	$ 215	$ 334	$ 492	$ 747	$ 1,162	$ 1,730	$ 728
Average Years of Service	6.37	12.32	17.39	22.29	27.17	34.99	19.11

Schedule of Retired Members by Type of Benefit – PERS
As of June 30, 2003

Judges

Monthly Amount	Total	Type of Pension			
		Normal	Early	Disability	Service *
Total	12	6	3	0	3
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	6	2	2	-	2
Life	1	1	-	-	-
Level Social Security Payment	-	-	-	-	-
Joint & 100% Survivor	7	5	1	-	1
Joint & 50% Survivor	4	-	2	-	2
10 Year C & L	-	-	-	-	-
5 Year C & L	-	-	-	-	-
Total	12	6	3	0	3

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

Schedule of Average Benefit Payments – PERS
As of June 30

Judges

	Years of Credited Service						
	<10	10-14	15-19	20-24	25-29	>=30	Total
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
2003							
Number of Retirees	1	5	3	3	0	0	12
Average Monthly Benefit	$ 1,262	$ 1,864	$ 3,309	$ 4,292	$ 0	$ 0	$ 2,782
Average Years of Service	8.50	11.30	18.61	23.75	0.00	0.00	16.01

Schedule of Retired Members by Type of Benefit – PERS
As of June 30, 2003

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

National Guard

	Years of Credited Service						
	<10	10-14	15-19	20-24	25-29	>=30	Total
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
2003							
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, 2003

Monthly Amount	Total	Type of Pension			
		Normal	Early	Disability	Rule of 80
Total	66	34	1	1	30
Less than $200	-	-	-	-	-
$200 - $ 399	2	2	-	-	-
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	6	4	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	16	5	-	-	11
Life	8	2	-	1	5
Level Social Security Payment	-	-	-	-	-
Joint & 100% Survivor	11	3	-	-	8
Joint & 50% Survivor	47	29	1	-	17
10 Year C & L	-	-	-	-	-
5 Year C & L	-	-	-	-	-
Total	66	34	1	1	30

Schedule of Average Benefit Payment – HPRS
As of June 30

	Years of Credited Service						
	<10	10-14	15-19	20-24	25-29	>=30	Total
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
2003							
Number of Retirees	1	1	4	4	42	14	66
Average Monthly Benefits	$ 1,456	$ 1,133	$ 387	$ 1,421	$ 2,625	$ 2,896	$ 2,434
Average Years of Service	2.25	13.50	16.10	21.88	28.15	31.11	27.05

SCHEDULE OF PARTICIPATING EMPLOYERS

STATE AGENCIES:
ADJUTANT GENERAL ARMY NATL GRD
AERONAUTICS COMMISSION
ATTORNEY GENERAL'S OFFICE
BANK OF NORTH DAKOTA
BEEF COMMISSION
BISMARCK STATE COLLEGE
BOARD OF NURSING
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
INDUSTIAL 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 UNIVERSITY SYSTEM
ND VETERANS HOME
ND WHEAT COMMISION
ND YOUTH CORRECTIONAL CENTER
NORTH DAKOTA STATE UNIVERSITY
OFFICE OF ADM HEARING
OFFICE OF MANAGEMENT & BUDGET
PARKS & RECREATION DEPARTMENT
PLUMBING BOARD
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
UND - LAKE REGION
UNIVERSITY OF NORTH DAKOTA
VALLEY CITY STATE UNIVERSITY
VETERANS AFFAIRS DEPARTMENT
VOCATIONAL & TECHNICAL ED
WATER COMMISSION
WILLISTON STATE COLLEGE
WORKFORCE SAFETY AND INSURANCE
Total = 87

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
SHERIDAN COUNTY
SLOPE COUNTY
STARK COUNTY
STEELE COUNTY
STUTSMAN COUNTY
TRAILL COUNTY
WALSH COUNTY
WARD COUNTY
WELLS COUNTY
WILLIAMS COUNTY
Total = 43

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
DAKOTA PRAIRIE PUBLIC SCHOOLS
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
GARRISON PUBLIC SCHOOL
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
KENMARE PUBLIC SCHOOLS
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
LEWIS AND CLARK PUBLIC SCHOOLS
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
MILNOR PUBLIC SCHOOLS
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
NORTH VALLEY VO-TECH CENTER
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
RURAL CASS MULTI-DISTRICT SPECIAL ED
SHELDON PUBLIC SCHOOL
SOLEN PUBLIC SCHOOL DIST #3
SOURIS VALLEY SPECIAL SERVICES
ST JOHN SCHOOL DIST #3
STANLEY PUBLIC SCHOOL DIST #2
SURREY SCHOOLS
SW SPECIAL EDUCATION UNIT
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 = 98

CITIES:
CITY OF ASHLEY
CITY OF BELFIELD
CITY OF BOWMAN
CITY OF BURLINGTON
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 LAMOURE
CITY OF LIDGERWOOD
CITY OF LINCOLN
CITY OF LINTON
CITY OF MAPLETON
CITY OF MCVILLE
CITY OF MCCLUSKY
CITY OF MEDORA
CITY OF MICHIGAN
CITY OF MINTO
CITY OF MOHALL
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 = 65

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 COUNCIL ON AGING
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 COUNTY PUBLIC HEALTH
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
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
WALSH COUNTY HEALTH DEPT
WARD COUNTY WATER RESOURCE DIST
WATFORD CITY PARK DIST
WELLS COUNTY DIST HEALTH UNIT
WEST & CENTRAL STARK SOIL CONSERVATION DIST
Total = 54

Deferred Compensation Program
Schedule of Assets

By Provider

	6/30/99	6/30/00	6/30/01	6/30/02	6/03/03
Aetna	$ 1,580,407	$ 1,631,909	$ 1,371,510	$ 1,204,650	$ 1,219,957
Bank of North Dakota	2,308,615	2,558,319	2,714,110	2,917,814	3,046,742
The Equitable	32,203,884	33,047,681	28,807,160	22,424,207	21,916,044
Great West Life	364,473	–	–	–	–
The Hartford	3,782,673	5,372,109	6,176,828	6,210,009	7,847,811
Jackson National	1,713,161	1,633,441	1,271,183	1,100,184	1,049,182
John Kinnard[1]	122,067	111,789	74,467	35,274	35,238
Kemper	1,913,566	2,693,930	2,611,732	2,522,224	3,051,776
Lincoln National	6,524,299	8,563,190	7,678,043	5,629,852	5,671,137
Nationwide	10,314,806	12,465,661	10,869,181	8,578,288	8,682,214
New York Life[1]	1,104,597	1,118,653	863,482	694,345	589,652
NDPERS Companion Plan[1]	4,141,310	5,585,780	6,748,503	7,917,076	10,267,537
Safeco Life	1,567,773	1,760,140	1,608,008	1,213,011	1,234,201
Sunset Life	294,980	315,374	338,294	362,938	339,516
VALIC	589,117	1,190,959	943,251	884,995	1,245,292
Waddell & Reed	2,632,449	3,828,708	3,591,244	3,155,836	3,557,920
Total	$ 71,158,177	$ 81,877,643	$ 75,666,996	$ 64,850,703	$ 69,754,219

[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, 2002 and June 30, 2003 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.

FLEXCOMP PARTICIPATION

FLEXCOMP PARTICIPATION

STATISTICS

GROUP HEALTH INSURANCE PROGRAM

Average Number of Contracts in Force

Health Insurance Premium Active State Contracts

	91-93	93-95	95-97	97-99	99-01	01-03
Single Plan	$108.00	$120.00	$125.00	$139.69	$162.48	$190.33
Family Plan	$304.00	$297.00	$309.00	$345.32	$401.67	$469.78