



# OFFICE OF STATE TREASURER

STATE OF NORTH DAKOTA

Kathi Gilmore  
STATE TREASURER

## Veteran's Postwar Trust Fund FY 2002 Report Presented October 26, 2001 With Projections Through June 30, 2002

### Assets:

Marketable Securities (RIO account as of 9-30-01)	\$1,215,571.00
Reserve Account	\$50,000.00
Bonds (State of Israel)	\$2,000,000.00
Bank CDs	\$687,649.99
Current cash account balance (as of 10-22-01)	\$72,303.17
Total estimated accrued interest to be credited from 11-1-01 through 6-30-02	\$170,203.17
<b>Total Assets</b>	<b>\$4,195,727.33</b>

### Liabilities:

	Committed	Funded	Unfunded
Reserve Account	100,000.00	50,000.00	50,000.00
Veteran's Affairs (letters dated 7-20-01 and 9-13-01)			
Grants	50,000.00	30,000.00	20,000.00
Operations (\$74,000 for biennium)	37,000.00	12,750.00	24,250.00
	0.00	0.00	0.00
	0.00	0.00	0.00
	0.00	0.00	0.00
	0.00	0.00	0.00
	0.00	0.00	0.00
	0.00	0.00	0.00
	0.00	0.00	0.00
	0.00	0.00	0.00
	0.00	0.00	0.00
<b>Total Liabilities</b>	<b>187,000.00</b>	<b>92,750.00</b>	<b>94,250.00</b>

### Cash Flow Projection Through June 30, 2002

Total Projected Assets through 6-30-02 (including interest to be earned)	\$4,195,727.33
Constitutional Fund Equity	\$4,101,848.55
Investment Fund Equity (cash available for operations)	\$93,878.78
Less current unfunded liabilities	\$94,250.00
<b>Uncommitted cash flow on June 30, 2002</b>	<b>-371.22</b>

## **Veteran's Postwar Trust Fund Establishment of Reserve Account**

Article IX, Section 25 of the Constitution of North Dakota establishes the Veteran's Postwar Trust Fund as a permanent trust fund of the State of North Dakota. The State Treasurer is designated as the investment authority for the Trust with the provision that the investments be made, "...only in the same manner as the state investment board is authorized to make investments." This section also requires that the income from investments be used for programs which must be of benefit and service to veterans.

Section 21-10-07 of the North Dakota Century Code provides the basis for legal investments for the state investment Board. The requirement is that the investments must meet the provisions of the Prudent Investor Rule.

Under a full and current interpretation of the Prudent Investor Rule, investments may be designed to stabilize income distributions for long-term endowments, such as the Veteran's Postwar Trust. An integral component of this long-term income stabilization strategy may include the creation of a reserve account, which consists of income that is deferred for distribution in the event that market conditions cause an unusual decrease in expected distributions. The money in a reserve account may be invested as principal of the Trust is invested however, unlike principal, the reserved funds are available for distribution under certain circumstances. When properly invested, reserve account funds act like, and appear to be, an extension of the Trust's principal during the time it is invested. It's "principal-like status" changes however when the need to use it to enhance distributions is triggered. It is common for a reserve account to be 10-25% of the principal of a fund.

Under the circumstances stated here, a reserve account for the Veteran's Postwar Trust Fund was established in July of 2001, with an initial reserved distribution of \$50,000.