

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**

**BISMARCK, NORTH DAKOTA**

Examination For The Years Ended

June 30, 2011 and 2010

## TABLE OF CONTENTS

	<u>Page</u>
<b>FINANCIAL SECTION</b>	
INDEPENDENT AUDITOR'S REPORT	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-9
BASIC FINANCIAL STATEMENTS	
Fund Financial Statements:	
Statements of Net Assets—Proprietary Funds	10
Statements of Revenues, Expenses, and Changes in Fund Net Assets— Proprietary Funds	11
Statements of Cash Flows---Proprietary Funds	12
Statements of Plan Net Assets---Fiduciary Funds	13-14
Statements of Changes in Plan Net Assets---Fiduciary Funds	15-16
Notes to the Financial Statements	17-64
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Employer Contributions	65
Schedule of Funding Progress	66-67
SUPPLEMENTARY INFORMATION:	
Schedule of Investment Expenses and Administrative Expenses--- Fiduciary Funds	68
Statement of Appropriations	69
<b>INTERNAL CONTROL AND COMPLIANCE SECTION</b>	
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	70-71
SPECIAL COMMENTS REQUESTED BY THE LEGISLATIVE AUDIT FISCAL REVIEW COMMITTEE	72-74
INDEPENDENT AUDITOR'S COMMUNICATION TO THE BOARD OF TRUSTEES OF THE NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM	75



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

Governor Jack Dalrymple  
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 years ended June 30, 2011 and 2010, which collectively comprise the 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the 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, 2011 and 2010, 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.

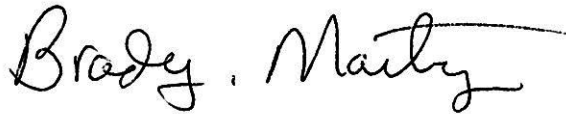
The actuary for the North Dakota Public Employees Retirement System has determined that the Fund's unfunded actuarial accrued liability is approximately \$689 and \$586 million at June 30, 2011 and 2010, respectively. Also, the actuary for the Highway Patrolmen's Retirement System has determined that the Fund's unfunded actuarial accrued liability is approximately \$17 and \$12 million at June 30, 2011 and 2010. The funding for the actuarial accrued liabilities is predicated on employer and employee funding rates mandated by North Dakota statutes. The actuary has determined that the current statutory contribution rates are insufficient to meet the actuarially determined requirement. If unchanged, this difference will further increase the actuarial contribution requirement in future valuations.

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, 2011 and 2010, and the respective changes in net plan assets, changes in financial position and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 29, 2011, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion 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 and the Statement of Appropriations are presented for the purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in cursive script that reads "Brady, Martz". The signature is written in black ink and is positioned above the printed name of the firm.

**BRADY, MARTZ & ASSOCIATES, P.C.**

November 29, 2011

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Management Discussion and Analysis**

**June 30, 2011 and 2010**

Our discussion and analysis of the North Dakota Public Employees Retirement System financial performance provides an overview of the agency's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the basic financial statements, which follow this discussion.

NDPERS administers a total of eight fiduciary funds. This includes four defined benefit pension trust funds (PERS, Highway Patrol, Job Service and OASIS), 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, 2011 and 2010, the funding ratio (actuarial value of assets divided by actuarial accrued liability) for each of the funds is shown below:

	<u>2011</u>	<u>2010</u>
Public Employees Retirement System	70.5%	73.4%
Highway Patrolmen Retirement System	73.7%	79.8%
Retirement Plan for Employees of Job Service of ND	110.0%	104.8%
Retiree Health Insurance Credit Fund	49.6%	47.4%

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 for the Public Employees and Highway Patrolmen retirement systems decreased from the previous fiscal year as a result of the recognition of previous years' investment losses.

- Plan net assets for all trust funds administered by NDPERS increased \$327.4 million or 19% during the fiscal year ended June 30, 2011. The increase was primarily due to net gains on investments during the fiscal year.

	(in thousands)
Public Employees Retirement System	\$ 283,871
Highway Patrolmen Retirement System	7,867
Retiree Health Insurance Credit Fund	12,959
Defined Contribution Retirement Fund	4,821
Pretax Benefits Fund	147
Deferred Compensation Plan	9,684
Retirement Plan for Employees of Job Service ND	8,058
OASIS Trust Fund	(2)
Total increase in plan net assets	<u><u>\$ 327,405</u></u>

- As of June 30, 2011, an additional \$1 million in software development costs were incurred and capitalized and are shown as Software on the Statement of Plan Net Assets for each fund. The total costs capitalized as of June 30, 2011 are \$7 million, of which \$6.9 million is software that has been placed into production.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Management Discussion and Analysis**

**June 30, 2011 and 2010**

**Financial Highlights – Uniform Group Insurance Program**

- Net assets decreased by \$483,278 or 58.3%. The two factors contributing to this decrease are the operating transfer to the Deferred Compensation plan to fund that program's portion of the software development cost, and amortization of software put into production during the fiscal year.
- As of June 30, 2011, an additional \$.4 million in software development costs were incurred and capitalized and are shown as Software on the Statement of Net Assets for the Proprietary Fund. The total costs capitalized as of June 30, 2011 are \$2.84 million of which \$2.78 million is software that has been placed into production.

**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, 2011, 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, 2011, 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, 2011, 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, 2011, 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, 2011 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 include information on the funding status, funding progress and actuarial assumptions and methods for each of the defined benefit pension trust funds and the retiree health insurance credit advance funded and implicit subsidy unfunded plans. The notes to the financial statements can be found on pages 17-64 of this report.

**Required supplementary information.** The required supplementary information consists of a Schedule of Employer Contributions and a Schedule of Funding Progress for the defined benefit pension trust funds, the retiree health insurance credit advance funded plan and implicit subsidy unfunded plan. 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 and Statement of Appropriations are presented for the purpose of additional analysis.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Management Discussion and Analysis**

**June 30, 2011 and 2010**

**Financial Analysis**

The financial results for fiscal years 2011 and 2010 are summarized below. The information in the tables below is condensed from the Financial Statements.

**Statement of Fiduciary Net Assets (in thousands)**

	2011	% Change	2010	% Change	2009
<b>Assets</b>					
Cash	\$ 3,188	31.7%	\$ 2,421	(10.7)%	\$ 2,710
Receivables	10,144	14.9%	8,825	5.9%	8,330
Investments, at fair value	2,000,908	19.4%	1,676,069	12.1%	1,495,066
Securities Lending Collateral	-	(100.0)%	9,913	28.3%	7,724
Prepaid health premiums	491	NA	-	NA	-
Software & Equipment, net of accum depr.	6,522	7.4%	6,074	38.9%	4,374
Total assets	<u>2,021,253</u>	18.7%	<u>1,703,302</u>	12.2%	<u>1,518,204</u>
<b>Liabilities</b>					
Long-term liabilities outstanding	148	10.4%	134	8.9%	123
Other liabilities	3,907	(70.8)%	13,375	24.7%	10,724
Total liabilities	<u>4,055</u>	(70.0)%	<u>13,509</u>	24.5%	<u>10,847</u>
<b>Net assets available for benefits</b>	<u>\$ 2,017,198</u>	19.4%	<u>\$ 1,689,793</u>	12.1%	<u>\$ 1,507,357</u>

The total assets for all fiduciary funds as of June 30, 2011 were \$2 billion and were comprised mainly of investments. For the fiscal year ended June 30, 2011, plan assets increased by \$317.9 million. This increase was primarily due to gains in the financial markets during the fiscal year. For the fiscal year ended June 30, 2010, plan assets increased by \$185.1 million, also due to financial market gains. During the current fiscal year, the securities lending program was terminated so there was no invested securities lending collateral as of June 30, 2011.

Total liabilities as of June 30, 2011 were \$4.1 million, a decrease of \$9.5 million from the previous fiscal year. There was no securities lending collateral as of June 30, 2011 because the securities lending program was terminated. Total liabilities increased \$2.7 million for the fiscal year ended June 30, 2010 as a result of changes in securities lending collateral.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Bismarck, North Dakota**

**Management Discussion and Analysis**

**June 30, 2011 and 2010**

**Statement of Changes in Fiduciary Net Assets (in thousands)**

	June 30, 2011	% Change	June 30, 2010	% Change	June 30, 2009
<b>Additions</b>					
Contributions	\$ 92,457	5.4%	\$ 87,718	10.5%	\$ 79,370
Investment income	350,417	75.5%	199,619	143.1%	(463,300)
Other	4,949	(2.9)%	5,097	2.9%	4,954
Total additions	<u>447,823</u>	53.1%	<u>292,434</u>	177.2%	<u>(378,976)</u>
<b>Deductions</b>					
Benefit payments	111,984	8.3%	103,445	8.2%	95,602
Refunds/Transfers	5,382	20.0%	4,484	(18.6)%	5,506
Administrative expenses	3,052	47.5%	2,069	(.4)%	2,078
Total deductions	<u>120,418</u>	9.5%	<u>109,998</u>	6.6%	<u>103,186</u>
<b>Changes in net assets available for benefits</b>	<u>\$ 327,405</u>	79.5%	<u>\$ 182,436</u>	137.8%	<u>\$ (482,162)</u>

Additions. Contributions and returns on invested funds are the primary additions that are accumulated and used to pay benefits for each of the plans. Contributions increased \$4.7 million and \$8.3 million for the years ended June 30, 2011 and 2010, respectively. The increase in the Retiree Health Insurance contribution, which became effective July 1, 2009, is reflected in the increase for June 30, 2010. The plans experienced positive investment earnings of \$350.4 million and \$199.6 million for the fiscal years ending June 30, 2011 and June 30, 2010. This followed a year of negative earnings of \$463.3 million for June 30, 2009. The changes in Other Additions are primarily due to the transfers from the retirement program to the deferred compensation program to cover software development costs.

Deductions. Deductions include benefit payments, refunds/transfers, and administrative expenses. Deductions for the year ended June 30, 2011 totaled \$120.4 million, an increase of \$10.4 million over 2010. Of the total increase, \$8.5 million was due to the increase in the number of benefit recipients, \$.9 million was attributed to an increase in the amount of refunds issued to terminated participants and \$1 million was an increase in administrative expenses. The increase in administrative expenses consisted of \$.5 million of amortization expense on the portion of the software that was put into production during the fiscal year, together with increased expenditures relating to deployment of the new software system. Expenses for the year ended June 30, 2010 totaled \$110.0 million which is an increase of 6.6% from 2009.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Management Discussion and Analysis**

**June 30, 2011 and 2010**

**Statement of Proprietary Fund Net Assets (in thousands)**

	<u>June 30, 2011</u>	<u>% Change</u>	<u>June 30, 2010</u>	<u>% Change</u>	<u>June 30, 2009</u>
<b>Assets</b>					
Cash	\$ 12,701	14.2%	\$ 11,126	0.5%	\$ 11,069
Receivables	434	478.7%	75	(84.0)%	468
Software	2,630	7.3%	2,450	39.0%	1,763
Total assets	<u>15,765</u>	15.5%	<u>13,651</u>	2.6%	<u>13,300</u>
<b>Liabilities</b>					
Long-term liabilities outstanding	66	15.8%	57	18.8%	48
Other liabilities	15,353	20.3%	12,765	4.3%	12,243
Total liabilities	<u>15,419</u>	20.3%	<u>12,822</u>	4.3%	<u>12,291</u>
<b>Net assets</b>	<u>\$ 346</u>	(58.3)%	<u>\$ 829</u>	(17.8)%	<u>\$ 1,009</u>

As of June 30, 2011, total assets increased by \$2.1 million, or 15.5%. Cash increased due to receiving a payment of \$1.7 million through the pre-Medicare retiree reinsurance provision created under the health care reform bill, which is further explained in Note 11. There was also an increase in accounts receivable and software. As of June 30, 2010, total assets increased by \$.3 million. The net change was the result of an increase in software to reflect the costs incurred to date on the software development project. This increase was offset by a decrease in receivable.

As of June 30, 2011, total liabilities increased by \$2.6 million, or 20.3%. The main components of the liabilities are deferred premiums and amounts held in custody for others. There was an increase in the amount held in custody for others reflecting the payment received under the health care reform bill. There was also an increase in premiums collected in advance of being billed. Total liabilities as of June 30, 2010 increased by \$.5 million, or 4.3%.

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Bismarck, North Dakota**

**Management Discussion and Analysis**

**June 30, 2011 and 2010**

**Statement of Changes in Proprietary Fund Net Assets (in thousands)**

	<u>June 30, 2011</u>	<u>% Change</u>	<u>June 30, 2010</u>	<u>% Change</u>	<u>June 30, 2009</u>
<b>Operating Revenues</b>					
Administrative Fee	\$ 963	1.5%	\$ 949	2.2%	\$ 929
<b>Non-Operating Revenues</b>					
Investment income	<u>14</u>	(48.1)%	<u>27</u>	(63.5)%	<u>74</u>
Total revenues	<u>977</u>	0.10%	<u>976</u>	(2.7)%	<u>1,003</u>
<b>Operating Expenses</b>					
Administrative expenses	<u>1,198</u>	26.4%	<u>948</u>	9.2%	<u>868</u>
<b>Non-Operating Expense</b>					
Transfer Out	<u>262</u>	26.6	<u>207</u>	(54.4)%	<u>454</u>
<b>Change in net assets</b>	<u><u>\$ (483)</u></u>	(169.8)%	<u><u>\$ (179)</u></u>	43.90%	<u><u>\$ (319)</u></u>

Net assets decreased by \$.5 million for the fiscal year ended June 30, 2011 primarily due to activity related to the software development project. Specifically, this decrease resulted from a transfer of funds to the deferred compensation plan to cover software development costs allocated to that plan in combination with the addition of amortization expense on the portion of the software that was put into production during the fiscal year. For the fiscal year ended June 30, 2010, net assets decreased by \$.2 million. This was the result of the transfer of funds to the deferred compensation plan to cover software development costs allocated to that plan.

**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.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2011 and 2010**

	Uniform Group Insurance Program	
	2011	2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 12,701,211	\$ 11,126,484
Accounts receivable	296,346	5,664
Due from fiduciary funds	135,456	69,352
Due from other state agencies	1,315	-
Total current assets	13,134,328	11,201,500
Capital assets:		
Software (net of amortization)	2,573,270	-
Software (not in production)	57,017	2,449,576
Total capital assets	2,630,287	2,449,576
Total assets	15,764,615	13,651,076
<b>LIABILITIES</b>		
Current liabilities:		
Salaries payable	55,132	53,576
Accounts payable	234,941	486,038
Due to fiduciary funds	279,391	-
Due to other state agencies	13,226	10,064
Accrued compensated absences	3,598	3,037
Amounts held in custody for others	10,138,663	8,526,067
Deferred premiums	4,628,099	3,687,046
Total current liabilities	15,353,050	12,765,828
Noncurrent liabilities:		
Accrued compensated absences	65,990	56,395
Total liabilities	15,419,040	12,822,223
<b>NET ASSETS</b>		
Invested in capital assets	2,630,287	2,449,576
Unrestricted (deficit)	(2,284,712)	(1,620,723)
Total net assets	\$ 345,575	\$ 828,853

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the years ended June 30, 2011 and 2010**

	Uniform Group Insurance Program	
	2011	2010
<b>OPERATING REVENUES:</b>		
Administrative fee	\$ 962,657	\$ 948,810
 <b>OPERATING EXPENSES:</b>		
Salaries and wages	610,025	516,802
Operating expenses	177,655	139,756
Professional fees	145,697	235,291
Data processing	56,493	56,506
Amortization	208,644	-
Total operating expenses	1,198,514	948,355
Operating income (loss)	(235,857)	455
 <b>NON-OPERATING REVENUES:</b>		
Investment income	14,110	26,663
<b>INCOME BEFORE TRANSFERS</b>	740,910	975,928
<b>TRANSFERS OUT</b>	261,531	206,811
Change in net assets	(483,278)	(179,693)
Total net assets - beginning of year	828,853	1,008,546
Total net assets - end of year	\$ 345,575	\$ 828,853

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, ND**

**Statement of Cash Flows**  
**Proprietary Funds**  
**For the years ended June 30, 2011 and 2010**

	Uniform Group Insurance Program	
	2011	2010
Cash Flows From Operating Activities:		
Premiums collected	\$ 211,503,862	\$ 208,652,795
Claims experience gains/losses	1,612,596	146,029
Administrative fees collected	1,545,609	1,561,555
Payments to suppliers	(161,978)	(392,239)
Premiums paid	(211,503,862)	(208,652,795)
Payments to employees	(598,313)	(504,590)
Net Cash Provided By Operating Activities	2,397,914	810,755
Cash Flows From Investing Activities:		
Investment income	14,110	26,663
Cash Flows Used By Capital and Related Financing Activities:		
Acquisition and construction of capital assets/software	(575,766)	(572,722)
Cash Flows from Noncapital Financing Activities:		
Transfers out	(261,531)	(206,811)
Net Increase in Cash and Cash Equivalents	1,574,727	57,885
Cash and Cash Equivalents Balance - Beginning of Year	11,126,484	11,068,599
Cash and Cash Equivalents Balance - End of Year	\$ 12,701,211	\$ 11,126,484
Reconciliation of Operating Income to Net Cash Provided		
Operating Income (Loss)	\$ (235,857)	\$ 455
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By Operating Activities:		
Amortization	208,644	-
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(290,682)	391,315
(Increase) Decrease in Due From Other Funds	(66,104)	(47)
(Increase) Decrease in Due From Other State Agencies	(1,315)	2,165
Increase in Salaries Payable	1,556	2,876
Increase in Accrued Compensated Absences	10,156	9,336
Increase (Decrease) in Accounts Payable	(64,686)	63,849
Increase in Due to Fiduciary Funds	279,391	-
Increase (Decrease) in Due To Other State Agencies	3,162	(24,535)
Increase in Amounts Held in Custody for Others	1,612,596	146,029
Increase in Deferred Premiums	941,053	219,312
Total Adjustments	2,633,771	810,300
Net Cash Provided By Operating Activities	\$ 2,397,914	\$ 810,755

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, ND**

**Statement of Plan Net Assets**  
**Fiduciary Funds**  
**June 30, 2011**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
<b>ASSETS:</b>								
Cash	\$ 2,808,985	\$ -	\$ 62,269	\$ 3,270	\$ 195,982	\$ 116,685	\$ 597	\$ -
Receivables:								
Contribution receivable	4,688,614	173,431	845,245	103,704	551,875	1,921	7,751	-
Interest receivable	2,666,991	79,891	66,816	-	-	-	169,686	-
Due from fiduciary funds	276,845	-	101,995	4,278	39,931	68,953	12,879	-
Due from proprietary funds	-	-	275,141	-	-	4,250	-	-
Due from other state agencies	3,350	-	-	-	-	-	-	-
Total receivables	<u>7,635,800</u>	<u>253,322</u>	<u>1,289,197</u>	<u>107,982</u>	<u>591,806</u>	<u>75,124</u>	<u>190,316</u>	<u>-</u>
Investments, at fair value:								
Domestic equities	703,847,078	21,133,697	26,273,887	-	-	-	26,324,273	-
International equities	262,381,505	7,878,261	7,810,869	-	-	-	7,720,826	-
Commingled managed pool	-	-	-	2,476,058	-	-	-	-
International fixed income	85,111,321	2,555,551	-	-	-	-	4,295,369	-
Domestic fixed income	510,392,764	15,325,042	22,935,906	-	-	-	47,017,066	-
Real estate	98,906,281	2,969,758	-	-	-	-	-	-
Mutual funds	-	-	-	18,832,541	-	37,253,362	-	-
Annuities	-	-	-	-	-	81,156	-	-
Alternative investments	61,304,374	1,840,724	-	-	-	-	-	-
Invested cash	25,206,160	756,840	-	-	-	-	277,745	-
Total investments	<u>1,747,149,483</u>	<u>52,459,873</u>	<u>57,020,662</u>	<u>21,308,599</u>	<u>-</u>	<u>37,334,518</u>	<u>85,635,279</u>	<u>-</u>
Prepaid health premiums	-	-	490,798	-	-	-	-	-
Software (not in production)	76,022	1,485	7,560	500	19,006	38,011	400	-
Software (net of amortization)	<u>3,406,843</u>	<u>28,685</u>	<u>326,875</u>	<u>23,585</u>	<u>857,757</u>	<u>1,715,513</u>	<u>20,206</u>	<u>-</u>
Total assets	<u>1,761,077,133</u>	<u>52,743,365</u>	<u>59,197,361</u>	<u>21,443,936</u>	<u>1,664,551</u>	<u>39,279,851</u>	<u>85,846,798</u>	<u>-</u>

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
<b>LIABILITIES:</b>								
Salaries payable	81,293	-	-	-	20,549	32,494	-	-
Accounts payable	2,719,013	-	36,207	-	74,668	148,091	92,042	-
Due to fiduciary funds	116,602	37,944	302,611	18,223	-	-	29,501	-
Due to proprietary funds	1,634	-	120,907	7,092	-	-	5,823	-
Due to other state agencies	19,451	-	-	-	3,781	7,084	-	-
Deferred contributions	-	-	-	-	-	23,966	-	-
Accrued compensated absences	82,542	-	-	-	26,967	46,574	-	-
<b>Total liabilities</b>	<b>3,020,535</b>	<b>37,944</b>	<b>459,725</b>	<b>25,315</b>	<b>125,965</b>	<b>258,209</b>	<b>127,366</b>	<b>-</b>
<b>NET ASSETS:</b>								
Held in trust for pension benefits	1,758,056,598	52,705,421	-	21,418,621	-	39,021,642	85,719,432	-
Held in trust for postemployment healthcare benefits	-	-	58,737,636	-	-	-	-	-
Held in trust for pretax benefits	-	-	-	-	1,538,586	-	-	-
<b>Total net assets held in trust</b>	<b>\$ 1,758,056,598</b>	<b>\$ 52,705,421</b>	<b>\$ 58,737,636</b>	<b>\$ 21,418,621</b>	<b>\$ 1,538,586</b>	<b>\$ 39,021,642</b>	<b>\$ 85,719,432</b>	<b>\$ -</b>

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, ND**

**Statement of Plan Net Assets**  
**Fiduciary Funds**  
**June 30, 2010**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
<b>ASSETS:</b>								
Cash	\$ 2,026,148	\$ -	\$ 87,707	\$ 1,104	\$ 193,927	\$ 110,149	\$ 102	\$ 2,402
Receivables:								
Contribution receivable	4,483,815	174,168	615,944	103,713	541,973	-	9,323	-
Interest receivable	2,422,345	73,757	64,413	-	-	-	156,782	-
Due from fiduciary funds	108,859	-	-	-	20,342	36,047	-	-
Due from other state agencies	13,457	-	-	-	-	-	-	-
Total receivables	<u>7,028,476</u>	<u>247,925</u>	<u>680,357</u>	<u>103,713</u>	<u>562,315</u>	<u>36,047</u>	<u>166,105</u>	<u>-</u>
Investments, at fair value:								
Domestic equities	534,160,908	16,264,408	19,743,986	-	-	-	22,807,297	-
International equities	195,344,142	5,947,939	5,644,764	-	-	-	7,066,673	-
Commingled managed pool	-	-	-	2,218,657	-	-	-	-
International fixed income	83,852,649	2,553,189	-	-	-	-	3,860,726	-
Domestic fixed income	499,029,310	15,194,703	19,519,126	-	-	-	43,768,388	-
Real estate	71,436,241	2,175,128	-	-	-	-	-	-
Mutual funds	-	-	-	14,263,760	-	27,847,283	-	-
Annuities	-	-	-	-	-	94,200	-	-
Alternative investments	61,490,084	1,872,282	-	-	-	-	-	-
Invested cash	19,240,625	585,849	-	-	-	-	86,685	-
Total investments	<u>1,464,553,959</u>	<u>44,593,498</u>	<u>44,907,876</u>	<u>16,482,417</u>	<u>-</u>	<u>27,941,483</u>	<u>77,589,769</u>	<u>-</u>
Invested securities								
lending collateral	9,150,222	278,611	-	-	-	-	484,406	-
Software (not in production)	3,243,551	27,820	309,670	22,606	816,525	1,633,050	19,532	-
Equipment (net of accumulated depreciation)	921	-	-	-	-	-	-	-
Total assets	<u>1,486,003,277</u>	<u>45,147,854</u>	<u>45,985,610</u>	<u>16,609,840</u>	<u>1,572,767</u>	<u>29,720,729</u>	<u>78,259,914</u>	<u>2,402</u>

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
<b>LIABILITIES:</b>								
Salaries payable	68,298	-	-	-	19,521	30,815	-	-
Accounts payable	2,479,238	-	29,335	-	135,365	265,966	100,365	-
Due to fiduciary funds	-	31,087	115,011	-	-	-	10,516	-
Due to proprietary funds	20	-	62,467	12,364	-	-	3,134	-
Due to other state agencies	19,961	-	-	19	1,486	2,656	-	-
Benefits payable	23,534	-	-	-	-	-	-	-
Deferred contributions	-	-	-	-	-	43,460	-	-
Securities lending collateral	9,150,222	278,611	-	-	-	-	484,406	-
Accrued compensated absences	77,022	-	-	-	24,836	39,829	-	-
<b>Total liabilities</b>	<b>11,818,295</b>	<b>309,698</b>	<b>206,813</b>	<b>12,383</b>	<b>181,208</b>	<b>382,726</b>	<b>598,421</b>	<b>-</b>
<b>NET ASSETS:</b>								
Held in trust for pension benefits	1,474,184,982	44,838,156	-	16,597,457	-	29,338,003	77,661,493	2,402
Held in trust for postemployment healthcare benefits	-	-	45,778,797	-	-	-	-	-
Held in trust for pretax benefits	-	-	-	-	1,391,559	-	-	-
<b>Total net assets held in trust</b>	<b>\$ 1,474,184,982</b>	<b>\$ 44,838,156</b>	<b>\$ 45,778,797</b>	<b>\$ 16,597,457</b>	<b>\$ 1,391,559</b>	<b>\$ 29,338,003</b>	<b>\$ 77,661,493</b>	<b>\$ 2,402</b>

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Bismarck, ND**

**Statement of Changes in Plan Net Assets  
Fiduciary Funds  
For the Year Ended June 30, 2011**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
<b>ADDITIONS:</b>								
Contributions:								
From employer	\$ 32,278,056	\$ 1,285,699	\$ 8,929,903	\$ 673,943	\$ -	\$ -	\$ -	\$ -
From employee	30,479,702	793,028	6,173,575	654,386	6,215,977	4,028,777	97,591	-
Transfers from other plans	-	-	-	3,156	-	668,469	-	-
From external plans	-	-	-	16,867	-	157,414	-	-
Total contributions	<u>62,757,758</u>	<u>2,078,727</u>	<u>15,103,478</u>	<u>1,348,352</u>	<u>6,215,977</u>	<u>4,854,660</u>	<u>97,591</u>	<u>-</u>
Investment income:								
Net change								
in fair value of investments	280,371,430	8,485,843	8,481,511	3,697,836	-	6,183,393	10,200,838	-
Interest and dividends	34,500,138	1,044,143	1,440,099	379,385	1,266	792,375	2,068,491	-
Less investment expense	(6,701,848)	(202,792)	(132,724)	(13,797)	-	(96,510)	(277,752)	-
Net investment income	<u>308,169,720</u>	<u>9,327,194</u>	<u>9,788,886</u>	<u>4,063,424</u>	<u>1,266</u>	<u>6,879,258</u>	<u>11,991,577</u>	<u>-</u>
Securities lending activity:								
Securities lending income	164,604	4,982	-	-	-	-	7,168	-
Less securities lending expenses-net of rebates	18,147	549	-	-	-	-	676	-
Net securities lending income	<u>182,751</u>	<u>5,531</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,844</u>	<u>-</u>
Repurchase service credit								
FICA tax savings	3,797,333	46,844	166,962	-	-	-	-	-
Transfer from proprietary fund	-	-	-	-	663,024	-	-	-
Miscellaneous income	2,129	4	-	11,459	100	-	2	-
Total additions	<u>374,909,691</u>	<u>11,458,300</u>	<u>25,059,326</u>	<u>5,423,235</u>	<u>6,880,367</u>	<u>11,995,449</u>	<u>12,097,014</u>	<u>-</u>
<b>DEDUCTIONS:</b>								
Benefits paid to participants	84,307,028	3,531,145	-	583,352	5,931,663	1,671,278	4,012,707	-
Refunds	4,669,072	37,156	1,745	-	-	-	-	-
Prefunded credit applied	-	-	5,789,371	-	-	-	-	-
Health premiums paid	-	-	6,157,983	-	-	-	-	-
Transfer to general fund	-	-	-	-	-	-	-	2,402
Transfers to other plans	264,688	-	-	-	406,937	-	-	-
Total deductions	<u>89,240,788</u>	<u>3,568,301</u>	<u>11,949,099</u>	<u>583,352</u>	<u>6,338,600</u>	<u>1,671,278</u>	<u>4,012,707</u>	<u>2,402</u>
Administrative expenses								
Total deductions	<u>91,038,075</u>	<u>3,591,035</u>	<u>12,100,487</u>	<u>602,071</u>	<u>6,733,340</u>	<u>2,311,810</u>	<u>4,039,075</u>	<u>2,402</u>
Change in net assets	283,871,616	7,867,265	12,958,839	4,821,164	147,027	9,683,639	8,057,939	(2,402)
Net assets - beginning of year	1,474,184,982	44,838,156	45,778,797	16,597,457	1,391,559	29,338,003	77,661,493	2,402
Net assets - end of year	<u>\$ 1,758,056,598</u>	<u>\$ 52,705,421</u>	<u>\$ 58,737,636</u>	<u>\$ 21,418,621</u>	<u>\$ 1,538,586</u>	<u>\$ 39,021,642</u>	<u>\$ 85,719,432</u>	<u>\$ -</u>

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
Bismarck, ND

**Statement of Changes in Plan Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2010**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
<b>ADDITIONS:</b>								
Contributions:								
From employer	\$ 30,253,093	\$ 1,196,562	\$ 8,392,847	\$ 638,120	\$ -	\$ -	\$ -	\$ -
From employee	28,579,338	741,271	6,673,673	619,544	6,002,296	3,743,725	114,626	-
Transfers from other plans	-	-	-	3,828	-	534,030	-	-
From external plans	-	-	-	-	-	225,582	-	-
Total contributions	<u>58,832,431</u>	<u>1,937,833</u>	<u>15,066,520</u>	<u>1,261,492</u>	<u>6,002,296</u>	<u>4,503,337</u>	<u>114,626</u>	<u>-</u>
Investment income:								
Net change								
in fair value of investments	148,432,811	4,571,849	4,928,103	1,374,425	-	2,456,429	7,565,552	-
Interest and dividends	31,269,171	963,042	1,830,840	324,712	1,957	654,692	2,042,786	25
Less investment expense	(6,221,408)	(191,670)	(100,256)	(11,936)	-	(86,747)	(305,699)	-
Net investment income	<u>173,480,574</u>	<u>5,343,221</u>	<u>6,658,687</u>	<u>1,687,201</u>	<u>1,957</u>	<u>3,024,374</u>	<u>9,302,639</u>	<u>25</u>
Securities lending activity:								
Securities lending income	37,196	1,146	-	-	-	-	1,814	-
Less securities lending expenses-net of rebates	74,993	2,310	-	-	-	-	3,070	-
Net securities lending income	<u>112,189</u>	<u>3,456</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,884</u>	<u>-</u>
Repurchase service credit	4,005,571	-	237,735	-	-	-	-	-
FICA tax savings	-	-	-	-	632,617	-	-	-
Transfer from proprietary fund	-	-	-	-	-	206,811	-	-
Miscellaneous income	3,406	25	-	9,677	15	889	-	-
Total additions	<u>236,434,171</u>	<u>7,284,535</u>	<u>21,962,942</u>	<u>2,958,370</u>	<u>6,636,885</u>	<u>7,735,411</u>	<u>9,422,149</u>	<u>25</u>
<b>DEDUCTIONS:</b>								
Benefits paid to participants	76,884,950	3,402,021	-	358,872	5,947,421	729,024	3,891,996	4,015
Refunds	3,942,154	131	3,932	-	-	-	-	-
Prefunded credit applied	-	-	5,563,631	-	-	-	-	-
Health premiums paid	-	-	6,663,020	-	-	-	-	-
Transfers to other plans	210,638	-	-	-	327,220	-	-	-
	<u>81,037,742</u>	<u>3,402,152</u>	<u>12,230,583</u>	<u>358,872</u>	<u>6,274,641</u>	<u>729,024</u>	<u>3,891,996</u>	<u>4,015</u>
Administrative expenses	1,214,733	18,154	102,353	27,098	266,327	416,407	24,318	-
Total deductions	<u>82,252,475</u>	<u>3,420,306</u>	<u>12,332,936</u>	<u>385,970</u>	<u>6,540,968</u>	<u>1,145,431</u>	<u>3,916,314</u>	<u>4,015</u>
Change in net assets	154,181,696	3,864,229	9,630,006	2,572,400	95,917	6,589,980	5,505,835	(3,990)
Net assets - beginning of year	1,320,003,286	40,973,927	36,148,791	14,025,057	1,295,642	22,748,023	72,155,658	6,392
Net assets - end of year	<u>\$ 1,474,184,982</u>	<u>\$ 44,838,156</u>	<u>\$ 45,778,797</u>	<u>\$ 16,597,457</u>	<u>\$ 1,391,559</u>	<u>\$ 29,338,003</u>	<u>\$ 77,661,493</u>	<u>\$ 2,402</u>

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements**

**June 30, 2011 and 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

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

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

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

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

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

B. Fund Financial Statements

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

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30 2011 and 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

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

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

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

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

1. Public Employees Retirement System – a cost-sharing multiple-employer defined benefit retirement plan.
2. Highway Patrolmen’s Retirement System – a single-employer defined benefit retirement plan.
3. Defined Contribution Retirement Plan – an optional defined contribution retirement plan covering specified employee positions in the State of North Dakota.
4. Retiree Health Insurance Credit Fund – an advance funded plan to offset the member’s cost of health insurance during their retirement and a plan to provide health care coverage to eligible retiree’s who are not yet eligible for Medicare.
5. Pretax Benefits Program – allows eligible employees to elect to reduce their salaries to pay for eligible dependent care and medical expenses.
6. Deferred Compensation Plan – voluntary, supplemental retirement plan provided in accordance with Section 457 of the Internal Revenue Code.
7. Retirement Plan for Employees of Job Service North Dakota – a single-employer defined benefit retirement plan.
8. Oasis Trust Fund – a cost-sharing multiple employer defined benefit retirement plan.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30 2011 and 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

The System follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America for governmental entities.

In accordance with GASB Statement No. 20, the System follows all applicable GASB pronouncements as well as private-sector standards of accounting and financial reporting issued on or before November 30, 1989 unless those standards conflict with GASB pronouncements. The System also has the option of following subsequent private-sector guidance for business-type activities and enterprise funds, subject to this same limitation.

Proprietary Funds are accounted for on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred, regardless of the timing of related cash flows. The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are administrative fees charged to the participants in the Uniform Group Insurance Program. Operating expenses include salaries and wages and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Budgetary Process

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

D. Budgetary Process-Continued

The Statement of Appropriations has been prepared using the accrual basis of accounting. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under the North Dakota Century Code (NDCC), Section 54-44.1-11. Expenditures not subject to appropriation of a specific amount include professional fees, depreciation expense, benefits and refunds paid to participants, prefunded credits applied and employee reimbursements in the Pretax Benefits Program.

There were no supplemental appropriations during the fiscal year ending June 30, 2011 and 2010.

The legal level of budgetary control is at the appropriation and expenditure line item level, with administrative controls established at lower levels of detail in certain instances.

E. Investments

Investments are reported at fair value. Quoted market prices, when available, have been used to value investments. The market values for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that value. International securities are valued based upon quoted foreign market prices and translated into U.S. dollars at the exchange rate in effect at June 30. In general, corporate debt securities have been valued at quoted market prices or, if not available, values are based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investment securities is based on appraisals plus fiscal year-to-date capital transactions. Publicly traded alternative investments are valued based on quoted market prices. When not readily available, alternative investment securities are valued using current estimates of fair value from the investment manager. Such valuations consider variables such as financial performance of the issuer, comparison of comparable companies' earnings multiples, cash flow analysis, recent sales prices of investments, withdrawal restrictions, and other pertinent information. Because of the inherent uncertainty of the valuation for these other alternative investments, the estimated fair value may differ from the values that would have been used had a ready market existed. Investments in the external investment pool are stated at fair value which is the same as the value of the pool shares.

The net increase (decrease) in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment sold. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current fiscal year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

E. Investments-continued

Unrealized increase or decrease is computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis.

Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

**Securities Lending**

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

The System, through the North Dakota State Investment Board (SIB) lends its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The SIB contracted with a third party securities lending agent (Agent) to lend the System's securities portfolios. This relationship was terminated by the SIB in May 2011. The Agent was requested to call back all securities on loan and liquidate the collateral. As of June 30, 2011 there were no securities on loan.

***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.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

F. 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.

G. Capital Assets and Depreciation

Capital assets, which include equipment and intangibles (software), and software not in production, 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. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. For the years ending June 30, 2011 and 2010 the System capitalized equipment and software in accordance with Section 54-27-21 of the North Dakota Century Code. Software not in production is not depreciated.

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

H. Accrued Compensated Absences

Annual leave is a part of permanent employees' compensation as set forth in Section 54-06-14 of the North Dakota Century Code. Employees are entitled to earn annual leave based on tenure of employment, within a range of a minimum of one working day per month of employment, to a maximum of two working days per month of employment, to be fixed by rules and regulations adopted by the employing unit. No more than 240 hours of annual leave may be carried forward beyond April 30th 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.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

I. Deferred Contributions / Premiums

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

J. Transfers To Other Plans

Transfers to other plans consist of monies transferred from the Public Employees Retirement System Defined Benefit Plan to the Defined Contribution Retirement Plan pursuant to Section 54-52.6 Subsection 3 of the North Dakota Century Code. Each eligible employee who elects to terminate membership in the Defined Benefit Plan has a lump sum amount transferred to the participating member's account under the Defined Contribution Retirement Plan. For new employees electing to transfer to the Defined Contribution Retirement Plan, the lump sum transferred is the actual employee and employer contributions plus interest. In 2011 and 2010, transfers to other plans also includes an operating transfer from retirement plan to the deferred compensation plan to cover software development costs.

K. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from those estimates. The System utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 2 DEPOSITS AND INVESTMENTS**

*Deposits*

According to North Dakota Century Code 21-04-01, the System is required to bank at the state-owned and operated Bank of North Dakota. The System receives interest for funds on deposit in all accounts.

Cash and cash equivalents for reporting purposes, includes cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes investments with original maturity of three months or less. Investments are stated at fair value.

	2011	2010
Cash Deposits at the Bank of North Dakota recorded as Cash and Cash Equivalents	\$ 3,761,482	\$ 2,738,600
Cash Deposits at State Treasury recorded as Cash and Cash Equivalents	554,204	701,264
Cash held by the North Dakota Retirement and Investment Office recorded as Cash and Cash Equivalents	5,667,265	4,064,659
Guaranteed Investment Contract with Blue Cross Blue Shield recorded as Cash and Cash Equivalents	5,906,048	6,043,500
	\$ 15,888,999	\$ 13,548,023

*Custodial Risk*

For deposits, custodial risk is the risk that in the event of the failure of a depository financial institution, the System will not be able to recover the deposits. The System does not have a formal policy that limits custodial risk for deposits. Deposits at the Bank of North Dakota and the State Treasury are uncollateralized but are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

At June 30, 2011 and 2010 the carrying amount of the System's cash deposits were \$15,888,999 and \$13,548,023, and the bank balances were \$15,924,986 and \$13,626,630. All of the System's deposits are uncollateralized and uninsured at June 30, 2011 and 2010.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 2 DEPOSITS AND INVESTMENTS – Continued**

*Investments*

Total investments of the System at fair value as of June 30, 2011 and 2010 consisted of the following:

	2011	2010
Equity Securities	\$ 1,063,370,396	\$ 806,980,117
Bonds and notes	687,633,019	667,778,091
Real estate	101,876,039	73,611,369
Alternative investments	63,145,098	63,362,366
Mutual funds	18,832,541	14,263,760
Commingled managed pool	2,476,058	2,218,760
Invested cash	26,240,745	19,913,159
Deferred compensation plans:		
Annuities	81,156	94,200
Mutual funds	37,253,362	27,847,283
Securities lending short-term collateral investment pool	-	9,913,239
	\$ 2,000,908,414	\$ 1,685,982,344

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 and were included in the net increase (decrease) reported in the prior year(s) and the current year.

All investments of the fund, except for the Defined Contribution Retirement Plan and Deferred Compensation Plan are to be made by the North Dakota State Investment Board (SIB). Chapter 21-10-07 of the North Dakota Century Code requires that all investments made by this state agency, be made using the prudent investor rule.

Investments of the Defined Contribution Retirement Plan and the Deferred Compensation Plan are participant directed and are held by Fidelity Investments.

*Credit Risk*

All investments of the fund, except for the Defined Contribution Retirement Plan and the Deferred Compensation Plan are invested in an external investment pool managed by SIB. The pool is not rated. The System does not have a formal credit risk policy that limits the credit risk of the investments.

Investments of the Defined Contribution Retirement Plan and the Deferred Compensation Plan are invested in mutual funds directed by the participants. The mutual funds are not rated.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 2 DEPOSITS AND INVESTMENTS – Continued**

*Credit Risk-continued*

Investments of the Defined Contribution Retirement Plan include investments in the commingled managed pool, which is an external investment pool managed by Fidelity Investments. The pool is not rated. The System does not have a formal credit risk policy that limits the credit risk of the investments.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates. The SIB has chosen to use the Segmented Time Distribution disclosure method. Tables detailing the System's portion of the investment pool are reported below. Readers may refer to the North Dakota Retirement and Investment Office financial statements regarding highly sensitive securities that are disclosed at the SIB level.

PERS and HPRS Plan

<u>Type (In Thousands)</u>	<b>2011</b>					
	<u>Market Value</u>	<u>Less Than 1 Year</u>	<u>1-6 Years</u>	<u>6-10 Years</u>	<u>Over 10 Years</u>	<u>Maturity not Determined</u>
Asset Backed Securities	\$ 3,501	\$ -	\$ 767	\$ 529	\$ 2,205	\$ -
Commercial Mortgage-Backed	5,196	-	-	-	5,196	-
Guaranteed Fixed Income	578	64	514	-	-	-
Corporate Bonds	108,670	967	35,585	34,705	37,413	-
Corporate Convertible Bonds	28,675	1,006	17,764	2,435	7,470	-
Government Agencies	24,726	57	16,937	5,693	2,039	-
Government Bonds	68,752	1,139	23,010	19,973	24,630	-
Gov't Mortgage and Commercial	60,838	-	1,124	4,170	55,544	-
Index Linked Government Bonds	843	-	-	-	843	-
Municipal/Provincial Bonds	7,434	91	5,115	65	2,163	-
Non-Government Backed CMOs	16,759	-	-	4,874	11,885	-
Other Fixed Income	117	117	-	-	-	-
Short Term Bills and Notes	1,105	1,105	-	-	-	-
Pooled Investments	123,149	-	69,783	53,366	-	-
Total Debt Securities	<u>\$ 450,343</u>	<u>\$ 4,546</u>	<u>\$ 170,599</u>	<u>\$ 125,810</u>	<u>\$ 149,388</u>	<u>\$ -</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 2 DEPOSITS AND INVESTMENTS – Continued**

PERS and HPRS Plan

<u>Type (In Thousands)</u>	2010					
	<u>Market Value</u>	<u>Less Than 1 Year</u>	<u>1-6 Years</u>	<u>6-10 Years</u>	<u>Over 10 Years</u>	<u>Maturity not Determined</u>
Asset Backed Securities	\$ 3,673	\$ -	\$ 748	\$ 91	\$ 2,834	\$ -
Commercial Mortgage-Backed	5,345	-	481	-	4,864	-
Guaranteed Fixed Income	514	-	514	-	-	-
Corporate Bonds	147,928	2,008	38,040	64,685	43,195	-
Corporate Convertible Bonds	20,421	-	12,421	1,360	6,640	-
Government Agencies	14,833	36	7,356	5,200	2,076	164
Government Bonds	51,207	5,049	13,947	15,446	16,766	-
Gov't Mortgage and Commercial	37,147	-	1,004	2,870	33,273	-
Index Linked Government Bonds	343	-	-	-	343	-
Municipal/Provincial Bonds	4,822	-	2,652	180	1,990	-
Non-Government Backed CMOs	17,431	-	-	1,833	15,599	-
Other Fixed Income	113	-	113	-	-	-
Short Term Bills and Notes	169	169	-	-	-	-
Pooled Investments	125,120	18,134	106,625	230	131	-
Total Debt Securities	<u>\$ 429,066</u>	<u>\$ 25,396</u>	<u>\$ 183,901</u>	<u>\$ 91,895</u>	<u>\$ 127,711</u>	<u>\$ 164</u>

Job Service Retirement Plan

<u>Type (In Thousands)</u>	2011					
	<u>Market Value</u>	<u>Less Than 1 Year</u>	<u>1-6 Years</u>	<u>6-10 Years</u>	<u>Over 10 Years</u>	<u>Maturity not Determined</u>
Asset Backed Securities	\$ 184	\$ -	\$ 23	\$ 24	\$ 137	\$ -
Commercial Mortgage-Backed	163	-	-	-	163	-
Guaranteed Fixed Income	27	3	24	-	-	-
Corporate Bonds	6,002	45	1,851	1,932	2,174	-
Corporate Convertible Bonds	1,589	55	917	123	494	-
Government Agencies	1,120	3	798	235	84	-
Government Bonds	3,365	55	1,099	957	1,254	-
Gov't Mortgage and Commercial	2,069	-	33	132	1,904	-
Index Linked Government Bonds	53	-	-	-	53	-
Municipal/Provincial Bonds	345	4	237	3	101	-
Non-Government Backed CMOs	737	-	-	148	589	-
Other Fixed Income	3	3	-	-	-	-
Short Term Bills and Notes	51	51	-	-	-	-
Pooled Investments	25,373	-	2,971	22,402	-	-
Total Debt Securities	<u>\$ 41,081</u>	<u>\$ 219</u>	<u>\$ 7,953</u>	<u>\$ 25,956</u>	<u>\$ 6,953</u>	<u>\$ -</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 2 DEPOSITS AND INVESTMENTS – Continued**

Job Service Retirement Plan

<u>Type (In Thousands)</u>	<u>2010</u>					
	<u>Market Value</u>	<u>Less Than 1 Year</u>	<u>1-6 Years</u>	<u>6-10 Years</u>	<u>Over 10 Years</u>	<u>Maturity not Determined</u>
Asset Backed Securities	\$ 234	\$ -	\$ 31	\$ 7	\$ 196	\$ -
Commercial Mortgage-Backed	206	-	16	-	190	-
Guaranteed Fixed Income	31	-	31	-	-	-
Corporate Bonds	8,913	136	2,453	3,630	2,695	-
Corporate Convertible Bonds	1,353	-	802	96	455	-
Government Agencies	791	2	417	243	123	5
Government Bonds	2,718	231	777	826	883	-
Gov't Mortgage and Commercial	1,454	-	33	108	1,313	-
Index Linked Government Bonds	20	-	-	-	20	-
Municipal/Provincial Bonds	244	-	131	11	102	-
Non-Government Backed CMOs	801	-	-	61	740	-
Other Fixed Income	4	-	4	-	-	-
Short Term Bills and Notes	8	8	-	-	-	-
Pooled Investments	17,804	776	17,013	8	8	-
Total Debt Securities	<u>\$ 34,581</u>	<u>\$ 1,153</u>	<u>\$ 21,708</u>	<u>\$ 4,990</u>	<u>\$ 6,725</u>	<u>\$ 5</u>

Retiree Health Insurance Credit Fund

All securities subject to interest rate risk disclosure in the Retiree Health Insurance Credit Fund are pooled investments. The market value of these securities maturing in 1-6 years is \$2.405 million and maturing in 6-10 years is \$20.556 million for a total market value of \$22.961 million.

*Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The System does not have a formal investment policy governing foreign currency risk. The System is invested in an external investment pool managed by SIB. A table detailing the exposure to foreign currency through the System's portion of the investment pool is reported below.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 2 DEPOSITS AND INVESTMENTS – Continued**

PERS and HPRS Plan

<u>Currency (In thousands)</u>	<b>2011</b>			
	<u>Short term</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Australian dollar	\$ (4,740)	\$ 5,172	\$ 4,025	\$ 4,457
Brazilian real	(1,792)	3,055	-	1,263
British pound sterling	4,445	4,077	19,160	27,682
Canadian dollar	(923)	3,439	1,169	3,685
Chinese yukan renminbi	1,901	-	-	1,901
Israeli shekel	2	-	493	495
Danish krone	12	-	412	424
Euro	555	672	31,534	32,761
Hong Kong dollar	-	-	1,788	1,788
Hungarian forint	-	1,246	-	1,246
Iceland krona	13	-	-	13
Indian rupee	-	302	-	302
Indonesian rupiah	-	3,830	-	3,830
Japanese yen	(577)	-	13,004	12,427
Malaysian ringgit	-	2,224	-	2,224
Mexican peso	-	3,281	-	3,281
New Zealand dollar	(1,572)	1,697	-	125
Norwegian krone	41	1,984	3,887	5,912
Philippine peso	-	852	-	852
Polish zloty	-	2,904	-	2,904
Singapore dollar	1,097	-	627	1,724
South African rand	-	1,428	-	1,428
South Korean won	-	3,273	-	3,273
Swedish krona	4	-	1,388	1,392
Swiss franc	56	-	4,959	5,015
Turkish lira	1,935	-	-	1,935
International commingled funds (various currencies)	-	-	92,616	92,616
	<u>\$ 457</u>	<u>\$ 39,436</u>	<u>\$ 175,062</u>	<u>\$ 214,955</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 2 DEPOSITS AND INVESTMENTS – Continued**

PERS and HPRS Plan-Continued

<b>Currency (In thousands)</b>	<b>2010</b>			
	<b>Short term</b>	<b>Debt</b>	<b>Equity</b>	<b>Total</b>
Australian dollar	\$ (4,432)	\$ 4,679	\$ 2,639	\$ 2,886
Brazilian real	-	2,651	4,151	6,802
British pound sterling	4,914	2,892	11,363	19,169
Canadian dollar	(823)	1,758	3,252	4,187
Chinese yukan renminbi	1,047	-	-	1,047
Israeli shekel	-	-	301	301
Danish krone	(69)	-	321	252
Euro	(4,143)	-	19,098	14,955
Hong Kong dollar	(683)	-	1,324	641
Iceland krona	12	-	-	12
Indonesian rupiah	-	2,233	-	2,233
Japanese yen	(5,824)	-	10,478	4,654
Malaysian ringgit	-	2,625	-	2,625
Mexican peso	-	2,935	-	2,935
New Zealand dollar	752	1,765	-	2,517
Norwegian krone	914	1,066	527	2,507
Polish zloty	-	2,936	-	2,936
Singapore dollar	(153)	-	449	296
South African rand	-	647	-	647
South Korean won	-	2,768	-	2,768
Swedish krona	(2,090)	2,582	986	1,478
Swiss franc	(1,887)	-	6,474	4,587
Turkish lira	1,868	-	-	1,868
International commingled funds (various currencies)	-	34,674	130,666	165,340
	<u>\$ (10,597)</u>	<u>\$ 66,211</u>	<u>\$ 192,029</u>	<u>\$ 247,643</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 2 DEPOSITS AND INVESTMENTS – Continued**

Job Service Retirement Plan

<u>Currency (In thousands)</u>	<b>2011</b>			
	<u>Short term</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Australian dollar	\$ (232)	\$ 266	\$ 181	\$ 215
Brazilian real	(88)	181	-	93
British pound sterling	210	200	834	1,244
Canadian dollar	(45)	185	53	193
Chinese yuan renminbi	93	-	-	93
Israeli shekel	-	-	22	22
Danish krone	1	-	18	19
Euro	3	51	1,361	1,415
Hong Kong dollar	-	-	80	80
Hungarian forint	-	61	-	61
Iceland krona	1	-	-	1
Indian rupee	-	23	-	23
Indonesian rupiah	-	250	-	250
Japanese yen	(26)	-	584	558
Malaysian ringgit	-	109	-	109
Mexican peso	-	189	-	189
New Zealand dollar	(77)	83	-	6
Norwegian krone	2	97	160	259
Philippine peso	-	65	-	65
Polish zloty	-	142	-	142
Singapore dollar	53	-	28	81
South African rand	-	70	-	70
South Korean won	-	194	-	194
Swedish krona	-	-	62	62
Swiss franc	3	-	223	226
Turkish lira	95	-	-	95
	<u>\$ (7)</u>	<u>\$ 2,166</u>	<u>\$ 3,606</u>	<u>\$ 5,765</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 2 DEPOSITS AND INVESTMENTS – Continued**

Job Service Retirement Plan-Continued

<u>Currency (In thousands)</u>	<b>2010</b>			
	<u>Short term</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Australian dollar	\$ (281)	\$ 209	\$ 179	\$ 107
Brazilian real	-	139	178	317
British pound sterling	(100)	129	694	723
Canadian dollar	(56)	82	156	182
Chinese yuan renminbi	47	-	-	47
Israeli shekel	-	-	20	20
Danish krone	(5)	-	22	17
Euro	(540)	-	1,109	569
Hong Kong dollar	(46)	-	90	44
Iceland krona	1	-	-	1
Indonesian rupiah	-	117	-	117
Japanese yen	(381)	-	709	328
Malaysian ringgit	-	117	-	117
Mexican peso	-	165	-	165
New Zealand dollar	34	79	-	113
Norwegian krone	36	48	36	120
Polish zloty	-	131	-	131
Singapore dollar	(10)	-	30	20
South African rand	-	29	-	29
South Korean won	-	141	-	141
Swedish krona	(100)	115	67	82
Swiss franc	(128)	-	368	240
Turkish lira	83	-	-	83
International commingled funds (various currencies)	-	1,550	2,809	4,359
	<u>\$ (1,446)</u>	<u>\$ 3,051</u>	<u>\$ 6,467</u>	<u>\$ 8,072</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 3 DUE TO/FROM FIDUCIARY AND PROPRIETARY FUNDS AND STATE AGENCY TRANSACTIONS**

The June 30, 2011 due from/to fiduciary and proprietary funds are summarized as follows:

<u>Fund</u>	<u>Due From Fiduciary and Proprietary Funds</u>	<u>Due To Fiduciary and Proprietary Funds</u>
Fiduciary		
Public Employees Retirement System	\$ 276,845	\$ 118,236
Highway Patrolmen's Retirement System	-	37,944
Retiree Health Insurance Credit Fund	377,136	423,518
Retirement Plan for Employees of Job Service North Dakota	12,879	35,324
Pretax Benefits Program	39,931	-
Deferred Compensation Plan	73,203	-
Defined Contribution Plan	4,278	25,315
Proprietary		
Uniform Group Insurance Program	135,456	279,391
	<u>\$ 919,728</u>	<u>\$ 919,728</u>

The June 30, 2010 due from/to fiduciary and proprietary funds are summarized as follows:

<u>Fund</u>	<u>Due From Fiduciary and Proprietary Funds</u>	<u>Due To Fiduciary and Proprietary Funds</u>
Fiduciary		
Public Employees Retirement System	\$ 108,859	\$ 20
Highway Patrolmen's Retirement System	-	31,087
Retiree Health Insurance Credit Fund	-	177,478
Retirement Plan for Employees of Job Service North Dakota	-	13,650
Pretax Benefits Program	20,342	-
Deferred Compensation Plan	36,047	-
Defined Contribution Plan	-	12,365
Proprietary		
Uniform Group Insurance Program	69,352	-
	<u>\$ 234,600</u>	<u>\$ 234,600</u>

These balances are a result of a time lag between the dates the expenditures are incurred, the allocations determined, and the transactions are entered into the accounting system.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 3 DUE TO/FROM FIDUCIARY AND PROPRIETARY FUNDS AND STATE AGENCY TRANSACTIONS - Continued**

June 30, 2011 due from/to state agencies are summarized as follows:

Fund	Due From State Agencies	Due To State Agencies
<b>Fiduciary</b>		
Public Employees Retirement System		
State Auditor's Office	\$ 100	\$ -
State Tax Department	40	-
ND Supreme Court	80	-
Health Department	260	-
Department of Human Services	880	-
Job Service	420	-
Insurance Department	20	-
Industrial Commission	40	-
Department of Labor	80	-
Workforce Safety and Insurance	60	-
Highway Patrol	80	-
Department of Corrections	80	-
Adjutant General	200	-
Department of Commerce	140	-
Department of Agriculture	40	-
State Fair Association	90	-
Game and Fish	40	-
Water Commission	20	-
Department of Transportation	500	371
ITD	-	8,198
Attorney General	80	330
Office of Management and Budget	100	10,471
Secretary of State	-	81
Total	<u>\$ 3,350</u>	<u>\$ 19,451</u>
<b>Pretax Benefits Program</b>		
Secretary of State	\$ -	\$ 20
ITD	-	1,070
Attorney General	-	82
Office of Management and Budget	-	2,609
Total	<u>\$ -</u>	<u>\$ 3,781</u>
<b>Deferred Compensation Plan</b>		
ITD	\$ -	\$ 1,646
Attorney General	-	163
Office of Management and Budget	-	5,218
Department of Transportation	-	16
Secretary of State	-	41
Total	<u>\$ -</u>	<u>\$ 7,084</u>
<b>Proprietary</b>		
Uniform Group Insurance Program		
Department of Transportation	\$ -	\$ 99
Office of Management and Budget	1,111	7,827
ITD	-	4,945
Attorney General	7	294
Secretary of State	-	61
State Fair Association	197	-
Total	<u>\$ 1,315</u>	<u>\$ 13,226</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 3 DUE TO/FROM FIDUCIARY AND PROPRIETARY FUNDS AND STATE AGENCY TRANSACTIONS - Continued**

The June 30, 2010 due from/to state agencies are summarized as follows:

Fund	Due From State Agencies	Due To State Agencies
Fiduciary		
Public Employees Retirement System		
Department of Transportation	\$ -	\$ 55
Supreme Court	9,484	-
State Auditors Office	366	-
Department of Human Services	390	-
Departement of Agriculture	273	-
ITD	-	14,101
Attorney General	-	1,679
Office of Management and Budget	-	4,126
State Fair Association	2,944	-
Total	\$ 13,457	\$ 19,961
Defined Contribution Plan		
ITD	\$ -	\$ 19
Pretax Benefits Program		
ITD	-	928
Attorney General	-	420
Office of Management and Budget	-	138
Total	\$ -	\$ 1,486
Deferred Compensation Plan		
ITD	\$ -	\$ 1,480
Attorney General	-	840
Office of Management and Budget	-	336
Total	\$ -	\$ 2,656
Proprietary		
Uniform Group Insurance Program		
Department of Transportation	\$ -	\$ 167
Office of Management and Budget	-	1,145
ITD	-	4,754
Attorney General	-	3,998
Total	\$ -	\$ 10,064

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 3 DUE TO/FROM FIDUCIARY AND PROPRIETARY FUNDS AND STATE AGENCY TRANSACTIONS - Continued**

The June 30, 2011 transfers in/out are summarized as follows:

<u>Fund Type/Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Fiduciary Funds		
Defined Contribution Retirement Fund	\$ 3,156	\$ -
Pretax Benefit Program	-	406,937
Deferred Compensation Plan	930,000	-
Public Employees Retirement System	-	264,688
Proprietary Funds		
Uniform Group Insurance Program	-	261,531

The June 30, 2010 operating transfers in/out are summarized as follows:

<u>Fund Type/Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Fiduciary Funds		
Defined Contribution Retirement Fund	\$ 3,828	\$ -
Pretax Benefit Program	-	327,220
Deferred Compensation Plan	740,841	-
Public Employees Retirement System	-	210,638
Proprietary Funds		
Uniform Group Insurance Program	-	206,811

The transfer to the Defined Contribution Retirement Fund is for those employees electing to transfer from the defined benefit plan. The transfers to the Deferred Compensation Plan are to cover administrative expenses with FICA savings earned in the Pretax Benefit Program and additional transfers were made from the retirement and group insurance funds to cover software development costs.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 4 CAPITAL ASSETS**

A statement of changes in equipment and accumulated depreciation for the System for the year ended June 30, 2011 and 2010 is as follows:

	<u>Balance 7/1/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2011</u>
Proprietary Funds:				
Capital assets not being depreciated:				
Software (not in production)	\$ 2,449,576	\$ 389,354	\$ 2,781,913	\$ 57,017
Capital assets being depreciated:				
Software	\$ -	\$ 2,781,913	\$ -	\$ 2,781,913
Less: Accumulated amortization for:				
Software	-	(208,643)	-	(208,643)
Total capital assets being depr., net	<u>\$ -</u>	<u>\$ 2,573,270</u>	<u>\$ -</u>	<u>\$ 2,573,270</u>
Proprietary Funds capital assets, net	<u>\$ 2,449,576</u>	<u>\$ 2,962,624</u>	<u>\$ 2,781,913</u>	<u>\$ 2,630,287</u>
Fiduciary Funds:				
Capital assets not being depreciated:				
Software (not in production)	\$ 6,072,754	\$ 966,946	\$ 6,896,716	\$ 142,984
Capital assets being depreciated:				
Software	-	6,896,716	-	6,896,716
Equipment	11,527	-	-	11,527
Total capital assets being depreciated	11,527	6,896,716	-	6,908,243
Less: Accumulated amort/depr. for:				
Equipment	(10,606)	(921)	-	(11,527)
Software	-	(517,252)	-	(517,252)
Total capital assets being depr. net	<u>921</u>	<u>6,378,543</u>	<u>-</u>	<u>6,379,464</u>
Fiduciary Funds capital assets, net	<u>\$ 6,073,675</u>	<u>\$ 7,345,489</u>	<u>\$ 6,896,716</u>	<u>\$ 6,522,448</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 4 CAPITAL ASSETS-Continued**

	Balance 7/1/2009	Additions	Deletions	Balance 6/30/2010
Proprietary Funds:				
Capital assets not being depreciated:				
Software (not in production)	\$ 1,763,016	\$ 686,560	\$ -	\$ 2,449,576
Fiduciary Funds:				
Capital assets not being depreciated:				
Software (not in production)	\$ 4,371,268	\$ 1,701,486	\$ -	\$ 6,072,754
Capital assets being depreciated:				
Equipment	11,527	-	-	11,527
Less: Accumulated depreciation for equipment	(9,221)	(1,385)		(10,606)
Total capital assets being depr. net	2,306	(1,385)	-	921
Fiduciary Funds capital assets, net	\$ 4,373,574	\$ 1,700,101	\$ -	\$ 6,073,675

**NOTE 5 LEASE OBLIGATIONS**

*Operating Lease*

The department has entered into an operating lease for office space until June 30, 2013. Expenditures for this lease were \$113,868 per year, for the years ended June 30, 2011 and June 30, 2010. The future minimum lease payments for the fiscal years ending June 30, 2012 and 2013 are \$124,346 for each year.

The department has also entered into an operating lease for office equipment until February 28, 2014. Expenditures for this lease were \$854 for the year ended June 30, 2011. The future minimum lease payments for the fiscal years ending June 30, 2012, 2013 and 2014 are \$2,561, \$2,561 and \$1,707, respectively.

The leases contain clauses stating that renewal is dependent upon appropriation funding by the State Legislature. Lease obligations for operating and capital leases are payable from all funds of the System.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 6 CHANGE IN LONG-TERM LIABILITIES**

	Proprietary Fund	Fiduciary Fund
	Accrued Compensated Absences	Accrued Compensated Absences
Balance - June 30, 2009	\$ 50,096	\$ 130,273
Increases	38,509	91,805
Decreases	(29,172)	(80,391)
Balance - June 30, 2010	59,433	141,687
Increases	39,999	89,717
Decreases	(29,844)	(75,321)
Balance - June 30, 2011	<u>\$ 69,588</u>	<u>\$ 156,083</u>
Balance - due within one year	\$ 3,598	\$ 8,070

For the government activities, the accrued annual compensated absences is 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, 2011, 2010 and 2009, were \$113,315, \$119,404 and \$112,837 equal to the required contributions for each year.

There were no contributions to the North Dakota Defined Contribution Retirement Plan as none of the eligible employees of the System have elected to participate in this plan.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS**

A. General

The System administers four 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 Retirement Plan for Employees of Job Service North Dakota is a single-employer defined benefit public employee retirement plan administered by the Agency. The plan is established under NDCC 52-11-01 with benefit provisions established through the plan document, as amended. The OASIS (Old-Age and Survivor Insurance System) is a cost-sharing, multi-employer defined benefit public retirement plan. The trust fund was established effective July 1, 1947 by NDCC 52-09. The last beneficiary of the OASIS plan deceased during the fiscal year, therefore, no further benefits are payable under the plan. Remaining assets of approximately \$2,400 were transferred to the General Fund.

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, the Defined Contribution Plan, the Retirement Plan for Employees of Job Service North Dakota and OASIS 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 and as of August 1, 2003, peace officers and correctional officers employed by political subdivisions. The HPRS covers substantially all sworn officers of the North Dakota Highway Patrol. The Defined Contribution Plan covers state employees who elect to participate in the plan and 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 Retirement Plan for Employees of Job Service North Dakota is limited to employees participating in the plan as of September 30, 1980. Participation in the OASIS plan is limited to eligible employees and their beneficiaries as of April 23, 1957.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

A. General – Continued

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

	<u>2011</u>	<u>2010</u>
Cities	81	81
Counties	49	48
School Districts	114	115
Other	70	69
Total Participating Political Subdivisions	<u>314</u>	<u>313</u>

Employee membership data is as follows:

	<u>PERS</u>		<u>HPRS</u>		<u>Job Service</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Retirees and beneficiaries						
currently receiving benefits	7,821	7,416	115	113	213	211
Special prior service retirees	14	18	-	-	-	-
Terminated vested participants	3,558	3,375	5	4	4	4
Inactive participants	3,138	2,183	4	1	-	-
Active plan participants						
Vested	15,478	14,891	65	63	23	31
Nonvested	5,217	5,777	68	76	-	-
Total plan membership	<u>35,226</u>	<u>33,660</u>	<u>257</u>	<u>257</u>	<u>240</u>	<u>246</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

A. General – Continued

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 287 and 293 participants as of June 30, 2011 and 2010, respectively.

Investments—Current investment guidelines set by the System’s Board specify the percentage of assets to be invested in various types of investments (equities, fixed income securities, real estate, private equity and cash). The overall long-term investment objective for the System’s plans is to match or exceed the expected rate of return (7.5% - 8.0%), but at a minimum is not less than the actuarially determined percentage required to pay future benefits. Long-term performance goals are set and evaluated by the boards of SIB and the System for each type of investment.

Realized gains and losses—Realized gains and losses on sales of investments are components of net change in fair value of investments are computed as described in Note 1.

For the years ended June 30, 2011 and 2010, the following are the net realized gains (losses):

	<u>2011</u>	<u>2010</u>
Public Employees Retirement	\$ 101,917,138	\$ 13,625,153
Highway Patrolmen's Retirement	3,084,668	416,666
Retiree Health Insurance Credit	1,001,928	(6,443,275)
Defined Contribution	181,115	(49,426)
Deferred Compensation	109,709	(45,961)
Job Service Plan	4,379,813	(184,385)

Investment expense of the fund, except for the Defined Contribution Retirement Plan and the Deferred Compensation Plan consists of those administrative expenses directly related to the RIO investment operations. Investment expense of the Defined Contribution Retirement Plan and the Deferred Compensation Plan consist of administrative expenses directly related to each plan. All expenses are paid out of plan assets.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

B. Pension Benefits

***PERS***

Benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the main system are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 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.

Supreme and District Court Judges are entitled to unreduced monthly pension benefits beginning at normal retirement age of (65) or the Rule of 85. The monthly pension benefit is equal to a percentage of average monthly salary using the highest 36 months out of the last 120 months of service. The percentage is equal to 3.50% of average monthly salary multiplied by the first ten years of service, plus 2.80% of the average monthly salary times the second ten years of service, plus 1.25% 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% multiplier. The Plan permits early retirement at ages 55-64 with five or more years of service.

Members of the National Guard System are entitled to unreduced monthly pension benefits at normal retirement age (55). Members of the Law Enforcement System are entitled to unreduced monthly pension benefits at normal retirement age (55) or the Rule of 85. The monthly pension benefit for the National Guard/Law Enforcement 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 50-55 with three or more years of service.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

**B. Pension Benefits – Continued**

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

***HPRS***

Benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members are entitled to unreduced pension benefits upon attainment of age 55 and ten years of eligible employment or when the sum of age and years of credited service equals or exceeds 80. The annual pension benefit is equal to a percentage of average monthly salary using the highest 36 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% and 1.75% 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.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing 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.

***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.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

B. Pension Benefits – Continued

***Retirement Plan for Employees of Job Service North Dakota***

Benefits are established through the plan document, as amended. The System provides a post-retirement cost-of living adjustment each year based on the Consumer Price Index. Employees are entitled to annual pension benefits beginning at normal retirement age (65). Employees may elect optional retirement eligibility at age 62 with 5 years of credited service, at age 60 with 20 years of credited service, or at age 55 with 30 years of credited service. Pension benefits are calculated based on the final average earnings (basic monthly earnings averaged over the highest three consecutive years of basic earnings) of the employee multiplied by the sum of:

- 1.5% times years of credited service up to 5 plus
- 1.75% times years of credited service between 6 and 10 plus
- 2.0% times years of credited service in excess of 10

**OASIS**

Benefits are set by statute. On a biennial basis, legislation has been introduced to the North Dakota legislature to increase the primary benefit amount in (c) below. Eligible individuals are entitled to primary insurance benefits at normal retirement age of 65. The primary insurance benefit is the sum of a) 50% of the amount of the average monthly wage if the average monthly wage does not exceed seventy-five dollars or \$37.50 or 15% of the amount by which the average monthly benefit exceeds seventy five dollars and does not exceed two hundred and fifty dollars; b) 1% of the amount computed under (a), multiplied by the number of years in which two hundred or more of wages were paid to the individual; and c) \$826.64.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

C. Death and Disability Benefits

***PERS***

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System and National Guard/Law Enforcement, 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/Law Enforcement, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, 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% 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 or life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to any designated beneficiary.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

C. Death and Disability Benefits-Continued

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are up to 70% 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.

***Retirement Plan for Employees of Job Service North Dakota***

The plan provides disability and death benefits. If the death of a participant occurs prior to his/her annuity starting date, the surviving spouse who has been married at least two years prior to the participant's death or, if married less than two years is a parent of a child of this marriage, then the spouse shall receive monthly benefits. The amount is the greater of the benefit had the participant retired on the day before he/she died and elected the Contingent Annuitant Option with 55% of his/her retirement benefit continued to his/her spouse or 55% of the smaller of 40% of the deceased participant's average monthly earnings or the deceased participant's normal retirement benefit obtained by increasing their credited service by the period of time between their date of death and the date they would have attained age 60. Upon remarriage of the surviving spouse before age 60, the death benefits will cease.

If a participant becomes totally disabled, he/she will be eligible for a monthly disability benefit that shall be equal to the greater of 40% of the participant's average annual earnings or the accrued benefit determined as their date of disability.

**OASIS**

Eligible surviving spouses are entitled to three-fourths of the primary insurance benefit of the insured individual.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

D. Refunds of Member Contributions

Upon termination, if a member of PERS or HPRS is not vested (is not 65 or does not have three years of service for the Main System and National Guard/Law Enforcement, 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, or may elect to receive this amount at a later date. If a member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

E. Contributions

Contribution rates for PERS and HPRS are set by state statute, actuarially determined based on the entry age normal actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost, (2) an amount for amortization of the unfunded accrued liability over an open period of 20 years, and (3) the amount necessary to provide for operating expenses. Contribution rates for the Defined Contribution Plan are set by state statute and are a percentage of salaries and wages. Contribution rates for the Job Service Retirement Plan are established in the plan document, as amended, actuarially determined using the frozen initial liability actuarial cost method which is the same as the aggregate cost method. Contributions to OASIS are set by statute. Contributions are required only to the extent the trust fund does not have sufficient funds to meet current benefit payments. A tax will be assessed on participating state and local government employers when the trust fund does not have sufficient funds to meet current benefit obligations. No contributions have been collected since 1989.

In 2011, the Legislative Assembly passed an increase in the employee and employer contribution rates for the PERS, Judges, Law Enforcement, Highway Patrol and Defined Contribution plans. Effective January 2012, the employee contribution rate will be increased by 1% and the employer contribution rate will be increased by 1%. Effective January 2013, both the employee and employer contribution rates will be increased by an additional 1%.

***PERS***

Member contributions are established at 4% of regular compensation with the exception of Supreme and District Court judge contributions which are established at 5% 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 or 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% contribution. Some of the political subdivisions are paying all or part of the member contributions.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

E. Contributions-Continued

Employer contributions of 4.12% 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% and the contribution rate for the National Guard/Law Enforcement is set by the Board as follows:

National Guard is at 6.50 percent

Law Enforcement with previous service is 8.31 percent

Law Enforcement without previous service is 6.43 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, the present rate of contributions is not sufficient to meet the actuarially determined requirement for 2010-2011.

***HPRS***

Employees' contributions are established at 10.3% of total compensation of which the state is paying 4%. Employer contributions of 16.7% 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.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

E. Contributions-Continued

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, the present rate of contributions is not sufficient to meet the actuarially determined requirement for 2010-2011.

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

Annual required contributions	\$ 1,744,270
Interest on net pension obligations	(57,723)
Adjustment to annual required contributions	50,357
Annual pension costs	<u>1,736,904</u>
Contributions made	<u>1,285,699</u>
Change in net pension obligations	451,205
Net pension obligations, beginning of year	<u>(721,539)</u>
(Assets in excess of) net pension obligations, end of year	<u><u>\$ (270,334)</u></u>

***Defined Contribution Plan***

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

**Retirement Plan for Employees of Job Service North Dakota**

Employees' contributions are established at 7.0% of total compensation of which the state is paying 4%. The funding policy of the plan provides for employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. Effective July 1, 1999, the "scheduled contribution" will be zero as long as the plan's actuarial value of assets exceeds the actuarial present value of projected benefits. The "scheduled contribution" and amortization will be determined when the plan is not in surplus and will be based on a funding policy adopted by the Employer.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

**E. Contributions-Continued**

The following schedule represents the annual pension costs and net pension obligation for the year ended June 30:

Annual required contributions	\$ -
Interest on net pension obligations	(122,716)
Adjustment to annual required contributions	128,875
Annual pension costs	<u>6,159</u>
Contributions made	<u>-</u>
Change in net pension obligations	6,159
Net pension obligations, beginning of year	<u>(1,636,217)</u>
 (Assets in excess of) net pension obligations, end of year	 <u><u>\$ (1,630,058)</u></u>

**F. 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, 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:

	2011	2010
Retired participants, receiving benefits	4,242	4,105
Eligible terminated participants not receiving benefits	-	-
Active participants, not receiving benefits	<u>21,062</u>	<u>21,047</u>
	<u><u>25,304</u></u>	<u><u>25,152</u></u>

The Retiree Health Insurance Credit Fund has 21,062 and 21,047 active participants at June 30, 2011 and 2010, respectively. The employers' actuarially required contribution was \$7,053,215 and \$7,199,033 and the actual employer contributions were \$8,929,903 and \$8,392,847 for the periods ended June 30, 2011 and 2010, respectively.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

F. Retiree Health Insurance Credit Fund-Continued

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

	%	Dollar
Net effect of change in actuarial assumption	0.00%	\$ -
Changes in plan provisions	-	-
Changes in plan experience during the year	0.01%	82,897
	0.01%	\$ 82,897

The employer contribution for the PERS and the HPRS and the Defined Contribution Plan is set by statute on an actuarially determined basis at 1.14% of covered compensation. The employer contribution for non-teaching employees of the Office of the Superintendent of Public Instructions is 3.24% of covered compensation beginning in the month following the transfer under Chapter 54-52-02.13 of the North Dakota Century Code and continuing thereafter for a period of eight years. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation beginning in the month following the transfer under Chapter 54-52-02.14 of the North Dakota Century code and continuing thereafter for a period of eight years. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Assets for the pension trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the 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 \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

F. Retiree Health Insurance Credit Fund-Continued

Another component of the Retiree Health Insurance Credit Fund provides health care coverage to eligible retirees who are not eligible for Medicare. The premiums for this coverage are set under North Dakota Century Code Chapter 54-52.1-02 as a percent of the active member single and family plan rates and are paid by the retiree. The premiums for this coverage are not age-rated. Currently, the premiums for this group do not cover the costs of the coverage; therefore, the costs of this group are being subsidized through the active group rates. This subsidy is not funded in advance and there is no guarantee that the subsidy for the 2011-13 biennium will continue in the future. In the event the legislature does not fund the subsidy beyond the current biennium, the coverage would discontinue and the unfunded actuarial accrued liability displayed in the table below for the retiree health implicit subsidy would be reduced to zero.

A member must be receiving a retirement allowance from NDPERS to be eligible for the retiree health care coverage. In addition, a member receiving a retirement allowance from NDTFFR or TIAA-CREF is also eligible for the retiree health care coverage.

The premiums for this plan are reported as employee contributions on the Statement of Changes in Plan Assets as they are fully paid by the retirees. The full amount of the premiums collected are expended each year and are reported as health premiums paid on the Statement of Changes in Plan Assets.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

G. Funded Status and Funding Progress

The funded status of the plans as of the most recent actuarial valuation date is as follows (in millions):

Plan	Actuarial Valuation Date June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
Public Employees	2011	\$ 1,650.4	\$ 2,339.8	\$ 689.4	70.5%	\$ 804.2	85.7%
Highway Patrol	2011	\$ 49.5	\$ 67.1	\$ 17.6	73.7%	\$ 8.0	220.0%
Job Service	2011	\$ 74.1	\$ 67.4	\$ (6.7)	110.0%	\$ 1.2	0.0%
Retiree Health Credit	2011	\$ 53.7	\$ 108.3	\$ 54.6	49.6%	\$ 828.9	6.6%
Retiree Health Implicit Subsidy	2009	\$ -	\$ 53.7	\$ 53.7	0.0%	\$ -	0.0%

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear funding trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits, as obtained from the System's independent actuary's annual valuation reports.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the plan is becoming financially stronger or weaker. Generally, the greater the percentage the stronger the retirement plan. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of annual covered payroll aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage the stronger the retirement plan.

The accompanying schedule of employer contributions, presented as required supplementary information following the notes to the financial statements, presents trend information about the amounts contributed to the plans by employers in comparison to the Annual Required Contribution (ARC). The ARC is actuarially determined in accordance with the parameters of GASB Statement 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

H. Actuarial Assumptions and Methods

*PERS and HPRS*

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

*Retirement Plan for Employees of Job Service North Dakota*

A frozen initial liability actuarial cost method of valuation, which is the same as the aggregate cost method is used in determining benefit liabilities and normal cost. The normal contribution under this method is the normal cost plus the payment required to amortize the unfunded actuarial liability over a selected period of years. The normal cost is determined by calculating the total value of all future benefits, subtracting the unfunded actuarial liability, and dividing that amount into payments that are a level percent of pay over the future working lifetime of all participants.

To calculate pension plan contribution requirements, assumptions are made about all of the future events that could affect the amount and timing of benefits to be paid and assets to be accumulated. Under the Frozen Initial Liability Actuarial Cost method used, which is the same as the aggregate cost method the normal cost will remain level as a percentage of covered payroll if the assumptions closely approximate experience. Each year actual experience is measured against the assumptions, and to the extent that there were differences in that year, the contribution requirement is adjusted. If the assumptions are changed, contribution requirements are adjusted to take into account a change in experience in all future years.

Under the Frozen Initial Liability Actuarial Cost Method, which is the same as the aggregate cost method the net gain or loss is translated into a decrease or increase in the normal cost percentage, since the unfunded actuarial accrued liability has been frozen. The unfunded employer frozen initial liability was frozen at October 1, 1983. Effective July 1, 1999, the "scheduled contribution" will be zero as long as the plan's actuarial value of assets exceeds the actuarial present value of projected benefits.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

H. Actuarial Assumptions and Methods-Continued

*Retiree Health Insurance Credit*

Under the Projected Unit Credit Actuarial Cost Method, benefits are projected to each assumed occurrence of decrement (death, disability, retirement) using service as of the valuation date. The normal cost is equal to the actuarial present value of the benefits allocated to the current year. The actuarial accrued liability for active members is equal to the actuarial present value of the benefits allocated to all prior years. The actuarial accrued liability for members currently receiving benefits and for participants entitled to deferred benefits is the actuarial present value of the benefits expected to be paid. The unfunded actuarial accrued liability is equal to the actuarial accrued liability minus the actuarial value of assets. This amount is amortized as a level percentage of payroll over a fixed period of 40 years, of which 20 years remain. For the implicit subsidy unfunded plan, this amount is amortized over a fixed period of 30 years.

*PERS and HPRS*

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, 2011, the date of the latest actuarial study include:

- Investment Return** - A rate of return on the investment of present and future assets of 8 %, net of investment expenses.
- Inflation** - The assumed inflation rate is 3.50% per annum.
- Salary Scale** – Projected salary increases based upon inflation of 4.5 % together with wage increases attributable to seniority, merit and "*standard of living*" increases. For judges, the assumed payroll growth rate is 4.00% per annum.
- Mortality Rates** – For NDPERS and HPRS: Pre- and post-mortality life expectancies of participants based upon the RP-2000 Combined Healthy Mortality Table, set back three years for NDERS and set back one year for HPRS and the RP-2000 Disabled Retiree Mortality Table, set back one year for males (not set back for females) for disabled members.
- Withdrawal** - Rates of withdrawal from active service before retirement for reasons other than death or disability, rates of disability and expected retirement ages developed on the basis of an investigation of actual plan experience.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

H. Actuarial Assumptions and Methods-Continued

*PERS and HPRS-Continued*

- **Expenses** - Administrative expense of \$1,120,500 a year for the Public Employees Retirement System and \$18,000 a year for Highway Patrolmen's Retirement System.
- **Post-retirement benefit increase** - There are no post-retirement benefit increase assumptions.

*Retirement Plan for Employees of Job Service North Dakota*

For actuarial purposes, assets are valued utilizing a method which recognized 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, 2011, the date of the latest actuarial study include:

**Rate of return:** 7.5% per year compounded annually, net of investment fees and administrative expenses

**Salary scale:** 5% per year

**Mortality tables:**

Healthy: 1994 Group Annuity Mortality Table

Disabled: 1983 Railroad Retirement Board Disabled Life Mortality Table

**Retirement age:** 75% of active participants are assumed to retire when eligible for optional retirement, and the remaining participants retire at normal retirement.

100% of inactive vested participants are assumed to retire at optional retirement age.

**Post-retirement Cost  
Of Living Adjustment**

**(COLA):** 5% per year

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

H. Actuarial Assumptions and Methods-Continued

*Retiree Health Insurance Credit*

Actuarial valuations for other postretirement employee benefit plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations of other postretirement employee benefit plans reflect a long-term perspective.

The actuarial methods and assumptions for the other postretirement employee benefit plan include techniques that are designed to reduce short-term volatility in the actuarial accrued liabilities and the actuarial value of assets.

*Advance Funded Plan*

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, 2011, the date of the latest actuarial study include:

***Mortality Rates:*** The RP-2000 Combined Healthy Mortality Table set back three years and the RP-2000 Disabled Retiree Mortality Table set back one year for males (not set back for females).

***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:*** 3.50% per annum.

***Expenses:*** Administrative expenses of \$97,000 a year.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 8 DESCRIPTION OF PLANS - Continued**

H. Actuarial Assumptions and Methods-Continued

*Implicit Subsidy Unfunded Plan*

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2009, the date of the latest actuarial study include:

<b>Mortality Rates:</b>	1983 Group Annuity Mortality Table, set back one year for males and Pension Benefit Guaranty Corporation Disabled Life Mortality Table for Individuals Receiving Social Security Benefits.
<b>Health Care Cost Trend:</b>	Select - 9.50%; Ultimate 6.0%. Select trends are reduced 0.5% each year until reaching the ultimate trend.
<b>Retirement Age:</b>	Retirement probabilities have been developed from the assumptions for the NDPERS plans.
<b>Termination:</b>	Probabilities of withdrawal for reasons other than death and retirement have been developed from the assumptions for the NDPERS pension plans.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 9 DEFERRED COMPENSATION PLAN FOR PUBLIC EMPLOYEES**

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

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

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

	2011		2010	
Plan participation by				
State of North Dakota	\$ 32,619,742	87%	\$ 24,211,519	87%
Other jurisdictions	4,714,776	13%	3,729,964	13%
Total value	\$ 37,334,518	100%	\$ 27,941,483	100%

**NOTE 10 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 11 UNIFORM GROUP INSURANCE PROGRAM SURPLUS**

The Uniform Group Insurance Program, a proprietary fund, contracts with Blue Cross Blue Shield of North Dakota (BCBS) to provide health care insurance to the employees of the State of North Dakota, or any of its political subdivisions, institutions, departments or agencies. The contract provides for an accounting of premiums paid and claims incurred during the biennium. The contract for the 2007-2009 biennium provides for an accounting of premiums paid and claims incurred during the biennium, with a gain sharing provision, with the final accounting taking place two years after the end of the biennium. The final accounting for the 2007-2009 biennium occurred on June 30, 2011. Claims exceeded premiums, therefore, there was no surplus returned to the System. The System has entered into a similar contract with BCBS for the 2009-2011 biennium. The final accounting for this biennium will occur on June 30, 2013. The accumulated surplus and other invested funds in the amount of \$5.9 million are shown as cash on the System's balance sheet. These funds are being held by BCBS.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 11 UNIFORM GROUP INSURANCE PROGRAM SURPLUS-Continued**

The federal health care reform bill provides for a pre-Medicare retiree reinsurance provision for employer plans that will reimburse employers by providing reinsurance for 80% of retiree claims between \$15,000 and \$90,000. This program became effective on June 1, 2010 and employer eligibility is determined from an application submitted by the employer to the Department of Health and Human Services. The program requires that the funds be used to (1) reduce the sponsor's health benefit premiums or health benefit costs, (2) reduce health benefit premium contributions, copayment, deductibles, coinsurance, or other out-of-pocket costs, or any combination of these costs, for plan participants, or (3) reduce any combination of the costs in (1) and (2). The System Board determined that any reimbursements received under this program be used to help reduce health care costs for members of the Uniform Group Insurance Program. The System submitted an application and was determined to be an eligible employer. The System received a reimbursement of \$1.7 million during the fiscal year which is included in Cash on the System's balance sheet.

The contract for life insurance is with Prudential and does not have a gain sharing arrangement.

**NOTE 12 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 \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 12 RISK MANAGEMENT-Continued**

The System participates in the North Dakota Workforce Safety, an Enterprise Fund of the State of North Dakota. Workforce Safety 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 13 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.

**NOTE 14 COMMITMENTS**

In 2007, the System entered into agreements with Sagitec Solutions, LLC and L.R. Wechsler, Ltd for the development of its new integrated benefits administration system. The contract with Sagitec is \$7.7 million and the contract with L.R. Wechsler is \$1 million, and the total appropriation for this project is approximately \$9.6 million, which was anticipated to be fully completed by June 2011. As of June 30, 2011, the System had paid \$8.5 million towards these contracts. The System delayed implementation of the member self service functionality to 2012, therefore, the final payment to Sagitec will be made during the 2011-2013 biennium upon completion of the warranty period.

**NOTE 15 NEW PRONOUNCEMENTS**

GASB Statement No. 57, OPEB measurements by Agent Employers and Agent Multiple-Employer Plans – the provisions related to the use and reporting of alternative measurement method was effective on issuance, December 2009. The provisions related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in financial statements of other postemployment benefit plans is effective for periods beginning after June 15, 2011. This statement addresses issues related to the use of alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit plans (agent employers). This Statement amends Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, and Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 15 NEW PRONOUNCEMENTS-Continued**

GASB Statement No. 61, The Financial Reporting Entity: Omnibus will be effective for financial statement periods beginning after June 15, 2012 with earlier application encouraged. The statement will improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the requirements of Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements will be effective for financial statement periods beginning after December 15, 2011 with early application encouraged. The Statement brings the authoritative accounting and financial reporting literature together in one place, with the guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial users. It will eliminate the need to financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, resulting in a more consistent application of applicable guidance in financial statements of state and local governments.

**NOTE 16 CONTINGENCY**

In February 2009, the State Investment Board (SIB) was notified of legal action being taken against one of its investment advisors. The principals of WG Trading Company, the broker/dealer for Westridge Capital Management portfolios, were charged with securities fraud for allegedly diverting investor funds for their personal use. The SIB was an investor along with numerous other public and private pension funds. Investors had been offered two options: invest directly in WG Trading company (WGTC) by purchasing a limited partnership interest in it; or lend money to WG Trading Inc. (WGTI). WGTC was subject to SEC regulation, capital requirements, reporting and oversight, whereas WGTI was an unregulated and unaudited entity. SIB chose to invest directly in the regulated, audited WGTC.

At the time the Commodity Futures Trading Commission (CFTC) and Securities Exchange Commission (SEC) charges were filed, the court appointed a receiver to take control of any recoverable assets. The receiver recommended the court distribute the recovered assets as follows: pool the assets of WGTC and WGTI, and distribute those assets *pro rata* to all investors. The receiver's method did not take into consideration the terms in which each investor entered into the investment (i.e. limited partnership interest versus note holder agreement), even though the majority of the WGTC assets were intact and the fraud predominantly occurred with WGTI. The court agreed with the receiver and in April, 2011, the recovered assets were distributed to all investors in a *pro rata* distribution based on net investment balances. The SIB received a total distribution of \$63.9 million, which represented approximately 85% of its remaining cost basis with WGTC. The total realized loss included in the SIB June 30, 2011 financial statements attributable to the fraud is \$11.3 million. The portion of the realized loss allocated to NDPERS is \$4.6 million.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Bismarck, North Dakota**

**Notes to Financial Statements - Continued**

**June 30, 2011 and 2010**

**NOTE 16 CONTINGENCY-Continued**

The SIB does not agree with the method used to distribute the assets, and along with the other limited partners is appealing the District Court's ruling. It is the SIB's position that the District Court incorrectly determined the amount of the redistribution; and that the audited limited partners are entitled to a greater share of the recovered assets than the unaudited note holders. At this time it is difficult to estimate the potential additional distribution that could be received if the appeal is successful, therefore, no amount has been included on the balance sheet as of June 30, 2011.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Bismarck, North Dakota**

**Required Supplementary Information  
Schedule of Employer Contributions**

**For the six years ended June 30**

***Public Employees Retirement System***

Year Ended June 30	Required Contribution	Percentage Contributed
2006	\$ 31,906,102	69%
2007	38,184,510	61%
2008	35,875,117	70%
2009	40,327,067	69%
2010	54,157,866	56%
2011	82,909,840	39%

***Highway Patrolmen's Retirement System***

Year Ended June 30	Annual		
	Required Contribution	Percentage Contributed	Net Pension Obligation
2006	\$ 904,817	97%	\$ (674,484)
2007	1,076,146	89%	(565,712)
2008	905,591	117%	(724,722)
2009	1,025,737	109%	(829,104)
2010	1,312,591	91%	(721,539)
2011	1,744,270	74%	(270,334)

**For the six years ended June 30**

***Retiree Health Insurance Credit  
Advance Funded Plan***

Year Ended June 30	Annual	
	Required Contribution	Percentage Contributed
2006	\$ 5,396,153	100%
2007	5,687,050	100%
2008	5,708,457	100%
2009	5,804,660	116%
2010	7,199,033	117%
2011	7,053,215	127%

**For the four years ended June 30**

***Retiree Health Insurance Credit Implicit Subsidy Unfunded Plan***

Year Ended June 30	Annual	
	Required Contribution	Percentage Contributed
2008	\$ 4,020,000	0%
2009	4,118,000	0
2010	6,938,000	0
2011	7,295,000	0

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Bismarck, North Dakota**

**Required Supplementary Information  
Schedule of Funding Progress**

**For the six years ended June 30**

***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)	Ratio of Assets to AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
2006	1,480.5	1,314.5	166.0	86.8	547.0	30.3
2007	1,610.2	1,503.1	107.1	93.4	582.3	18.4
2008	1,737.6	1,609.8	127.8	92.6	640.7	19.9
2009	1,901.2	1,617.1	284.1	85.1	697.7	40.7
2010	2,208.4	1,621.7	586.7	73.4	769.7	76.2
2011	2,339.8	1,650.4	689.4	70.5	804.2	85.7

***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)	Ratio of Assets to AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
2006	49.1	42.8	6.3	87.0	5.7	110.5
2007	51.5	48.2	3.3	93.5	6.1	54.1
2008	54.6	50.8	3.8	93.0	6.5	58.5
2009	57.6	50.2	7.4	87.2	7.0	105.0
2010	61.8	49.3	12.5	79.8	7.7	161.0
2011	67.1	49.5	17.6	73.7	8.0	220.0

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Bismarck, North Dakota**

**Required Supplementary Information  
Schedule of Funding Progress**

**For the five years ended June 30  
Retirement Plan for Employees of Job Service North Dakota  
(Expressed in Millions)**

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Entry Age	Actuarial Value of Assets	Unfunded (Overfunded) AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL (Funded Excess) as a Percentage of Covered Payroll
2007	\$ 70.7	\$ 75.7	\$ (5.0)	107.1	\$ 1.8	0.0%
2008	70.8	77.0	(6.2)	108.8	1.8	0.0
2009	71.1	74.5	(3.4)	104.7	1.7	0.0
2010	70.1	73.5	(3.4)	104.8	1.6	0.0
2011	67.4	74.1	(6.7)	110.0	1.2	0.0

**For the six years ended June 30  
Retiree Health Insurance Credit  
(Expressed in Millions)**

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Unit Credit	Actuarial Value of Assets	Unfunded AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
2006	82.6	34.0	48.6	41.2	568.0	8.6
2007	85.3	38.9	46.5	45.6	602.9	7.7
2008	87.6	42.5	45.1	48.5	660.9	6.8
2009	102.2	44.8	57.4	43.9	719.8	8.0
2010	102.8	48.7	54.1	47.4	793.6	6.8
2011	108.3	53.7	54.6	49.6	828.9	6.6

**For the two years ended June 30  
Retiree Health Insurance Implicit Subsidy  
(Expressed in Millions)**

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Unit Credit	Actuarial Value of Assets	Unfunded AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
2007	\$ 30.7	\$ -	\$ 30.7	0.0%	\$ -	0.0%
2009	\$ 53.7	\$ -	\$ 53.7	0.0%	\$ -	0.0%

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Bismarck, ND**

**Schedules of Investment and Administrative Expenses  
Fiduciary Funds**

**For the years ended June 30, 2011 and 2010**

	<b>Public Employees</b>		<b>Highway Patrolmen's</b>		<b>Retiree Health</b>		<b>Defined</b>	
	<b>Retirement System</b>		<b>Retirement System</b>		<b>Insurance Credit Fund</b>		<b>Contribution Retirement Fund</b>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Investment expenses								
Payments to State								
Investment Board								
Investment fees	\$ 6,232,260	\$ 5,935,703	\$ 188,571	\$ 182,885	\$ 132,724	\$ 100,256	\$ -	\$ -
Administrative expenses	469,588	285,704	14,221	8,785	-	-	-	-
Payments to providers								
Investments fees	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,797</u>	<u>11,936</u>
Totals	<u>\$ 6,701,848</u>	<u>\$ 6,221,407</u>	<u>\$ 202,792</u>	<u>\$ 191,670</u>	<u>\$ 132,724</u>	<u>\$ 100,256</u>	<u>\$ 13,797</u>	<u>\$ 11,936</u>
Administrative expenses								
Salaries and wages	\$ 780,937	\$ 650,037	\$ 5,452	\$ 3,331	\$ 78,200	\$ 61,498	\$ 5,172	\$ 4,236
Operating expenses	241,279	197,653	1,901	1,507	22,427	16,760	3,016	1,527
Professional fees	386,610	200,875	12,186	12,065	16,268	14,732	8,035	20,364
Data processing	111,312	164,783	869	1,251	7,990	9,363	583	971
Depreciation/amortization expense	<u>277,149</u>	<u>1,385</u>	<u>2,326</u>	<u>-</u>	<u>26,503</u>	<u>-</u>	<u>1,913</u>	<u>-</u>
	<u>\$ 1,797,287</u>	<u>\$ 1,214,733</u>	<u>\$ 22,734</u>	<u>\$ 18,154</u>	<u>\$ 151,388</u>	<u>\$ 102,353</u>	<u>\$ 18,719</u>	<u>\$ 27,098</u>

	Pretax Benefit Program		Deferred Compensation Program		Retirement Plan for Employees of Job Service North Dakota	
	2011	2010	2011	2010	2011	2010
Investment expenses						
Payments to State						
Investment Board						
Investment fees	\$ -	\$ -	\$ -	\$ -	\$ 277,752	\$ 305,699
Administrative expenses	-	-	-	-	-	-
Payments to providers						
Investments fees	-	-	96,510	86,747	-	-
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96,510</u>	<u>\$ 86,747</u>	<u>\$ 277,752</u>	<u>\$ 305,699</u>
Administrative expenses						
Salaries and wages	\$ 227,590	\$ 193,382	\$ 357,268	\$ 291,153	\$ 4,138	\$ 3,547
Operating expenses	55,708	42,227	89,828	69,006	1,185	991
Professional fees	29,086	20,732	33,395	37,816	18,984	19,231
Data processing	12,808	9,986	20,945	18,432	423	549
Depreciation/amortization expense	69,548	-	139,096	-	1,638	-
	<u>\$ 394,740</u>	<u>\$ 266,327</u>	<u>\$ 640,532</u>	<u>\$ 416,407</u>	<u>\$ 26,368</u>	<u>\$ 24,318</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Bismarck, ND**

**Statement of Appropriations**

**For the year ended June 30, 2011**

	Approved 2009-2011 Appropriation	2009-2011 Appropriation Adjustments	Adjusted 2009-2011 Appropriation	Expenditures 2010	Expenditures 2011	Unexpended Appropriation
All Fund Types:						
Salaries and wages	\$ 4,236,489	\$ 30,000	\$ 4,266,489	\$ 2,071,559	\$ 2,189,760	\$ 5,170
Operating expenses	1,659,999	-	1,659,999	742,043	874,568	43,388
Technology project carryover	4,734,726	-	4,734,726	2,337,363	1,801,213	596,150
Contingency	250,000	(30,000)	220,000		-	220,000
	<u>\$ 10,881,214</u>	<u>\$ -</u>	<u>\$ 10,881,214</u>	<u>\$ 5,150,965</u>	<u>\$ 4,865,541</u>	<u>\$ 864,708</u>

**Reconciliation of Administrative Expenses to Appropriated Expenditures**

Administrative expenses as reflected in the financial statements	2010	2011
Pension trust funds	\$ 2,069,390	\$ 3,051,768
Enterprise funds-Group Insurance	948,355	1,198,515
Total administrative expenses	<u>3,017,745</u>	<u>4,250,283</u>
Plus:		
Software development costs reclassified to software (not in production)	2,388,046	1,356,300
Change in software development costs accrued, but not yet paid	317,642	590,444
Contribution/premium over & short	720	1,536
Conference account revenues in excess of expenditures	-	2,034
Change in accounts payable not charged to appropriation	-	880
Less:		
Professional fees paid pursuant to NDCC 54-52-04(6)	(548,956)	(584,014)
Depreciation expenses	(1,385)	(726,817)
Allocated depreciation charged as equipment rent to other programs	(831)	(554)
Changes in accrued compensated absences	(20,751)	(24,551)
Accounts payable not yet charged to appropriation	<u>(1,265)</u>	<u>-</u>
Total appropriated expenditures	<u>\$ 5,150,965</u>	<u>\$ 4,865,541</u>



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Governor Jack Dalrymple  
The Legislative Assembly

Sparb Collins, Executive Director  
North Dakota Public Employees Retirement System

We have audited the financial statements 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, 2011, and have issued our report thereon dated November 29, 2011. 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.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered the North Dakota Public Employees Retirement System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Dakota Public Employees Retirement System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Public Employees Retirement System's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

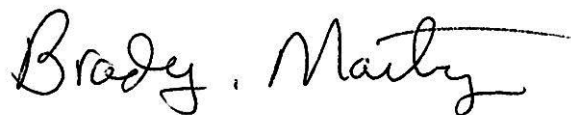
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the North Dakota Public Employees Retirement System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of North Dakota Public Employees Retirement System, in a separate letter dated November 29, 2011.

This report is intended solely for the information of the audit committee, Board of Trustees, management, the Legislative Audit and Fiscal Review Committee, and other state officials, and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive style with a long horizontal flourish extending from the end of the name.

**BRADY, MARTZ & ASSOCIATES, P.C.**

November 29, 2011



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**PUBLIC EMPLOYEES RETIREMENT SYSTEM  
SPECIAL COMMENTS REQUESTED BY THE LEGISLATIVE AUDIT  
AND FISCAL REVIEW COMMITTEE  
June 30, 2011**

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by auditors performing audits of state agencies. These items and our responses are as follows:

**Audit Report Communications:**

**1. What type of opinion was issued on the financial statements?**

*An unqualified opinion was issued on the 2011 and 2010 financial statements.*

**2. Was there compliance with statutes, laws, rules, regulations under which the agency was created and is functioning?**

*Yes - A review was made of Chapters 54-52, 54-52.1, 54-52.2, 54-52.3, 54-52.6 and 39-03.1 and other pertinent chapters of the North Dakota Century Code and we felt the System operated within the statutes, laws, rules and regulations under which it was created.*

**3. Was internal control adequate and functioning effectively?**

*Yes*

**4. Were there any indications of lack of efficiency in financial operations and management of the agency?**

*No*

**5. Has action been taken on findings and recommendations included in prior year audit reports?**

*Yes.*

**6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management response.**

*Yes-A separate management letter has been issued and is attached following page 78. Please refer to this document for all recommendations and management responses.*

## **Audit Committee Communications:**

- 1. Identify and significant changes in accounting policies, any management conflicts or interest, any contingent liabilities, or any significant unusual transactions.**

*None.*

- 2. Identify any significant accounting estimates and the process used by management to determine those estimates.**

*The System utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets.*

- 3. Identify any significant audit adjustments.**

*There was an audit adjustment for the reclassification of accounts receivable and deferred revenue for Group Insurance of approximately \$2 million. The PERSLink software is set up to record July billings when billed in June as accounts receivable and deferred revenue. This overstated the accounts receivable and deferred revenue.*

- 4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to financial accounting, reporting, or auditing matters that could be significant to the financial statements.**

*None*

- 5. Identify any significant difficulties encountered in performing the audit.**

*None*

- 6. Identify any major issues discussed with management prior to retention.**

*None*

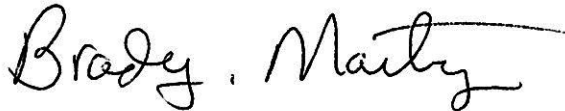
- 7. Identify any management consultations with other accountants about auditing and accounting matters.**

*None*

8. **Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit reports questions addressed above are directly related to the operations of an information technology system.**

*Based on the audit procedures performed, the System's critical information technology system is their database software system called PERSlink. They have implemented a new software system during this fiscal year end. There were no exceptions identified that were directly related to this application.*

This report is intended solely for the information of the Governor, the Legislative Audit Fiscal and Review Committee, and management, and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in cursive script that reads "Brady, Martz". The signature is written in black ink and is positioned above the printed name of the firm.

**BRADY, MARTZ & ASSOCIATES, P.C.**

November 29, 2011



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

To the Board of Trustees  
To the Audit Committee  
North Dakota Public Employees Retirement System  
Bismarck, North Dakota

We have audited the financial statements of the North Dakota Public Employees Retirement System for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 23, 2011. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Public Employees Retirement System are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes the uncorrected misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 29, 2011.

### *Management Consultations with Other Independent Accountants*

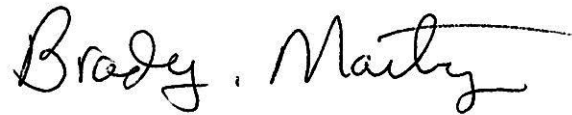
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of North Dakota Public Employees Retirement System Audit Committee, Board of Trustees and management of the North Dakota Public Employees Retirement System and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive style with a long horizontal flourish extending from the end of the name.

**BRADY, MARTZ & ASSOCIATES, P.C.**

November 29, 2011

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Schedule of Uncorrected Misstatements**  
**June 30, 2011**

**NDPERS Main plan**

Investment expense payable	\$ 59,463	
Investment expense		\$ 59,463

(To allocate investment payable to Highway Patrol)

**Highway Patrol**

Investment expense	\$ 59,463	
Investment expense payable		\$ 59,463

(To allocate investment payable to Highway Patrol)

**Group Insurance**

Accounts receivable	\$ 3,187	
Deferred revenue		\$ 3,187

(To adjust deferred revenue to actual per subsidiary ledger)

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
BISMARCK, NORTH DAKOTA**

***Management Letter  
June 30, 2011***



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

To the Board of Directors  
North Dakota Public Employees Retirement System  
Bismarck, North Dakota

In planning and performing the audit of the financial statements of North Dakota Public Employees Retirement System for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered North Dakota Public Employees Retirement System's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 29, 2011, on the financial statements of North Dakota Public Employees Retirement System.

We will review the status of the comment during our next audit engagement. Although we have discussed our recommended improvements with appropriate System personnel, we are available for further consultation.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.**

November 29, 2011

**Memorandum on Audit of  
NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
June 30, 2011**

1. During our audit, we noted certain control procedures not being performed on a timely and consistent basis, due primarily to additional resources concentrated on PERSLink implementation. These control functions are listed in more detail below:

- a. Bank reconciliations in some instances were accumulated for several months before they were reconciled to the appropriate general ledger accounts. Not reconciling the accounts on a monthly basis increases the risk that errors or other problems might not be recognized and resolved on a timely basis.

We recommend these reconciliations be performed on a monthly basis. During this process, the System should pay special attention to old reconciling items and dispose/adjust them according to policy. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

**Response:** Bank reconciliations will be performed on a monthly basis and reconciling items will be addresses each month.

- b. Reconciliation of the deferred compensation contributions, per provider statements to PERSLink was not performed on a consistent basis. In addition, verification of participant allowability for those receiving distributions was not performed.

We recommend these reconciliations and verifications be performed on a monthly basis.

**Response:** Contributions for the Deferred Compensation Companion Plan are reconciled each month. A process for reconciling other deferred compensation contributions to PERSLink will be established and performed quarterly. In addition, distributions reported on the provider statements will be reviewed for eligibility each quarter.

2. During our audit, we noted during our testing of the Group Insurance accounts receivable listing that there were specific accounts past due by more than 30 days. Our recommendation to improve controls over accounts receivable is to implement an aging schedule and perform a reconciliation of the accounts receivable from the general ledger to the accounts receivable aging schedule to check that recording of transactions is accurate and proper and that any adjustments to, or write-offs of, accounts receivable have been performed and approved in a timely manner. We also recommend monitoring old balances and following up on those according to a specific policy such as those accounts older than 30 days on a consistent basis.

**Response:** An accounts receivable aging report will be generated from PERSLink each month and accounting staff will follow-up on outstanding receivables. The aging report will be generated for the retirement and deferred compensation programs, in addition to group insurance.

3. We noted during the testing of refund distributions that a member's refund was calculated incorrectly. Our recommendation is to have a control in place to accurately recalculate member's benefits and refunds based on a contribution schedule and interest update schedules.

**Response:** The internal audit department will test a sample of refunds issued each month to verify that the system is calculating refund distributions correctly.

4. During our audit we noted there were no beginning balances input into PERSLink for the employer's accounts receivable and accounts payable accounts. Our recommendation is to add in the beginning balances to these separate employers accounts and establish procedures and controls to properly monitor these accounts.

**Response:** Beginning balances will be verified and entered into PERSLink in FY12.