



Financial Statements
June 30, 2010 and 2009

ND Retirement and Investment Office

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

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INDEPENDENT AUDITOR'S REPORT

Governor John Hoeven
The Legislative Assembly
LeRoy Gilbertson, Interim Executive Director
State Investment Board
Teachers' Fund for Retirement Board
North Dakota Retirement and Investment Office

We have audited the accompanying financial statements of the fiduciary funds of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements, as listed in the table of contents, as of and for the years ended June 30, 2010 and 2009. These financial statements are the responsibility of RIO'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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of RIO, are intended to present the financial position and the changes in plan net assets of only that portion of the fiduciary funds of the State of North Dakota that is attributable to the transactions of RIO. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2010 and 2009, and the changes in its financial position and plan net assets, 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 Teachers' Fund for Retirement has determined the Fund's unfunded actuarially accrued liability is approximately \$795 and \$546 million at June 30, 2010 and 2009, respectively. 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 will never fully fund the unfunded actuarial accrued liability based on the current actuarial assumptions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary funds of RIO as of June 30, 2010 and 2009, and the respective changes in plan net assets where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining and individual fund financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds of RIO as of June 30, 2010 and 2009, and the results of the operations of such funds for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information shown on page 41 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The required supplementary information and supporting schedules are the responsibility of RIO's management. The Schedules of Funding Progress and Employer Contributions and the supporting schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements, and in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) on pages 6 through 11 are not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated November 8, 2010, on our consideration of RIO'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 important for assessing the results of our audit.

Our audits were made for the purpose of forming an opinion on the financial statements that collectively comprise RIO's basic financial statements and on the combining and individual fund financial statements. The Supplementary Information shown on pages 44 through 47 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in our audit of the basic, combining and individual fund financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic, combining and individual fund financial statements taken as a whole.

Eide Bailly LLP

November 8, 2010
Bismarck, North Dakota



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**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 John Hoeven
The Legislative Assembly
LeRoy Gilbertson, Interim Executive Director
State Investment Board
Teachers' Fund for Retirement Board
North Dakota Retirement and Investment Office

We have audited the financial statements of the fiduciary funds of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements, as of and for the years ended June 30, 2010, and have issued our report thereon dated November 8, 2010. 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 RIO'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 RIO's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RIO'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 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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 RIO's financial statements are free of material misstatement, we performed tests of its compliance with certain provision 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 or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, 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 these specified parties.

Eide Bailly LLP

November 8, 2010
Bismarck, North Dakota

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

None

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010 AND 2009**

Our discussion and analysis of the ND Retirement and Investment Office's (RIO) financial performance provides an overview of RIO's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the basic financial statements, which follow this discussion.

RIO administers two fiduciary funds, a pension trust fund for the ND Teachers' Fund for Retirement (TFFR) and an investment trust fund for the ND State Investment Board (SIB) consisting of 24 investment clients in two investment pools and one individual investment account

FINANCIAL HIGHLIGHTS

Total net assets increased in the fiduciary funds by \$598.1 million or 14.8% due to net gains in the investment markets.

Additions in the fiduciary funds for the year increased \$1.7 billion over the previous year. Net investment income increased by \$1.7 billion and total contributions increased \$3.7 million.

Deductions in the fiduciary funds increased over the prior year by \$11.0 million or 9.3%. This increase represented a rise in the total number of retirees drawing retirement benefits from the pension fund as well as an increase in the retirement salaries of new retirees. Additionally, a one-time supplemental retirement benefit was paid out to retirees in December, 2009 in the amount of \$4.04 million.

The TFFR funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2010, the funded ratio was approximately 69.8%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of four parts – *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and an optional section that presents *combining statements* for the investment trust funds. The basic financial statements include fund financial statements that focus on individual parts of RIO's activities (fiduciary funds).

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our investment trust funds, each of which are added together and presented in single columns in the basic financial statements.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about RIO's activities. Funds are accounting devices that RIO uses to keep track of specific sources of funding and spending for particular purposes.

RIO uses fiduciary funds as RIO is the trustee, or fiduciary, for TFFR (a pension plan) and SIB (investment trust funds). RIO is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of RIO's fiduciary activities are reported in a statement of net assets and a statement of changes in net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

RIO's fiduciary fund total assets as of June 30, 2010, were \$4.8 billion and were comprised mainly of investments and invested securities lending collateral. Total assets increased by \$547 million or 12.7% from the prior year primarily due to gains in the financial markets during the fiscal year.

Total liabilities as of June 30, 2010 were \$32 million and were comprised mostly of securities lending collateral. Total liabilities decreased nearly \$51 million or 61.3% from the prior year primarily due to a decrease in securities lending collateral at year-end. This decrease is the result of having fewer securities on loan.

RIO's fiduciary fund total net assets were \$4.8 billion at the close of fiscal year 2010.

ND RETIREMENT AND INVESTMENT OFFICE NET ASSETS – FIDUCIARY FUNDS (In Millions)

	<u>2010</u>	<u>2009</u>	<u>Total % Change</u>
ASSETS			
Investments	\$ 4,780	\$ 4,184	14.3%
Sec. lending collateral	26	77	-66.0%
Receivables	30	29	4.6%
Cash and other	12	12	3.1%
Total assets	<u>4,848</u>	<u>4,302</u>	12.7%
LIABILITIES			
Accounts payable	6	6	-2.3%
Sec. lending collateral	26	77	-66.0%
Total liabilities	<u>32</u>	<u>83</u>	-61.3%
Total net assets	<u>\$ 4,816</u>	<u>\$ 4,219</u>	14.2%

MANAGEMENT'S DISCUSSION AND ANALYSIS

	<u>2009</u>	<u>2008</u>	<u>Total % Change</u>
ASSETS			
Investments	\$ 4,184	\$ 5,384	-22.3%
Sec. lending collateral	77	194	-60.3%
Receivables	29	30	-5.2%
Cash and other	12	12	0.2%
Total assets	<u>4,302</u>	<u>5,620</u>	-23.5%
LIABILITIES			
Accounts payable	6	7	-17.3%
Sec. lending collateral	77	194	-60.3%
Total liabilities	<u>83</u>	<u>201</u>	-58.7%
Total net assets	<u>\$ 4,219</u>	<u>\$ 5,419</u>	-22.2%

ND RETIREMENT AND INVESTMENT OFFICE CHANGES IN NET ASSETS – FIDUCIARY FUNDS (In Millions)

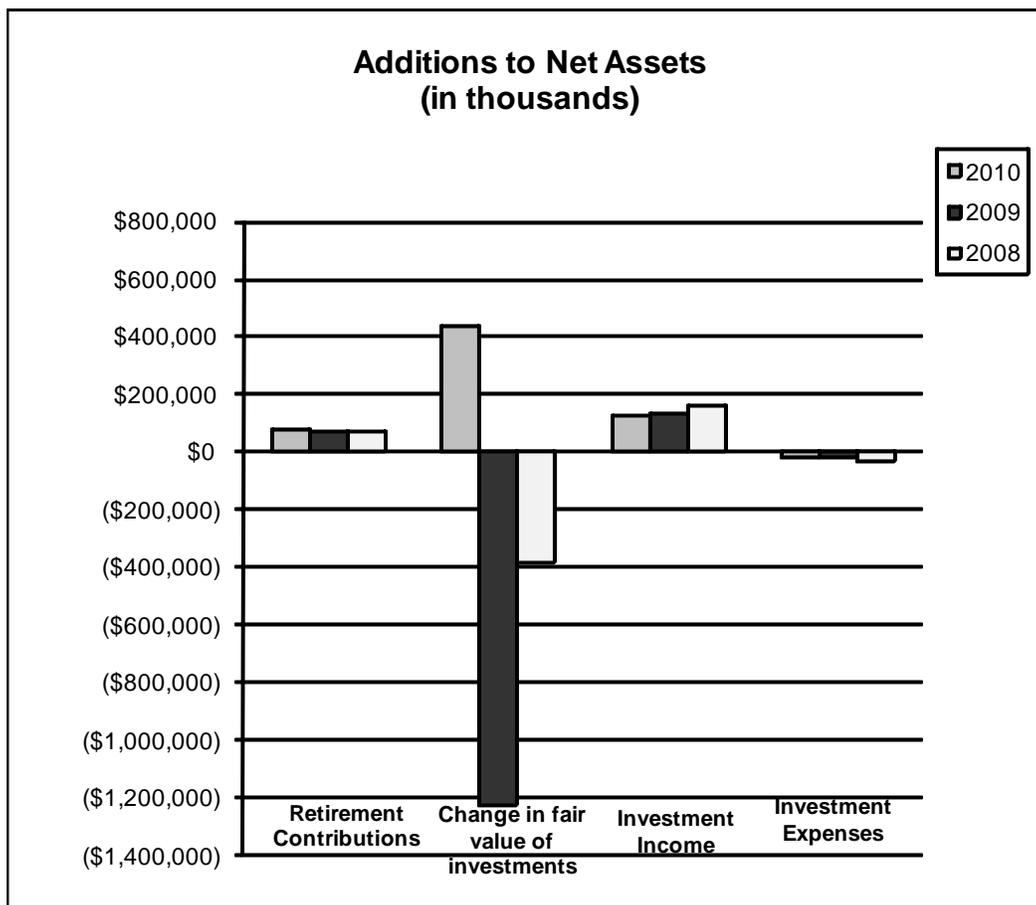
	<u>2010</u>	<u>2009</u>	<u>Total % Change</u>
Additions			
Contributions	\$ 78	\$ 74	5.0%
Investment income	545	(1,106)	149.3%
Total additions	<u>623</u>	<u>(1,032)</u>	160.4%
Deductions			
Deductions	129	118	9.3%
Net change from unit transactions	<u>104</u>	<u>(50)</u>	307.5%
Total change in net assets	<u>\$ 598</u>	<u>\$ (1,200)</u>	149.8%

MANAGEMENT'S DISCUSSION AND ANALYSIS

	<u>2009</u>	<u>2008</u>	<u>Total % Change</u>
Additions			
Contributions	\$ 74	\$ 71	5.4%
Investment income	<u>(1,106)</u>	<u>(247)</u>	347.7%
Total additions	<u>(1,032)</u>	<u>(176)</u>	484.6%
Deductions	118	114	4.0%
Net change from unit transactions	<u>(50)</u>	<u>55</u>	-190.6%
Total change in net assets	<u>\$ (1,200)</u>	<u>\$ (235)</u>	410.8%

STATEMENT OF CHANGES IN NET ASSETS – ADDITIONS

Contributions and net investment income are the two components of the fiduciary fund additions. Contributions collected by the pension trust fund increased by \$3.7 million or 5.0% over the previous fiscal year. Net investment income, including securities lending activities and investment expenses, increased by \$1.7 billion or 149% from last year. This was the result of the recovery experienced in the financial markets during the fiscal year.

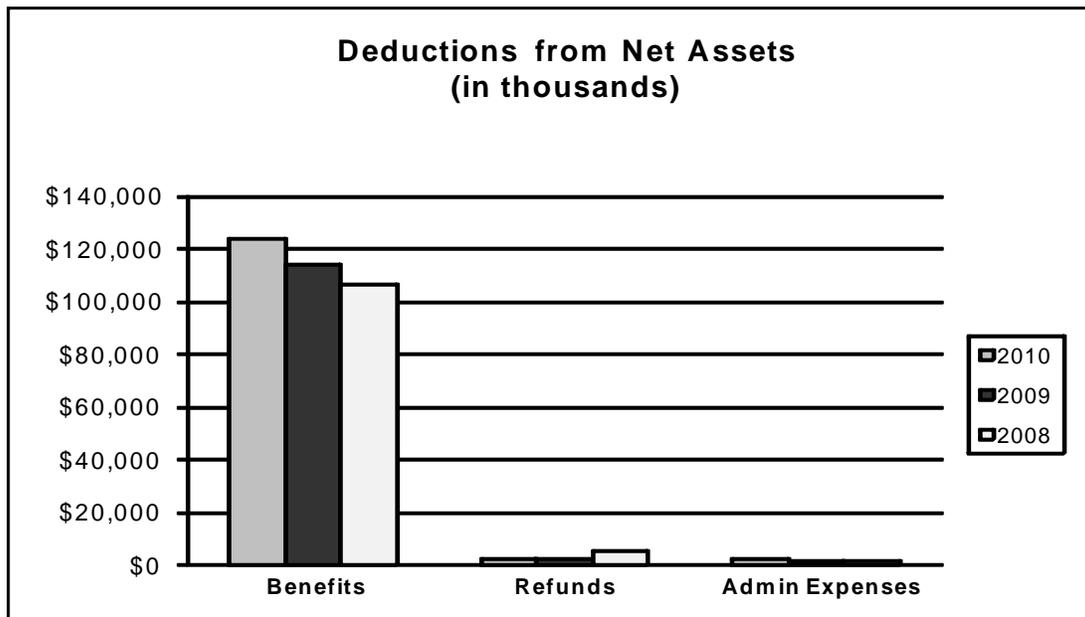


MANAGEMENT'S DISCUSSION AND ANALYSIS

STATEMENT OF CHANGES IN NET ASSETS – DEDUCTIONS

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by \$10.5 million or 9.2% during the fiscal year ended June 30, 2010. This was due to an increase in the total number of retirees in the plan as well as an increased retirement salary which the benefits are based upon. Additionally, a one-time supplemental benefit payment, totaling \$4.04 million, was paid out in December 2009. Refunds increased slightly in fiscal year 2010 by \$195,000 or 8.3%.

Administrative expenses increased by \$316,000 or 14.7%, due mainly to legislatively approved salary increases for state employees.



CONCLUSION

Fiscal year 2010 results reflect the financial market recovery that occurred within that time frame. These conditions were reflected in the market prices of nearly all asset types. Some however, such as commercial real estate, have been slower to show recovery. Within the SIB's investment program, the investment trust funds are invested within their policy guidelines and seek to add investment return to their expected benchmark return objectives over multi-year periods. The coming years will most likely be challenging from an investment standpoint as recessions brought on by banking and financial disasters are characterized historically as being followed by extended multi-year periods of slow global growth. The SIB will continue to research and consider investment options to address funding issues in the many challenging years ahead.

Even with the positive market climate in 2010, the decline in the investment markets in 2008 and 2009 will result in significant reductions to the funding of the TFFR plan. TFFR's funded ratio declined in 2009 and again in 2010, and is expected to continue declining to unacceptable levels as investment losses are recognized in future actuarial valuations. Because protecting the long term solvency of the TFFR plan is the TFFR Board's fiduciary responsibility, the Board is reviewing funding improvement options intended to support this financial obligation. Such options include possible contribution and benefit changes for consideration by the ND Legislative Assembly in 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING RIO FINANCIAL MANAGEMENT

This financial report is designed to provide our Boards, our membership, our clients and the general public with a general overview of RIO's finances and to demonstrate RIO's accountability for the money we receive. If you have any questions about this report or need additional information, contact the North Dakota Retirement and Investment Office, PO Box 7100, Bismarck, ND 58507-7100.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010 AND 2009

	Pension Trust		Investment Trust	
	2010	2009	2010	2009
Assets:				
Investments, at fair value				
Equities	\$ -	\$ -	\$ 25,388,750	\$ 18,879,086
Equity pool	796,430,612	662,283,920	1,091,570,903	937,074,652
Fixed income	-	-	19,519,126	16,519,433
Fixed income pool	384,369,567	394,873,080	1,923,597,381	1,693,796,088
Real estate pool	135,503,973	142,870,481	148,110,369	126,052,018
Alternative Investments	63,465,615	71,114,309	67,644,154	73,458,319
Cash and cash pool	31,908,804	13,627,203	92,525,463	33,191,958
Total investments	<u>1,411,678,571</u>	<u>1,284,768,993</u>	<u>3,368,356,146</u>	<u>2,898,971,554</u>
Invested securities lending collateral	7,710,609	6,829,276	18,459,367	70,170,273
Receivables:				
Investment income	6,724,760	6,704,685	13,506,243	13,303,251
Contributions	9,804,059	8,714,975	-	-
Miscellaneous	6,812	4,853	11,556	8,677
Total receivables	<u>16,535,631</u>	<u>15,424,513</u>	<u>13,517,799</u>	<u>13,311,928</u>
Due from other state agency	-	12	-	3
Cash and cash equivalents	12,029,151	11,434,041	83,285	74,746
Equipment & Software (net of depr)	66,013	311,001	-	-
Total assets	<u>1,448,019,975</u>	<u>1,318,767,836</u>	<u>3,400,416,597</u>	<u>2,982,528,504</u>
Liabilities:				
Accounts payable	86,936	71,746	83,430	52,441
Investment expenses payable	1,690,908	1,583,694	3,488,775	3,793,008
Securities lending collateral	7,710,609	6,829,276	18,459,367	70,170,273
Accrued expenses	573,782	556,150	44,721	50,041
Miscellaneous payable	-	-	17,007	12,657
Due to other state agencies	7,897	10,240	2,254	2,242
Total liabilities	<u>10,070,132</u>	<u>9,051,106</u>	<u>22,095,554</u>	<u>74,080,662</u>
Net assets:				
Held in trust for pension benefits	1,437,949,843	1,309,716,730	-	-
Held in trust for external investment pool participants:				
Pension pool	-	-	1,715,469,840	1,534,923,919
Insurance pool	-	-	1,617,908,249	1,337,991,755
Held in trust for individual investment account	-	-	44,942,954	35,532,168
Total net assets	<u>\$ 1,437,949,843</u>	<u>\$ 1,309,716,730</u>	<u>\$ 3,378,321,043</u>	<u>\$ 2,908,447,842</u>
Each participant unit is valued at \$1.00				
Participant units outstanding			3,378,321,043	2,908,447,842

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	Pension Trust		Investment Trust	
	2010	2009	2010	2009
Additions:				
Contributions:				
Employer contributions	\$ 39,836,646	\$ 37,487,655	\$ -	\$ -
Member contributions	36,848,481	34,712,846	-	-
Purchased service credit	1,413,481	2,176,734	-	-
Interest and penalties	7,222	3,745	-	-
Total contributions	<u>78,105,830</u>	<u>74,380,980</u>	<u>-</u>	<u>-</u>
Investment income:				
Net change in fair value of investments	152,525,484	(522,732,735)	282,514,400	(700,881,095)
Interest, dividends and other income	32,645,257	36,518,910	95,866,949	98,323,223
	<u>185,170,741</u>	<u>(486,213,825)</u>	<u>378,381,349</u>	<u>(602,557,872)</u>
Less investment expenses	6,234,267	6,677,763	12,410,744	12,014,168
Net investment income	<u>178,936,474</u>	<u>(492,891,588)</u>	<u>365,970,605</u>	<u>(614,572,040)</u>
Securities lending activity:				
Securities lending income	35,000	201,782	332,215	2,600,802
Less securities lending expenses	(87,999)	52,019	(23,203)	1,626,006
Net securities lending income	<u>122,999</u>	<u>149,763</u>	<u>355,418</u>	<u>974,796</u>
Total additions	<u>257,165,303</u>	<u>(418,360,845)</u>	<u>366,326,023</u>	<u>(613,597,244)</u>
Deductions:				
Benefits paid to participants	123,650,676	113,070,337	-	-
Partial lump-sum distributions	821,478	895,742	-	-
Refunds	2,557,240	2,362,251	-	-
Administrative charges	1,902,796	1,707,506	557,361	436,987
Total deductions	<u>128,932,190</u>	<u>118,035,836</u>	<u>557,361</u>	<u>436,987</u>
Net change in net assets resulting from operations	<u>128,233,113</u>	<u>(536,396,681)</u>	<u>365,768,662</u>	<u>(614,034,231)</u>
Unit transactions at net asset value of \$1.00 per unit:				
Purchase of units	-	-	355,812,725	195,202,812
Redemption of units	-	-	(251,708,186)	(245,384,367)
Net change in assets and units resulting from unit transactions	<u>-</u>	<u>-</u>	<u>104,104,539</u>	<u>(50,181,555)</u>
Total change in net assets	<u>128,233,113</u>	<u>(536,396,681)</u>	<u>469,873,201</u>	<u>(664,215,786)</u>
Net assets:				
Beginning of year	<u>1,309,716,730</u>	<u>1,846,113,411</u>	<u>2,908,447,842</u>	<u>3,572,663,628</u>
End of Year	<u>\$ 1,437,949,843</u>	<u>\$ 1,309,716,730</u>	<u>\$ 3,378,321,043</u>	<u>\$ 2,908,447,842</u>

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The North Dakota Retirement and Investment Office (RIO) is charged with providing and coordinating the administrative activities of the Teachers' Fund for Retirement (TFFR) and the North Dakota State Investment Board (SIB).

RIO is an agency of the State of North Dakota operating through the legislative authority of North Dakota Century Code (NDCC) Chapter 54-52.5 and is considered part of the State of North Dakota financial reporting entity and included in the State of North Dakota's Comprehensive Annual Financial Report.

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

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

Fund Financial Statement

All activities of RIO are pension and investment trust funds and are shown in the fiduciary fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

This measurement focus includes all assets and liabilities associated with the operations of the 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.

NOTES TO COMBINED FINANCIAL STATEMENTS

Fiduciary Fund

A pension trust fund and investment trust funds have been established to account for the assets held by RIO in a trustee capacity for TFFR and as an agent for other governmental units or funds which have placed certain investment assets under the management of SIB. The SIB manages two external investment pools and one individual investment account. The two external investment pools consist of a pension pool and insurance pool. SIB manages the investments of the North Dakota Public Employees Retirement System, Job Service of North Dakota, Bismarck City Employees and Police, City of Fargo Employees, City of Grand Forks Employees and Grand Forks Parks Employees pension plans in the pension pool. The investments of Workforce Safety and Insurance, State Fire & Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Health Care Trust, North Dakota Association of Counties Fund, North Dakota Association of Counties Program Savings Fund, Risk Management, Risk Management Workers Comp, PERS Group Insurance, City of Bismarck Deferred Sick Leave, City of Fargo FargoDome Permanent Fund, Cultural Endowment Fund, Department of Public Instruction (DPI) National Board Certification Fund and Budget Stabilization Fund are managed in the insurance pool. PERS Retiree Health investments are managed by SIB in an individual investment account.

RIO has no statutory authority over, nor responsibility for, these investment trust funds other than the investment responsibility provided for by statute or through contracts with the individual agencies. Those pool participants that are required to participate according to statute are: Public Employees Retirement System, Workforce Safety and Insurance, State Fire and Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Health Care Trust, Risk Management, Risk Management Workers Comp, Cultural Endowment Fund, DPI National Board Certification Fund and Budget Stabilization Fund.

RIO 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.

Pension and Investment Trust Funds are accounted for using the accrual basis of accounting. Member contributions are recognized in the period in which they are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the NDCC.

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.

RIO 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.

NOTES TO COMBINED FINANCIAL STATEMENTS

Budgetary Process

RIO operates through a biennial appropriation, which represents appropriations recommended by the Governor and presented to the General Assembly (the Assembly) at the beginning of each legislative session. The Assembly enacts RIO's budget through passage of a specific appropriation bill. The State of North Dakota's budget is prepared principally on a modified accrual basis. The Governor has line item veto power over all legislation, subject to legislative override.

Once passed and signed, the appropriation bill becomes RIO's financial plan for the next two years. Changes to the appropriation are limited to Emergency Commission authorization, initiative, or referendum action. The Emergency Commission can authorize receipt of federal or other moneys not appropriated by the Assembly if the Assembly did not indicate intent to reject the money. The Emergency Commission may authorize pass-through federal funds from one state agency to another. The Emergency Commission may authorize the transfer of expenditure authority between appropriated line items, however RIO has specific authority as a special fund to transfer between the contingency line item and other line items. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under the NDCC section 54-44.1-11.

RIO does not use encumbrance accounting. The legal level of budgetary control is at the agency, appropriation and expenditure line item level. RIO does not formally budget revenues and it does not budget by fund. The statement of revenues, expenditures and changes in fund balances - budget and actual is not prepared because revenues are not budgeted.

Capital Assets and Depreciation

Capital asset expenditures greater than \$5,000 are capitalized at cost in accordance with Section 54-27-21 of the NDCC. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

	<u>Years</u>
Office equipment	5
Furniture and fixtures	5

Investments

NDCC Section 21-10-07 states that the SIB shall apply the prudent investor rule when investing funds under its supervision. The prudent investor rule means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

The pension fund belonging to TFFR and investment trust funds attributable to the City of Bismarck Employee Pension Plan, the City of Bismarck Police Pension Plan, City of Fargo Employee Pension Plan, Job Service of North Dakota, City of Grand Forks Employee Pension Plan, Grand Forks Parks Pension Plan and the Public Employees Retirement System (PERS) must be invested exclusively for the benefit of their members. All investments are made in accordance with the respective fund's long-term investment objectives and performance goals.

NOTES TO COMBINED FINANCIAL STATEMENTS

Pooled Investments

Several agencies whose investments are under the supervision of the SIB participate in pooled investments. The agencies transfer money into the investment pools and receive an appropriate percentage ownership of the pooled portfolio based upon fair value. All activities of the investment pools are allocated to the agencies based upon their respective ownership percentages. Each participant unit is valued at \$1.00 per unit.

Investment Valuation and Income Recognition

Investments are reported at fair value. Quoted market prices, when available, have been used to value investments. The fair values for securities that have no quoted market price represent estimated fair 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 investments, including timberland, 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.

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.

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.

Accumulated Leave

Annual leave is a part of permanent employees' compensation as set forth in Section 54-06-14 of the NDCC. Employees earn leave based on tenure of employment. Sick leave is also part of permanent employees' compensation as set forth in Section 54-52-04 of the NDCC. Accrued leave amounted to \$107,984 and \$113,661 at June 30, 2010 and 2009, respectively. The current portions of accrued leave amounted to \$69,477 and \$70,788 at June 30, 2010 and 2009, respectively, and are included in accrued expenses of the Fiduciary Funds in the statements of net assets.

NOTES TO COMBINED FINANCIAL STATEMENTS

Changes in accrued leave for the years ended June 30, 2010 and 2009 consisted of the following:

Balance, July 1, 2008	\$ 94,499
Additions	83,447
Deductions	<u>(64,285)</u>
Balance, June 30, 2009	113,661
Additions	66,817
Deductions	<u>(72,494)</u>
Balance, June 30, 2010	<u><u>\$ 107,984</u></u>

NOTE 2 - CASH AND CASH EQUIVALENTS

Custodial Credit Risk

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, “[a]ll state funds ... must be deposited in the Bank of North Dakota” or must be deposited in accordance with constitutional and statutory provisions.

Pension Trust Fund

Deposits held by the Pension Trust Fund at June 30, 2010 and 2009 were deposited in the Bank of North Dakota. At June 30, 2010 and 2009, the carrying amount of TFFR’s deposits was \$12,029,151 and \$11,434,041, respectively, and the bank balance was \$12,036,458 and \$11,450,767 respectively. The difference results from checks outstanding or deposits not yet processed by the bank. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

Investment Trust Funds

Certificates of deposit, a pension cash pool and an insurance trust cash pool are recorded as investments and have a cost and carrying value of \$216,694,154 and \$162,321,544 at June 30, 2010 and 2009, respectively. In addition these funds carry cash and cash equivalents totaling \$83,285 and \$74,746 at June 30, 2010 and 2009, respectively. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits held at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS

The investment policy of the SIB is governed by NDCC 21-10. The SIB shall apply the prudent investor rule in investing for funds under its supervision. The “prudent investor rule” means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers’ fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds’ investment goals and objectives.

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 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 has contracted with a third party securities lending agent (Agent) to lend the SIB’s securities portfolios. The Agent lends securities of the type on loan at June 30, 2010, for collateral in the form of cash or other securities at 102% of the loaned securities fair value plus accrued interest for domestic securities and 105% of the loaned securities fair value plus accrued interest for international securities. The collateral for the loans is maintained at 100% per the contractual requirements. As of June 30, 2010, the fair value of the SIB’s securities on loan totaled \$25,078,540. As of June 30, 2010, the total amount of cash and non-cash collateral related to these lent securities was \$26,216,770. As of June 30, 2010, the Fund has no credit risk exposure to borrowers because the amounts the SIB owes the borrowers exceed the amounts the borrowers owe the SIB.

The Average Duration of the collateral investments as of June 30, 2010, was one day. The Average Weighted Maturity of collateral investments as of June 30, 2010, was one day. The interest rate sensitivity (duration) of the securities on loan matched the duration of the collateral investments.

The Agent provides indemnification if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace the securities lent) or fails to pay income distributions on them. All open securities loans can be terminated on demand by either the SIB or the borrower. All term securities loans can be terminated with five days notice by either the SIB or the borrower. Cash collateral is invested in accordance with investment guidelines approved by the SIB. The SIB cannot pledge or sell collateral securities received unless the borrower defaults.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The SIB does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

NOTES TO COMBINED FINANCIAL STATEMENTS

At June 30, 2010 and 2009, the following tables show the investments by investment type and maturity (expressed in thousands).

2010	Total Market Value	Less Than 1 Year	1-6 Years	6-10 Years	More Than 10 Years	Maturity Not Determined
Asset backed securities	\$ 28,493	\$ -	\$ 5,505	\$ 2,557	\$ 20,431	\$ -
Bank loans	12,042	611	10,351	1,080	-	-
Commercial mortgage-backed	32,632	-	1,034	71	31,527	-
Guaranteed fixed income	5,010	-	5,010	-	-	-
Corporate bonds	725,144	17,640	274,353	251,793	181,358	-
Corporate convertible bonds	40,180	28	24,229	2,791	13,132	-
Government agencies	59,893	1,046	29,585	14,717	13,853	692
Government bonds	193,565	11,991	65,385	52,158	64,031	-
Government mortgage and commercial mortgage backed	115,848	-	4,083	12,126	99,639	-
Index linked government bonds	2,773	-	-	-	2,773	-
Municipal/provincial bonds	18,184	-	7,020	1,080	10,084	-
Non-government backed CMOs	54,857	-	-	6,127	48,730	-
Other fixed income	980	-	980	-	-	-
Short term bills and notes	640	640	-	-	-	-
Pooled investments	599,738	45,596	307,689	246,150	303	-
Total debt securities	<u>\$ 1,889,979</u>	<u>\$ 77,552</u>	<u>\$ 735,224</u>	<u>\$ 590,650</u>	<u>\$ 485,861</u>	<u>\$ 692</u>
2009	Total Market Value	Less Than 1 Year	1-6 Years	6-10 Years	More Than 10 Years	
Asset backed securities	\$ 18,295	\$ -	\$ 4,648	\$ 2,594	\$ 11,053	
Bank loans	19,823	759	17,853	439	772	
Commercial mortgage-backed	20,938	52	-	-	20,886	
Guaranteed fixed income	4,118	-	4,118	-	-	
Corporate bonds	590,447	10,792	201,852	214,809	162,994	
Corporate convertible bonds	23,955	48	12,880	391	10,636	
Government agencies	55,236	-	31,718	12,777	10,741	
Government bonds	121,764	2,258	51,579	34,191	33,736	
Government mortgage and commercial mortgage backed	67,622	446	649	6,840	59,687	
Hedge multi-strategy	27,709	-	27,709	-	-	
Index linked government bonds	70,957	2,589	20,571	15,956	31,841	
Municipal/provincial bonds	8,336	-	2,673	3,303	2,360	
Non-government backed CMOs	34,204	-	85	593	33,526	
Short term bills and notes	770	770	-	-	-	
Pooled investments	396,587	68,551	154,520	173,404	112	
Total debt securities	<u>\$ 1,460,761</u>	<u>\$ 86,265</u>	<u>\$ 530,855</u>	<u>\$ 465,297</u>	<u>\$ 378,344</u>	

(continued on next page)

NOTES TO COMBINED FINANCIAL STATEMENTS

In the table above, the fair values of inflation indexed bonds are reflected in the columns based on their stated maturity dates. The principal balances of these bonds are adjusted every six months based on the inflation index for that period.

Some investments are more sensitive to interest rate changes than others. Variable and floating rate collateralized mortgage obligations (CMOs), asset-backed securities (ABS), interest-only and principal-only securities are examples of investments whose fair values may be highly sensitive to interest rate changes.

Interest-only (IO) and principal-only (PO) strips are transactions which involve the separation of the interest and principal components of a security. They are highly sensitive to prepayments by mortgagors, which may result from a decline in interest rates. The SIB held IOs valued at \$634,000 and \$295,000, and POs valued at \$3.8 million and \$4.3 million at June 30, 2010 and 2009 respectively. The SIB has no policy regarding IO or PO strips.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Investment Board maintains a highly diversified portfolio of debt securities encompassing a wide range of credit ratings. Although the SIB has no overall policy regarding credit risk, each debt securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit the manager may invest. These ranges include investment grade and high yield categories. The following tables present the SIB's ratings as of June 30, 2010 and 2009 (expressed in thousands).

NOTES TO COMBINED FINANCIAL STATEMENTS

2010	Total Market Value	Credit Rating *										
		AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset backed securities	\$ 28,493	\$ 10,301	\$ 5,543	\$ 1,820	\$ 5,632	\$ 575	\$ 3,148	\$ 1,235	\$ 63	\$ -	\$ 176	\$ -
Bank loans	12,042	-	-	-	1,594	6,692	3,756	-	-	-	-	-
Commercial mortgage-backed	32,632	25,929	877	3,503	2,323	-	-	-	-	-	-	-
Corporate bonds	725,144	5,967	39,052	157,780	387,713	66,575	45,453	18,858	1,754	347	1,643	2
Corporate convertible bonds	40,180	-	1,556	7,490	4,839	9,567	9,743	6,705	-	-	-	280
Government agencies	50,776	41,921	1,242	3,785	3,725	103	-	-	-	-	-	-
Government bonds	156,650	116,338	112	25,700	9,320	5,010	170	-	-	-	-	-
Government mortgage and commercial mortgage backed	862	559	-	-	303	-	-	-	-	-	-	-
Guaranteed fixed income	5,010	5,010	-	-	-	-	-	-	-	-	-	-
Index linked government bonds	2,773	2,773	-	-	-	-	-	-	-	-	-	-
Municipal/provincial bonds	18,184	3,172	3,681	7,431	1,149	2,751	-	-	-	-	-	-
Non-governmental backed CMOs	54,857	29,343	1,897	1,464	1,576	3,109	5,135	10,827	662	278	566	-
Short-term bills and notes	-	-	-	-	-	-	-	-	-	-	-	-
Other fixed income	980	980	-	-	-	-	-	-	-	-	-	-
Pooled investments	599,738	210,650	256,181	1,637	119,731	2,087	9,452	-	-	-	-	-
Total credit risk of debt securities	1,728,321	\$ 452,943	\$ 310,141	\$ 210,610	\$ 537,905	\$ 96,469	\$ 76,857	\$ 37,625	\$ 2,479	\$ 625	\$ 2,385	\$ 282
US Government and agencies	161,658											
Total debt securities	\$ 1,889,979											

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NOTES TO COMBINED FINANCIAL STATEMENTS

2009	Total Market Value	Credit Rating *										
		AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset backed securities	\$ 18,294	\$ 6,697	\$ 1,578	\$ 1,012	\$ 4,686	\$ 608	\$ 1,537	\$ 113	\$ -	\$ 29	\$ 16	\$ 2,018
Bank loans	19,823	-	-	-	1,379	10,039	6,141	466	-	-	1,214	584
Commercial mortgage-backed	20,938	20,263	675	-	-	-	-	-	-	-	-	-
Corporate bonds	590,479	2,614	23,413	124,916	286,996	69,617	46,786	27,245	112	1,460	2,555	4,765
Corporate convertible bonds	23,954	-	458	4,004	5,351	8,044	3,715	2,382	-	-	-	-
Government agencies	40,750	34,277	-	4,495	1,863	100	-	-	-	15	-	-
Government bonds	85,191	58,792	-	15,547	7,733	3,021	-	98	-	-	-	-
Government mortgage backed	645	645	-	-	-	-	-	-	-	-	-	-
Guaranteed fixed income	4,118	4,118	-	-	-	-	-	-	-	-	-	-
Hedge multi-strategy	27,709	-	-	27,709	-	-	-	-	-	-	-	-
Index linked government bonds	67,426	67,426	-	-	-	-	-	-	-	-	-	-
Municipal/provincial bonds	8,337	-	4,213	1,514	1,329	-	1,281	-	-	-	-	-
Non-governmental backed CMOs	34,203	17,609	480	1,153	1,522	3,524	6,141	2,687	317	750	20	-
Pooled investments	394,156	153,245	105,302	67,041	-	60,565	8,003	-	-	-	-	-
Total credit risk of debt securities	1,336,023	\$ 365,686	\$ 136,119	\$ 247,391	\$ 310,859	\$ 155,518	\$ 73,604	\$ 32,991	\$ 429	\$ 2,254	\$ 3,805	\$ 7,367
US Government and agencies	124,738											
Total debt securities	\$ 1,460,761											

- * Ratings are determined in the following order:
1. S&P rating
 2. Moody's rating
 3. Fitch rating
 4. Manager-determined rating (internal rating)
 5. If no ratings available using steps 1-4, then shown as not rated.

NOTES TO COMBINED FINANCIAL STATEMENTS

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Although the SIB does not have a formal investment policy governing foreign currency risk, the SIB does manage its exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios to limit foreign currency and security risk. The SIB's exposure to foreign currency risk is presented in the following tables as of June 30, 2010 and 2009 (expressed in thousands).

2010

Currency	Short-Term	Debt	Equity	Total
Australian dollar	\$ (11,700)	\$ 10,169	\$ 11,060	\$ 9,529
Brazilian real	-	5,849	8,369	14,218
British pound sterling	362	6,199	41,777	48,338
Canadian dollar	(3,823)	4,079	8,358	8,614
Chinese yuan renminbi	2,236	-	-	2,236
Israeli shekel	-	-	1,200	1,200
Danish krone	(311)	-	1,470	1,159
Euro	(26,079)	-	74,612	48,533
Hong Kong dollar	(2,958)	-	6,123	3,165
Hungarian forint	(254)	257	-	3
Iceland krona	30	-	-	30
Indonesian Rupiah	-	4,931	-	4,931
Japanese yen	(24,088)	-	45,428	21,340
Malaysian Ringgit	-	5,607	-	5,607
Mexican peso	(313)	6,907	-	6,594
New Zealand dollar	1,456	4,021	-	5,477
Norwegian krone	1,703	2,498	1,937	6,138
Polish zloty	(122)	6,518	-	6,396
Singapore dollar	(589)	-	1,967	1,378
South African rand	-	1,382	61	1,443
South Korean won	-	6,070	544	6,614
Swedish krona	(5,093)	5,581	4,286	4,774
Swiss franc	(8,281)	-	21,484	13,203
Thai baht	-	-	-	-
Turkish lira	3,989	-	-	3,989
International commingled funds (various currencies)	-	75,976	332,729	408,705
Total international investment securities	\$ (73,835)	\$ 146,044	\$ 561,405	\$ 633,614

NOTES TO COMBINED FINANCIAL STATEMENTS

2009

<u>Currency</u>	<u>Short-Term</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Australian dollar	\$ (1,706)	\$ 9,166	\$ 7,516	\$ 14,976
Brazilian real	(960)	5,045	5,566	9,651
British pound sterling	(3,444)	5,674	33,924	36,154
Canadian dollar	(2,078)	4,261	4,380	6,563
Israeli shekel	-	-	64	64
Danish krone	(816)	868	1,182	1,234
Euro	(18,576)	827	59,805	42,056
Hong Kong dollar	(2,441)	-	5,774	3,333
Hungarian forint	(110)	148	-	38
Iceland krona	-	295	-	295
Indonesian Rupiah	-	2,215	-	2,215
Japanese yen	(18,787)	70	39,744	21,027
Malaysian Ringgit	-	4,739	-	4,739
Mexican peso	-	3,983	102	4,085
New Zealand dollar	828	3,599	-	4,427
Norwegian krone	502	76	1,629	2,207
Polish zloty	(95)	3,811	-	3,716
Singapore dollar	(480)	-	1,255	775
South African rand	-	2,525	96	2,621
South Korean won	2,748	-	146	2,894
Swedish krona	(967)	2,106	2,431	3,570
Swiss franc	(8,684)	48	15,237	6,601
Thai baht	-	-	-	-
Turkish lira	885	-	-	885
International commingled funds (various currencies)	-	96,600	277,288	373,888
Total international investment securities	<u>\$ (54,181)</u>	<u>\$ 146,056</u>	<u>\$ 456,139</u>	<u>\$ 548,014</u>

Derivative Securities

Derivatives are financial arrangements between two parties whose payments are based on, or “derived” from, the performance of some agreed upon benchmark. The investment policies of the SIB’s clients allow the use of derivative securities to hedge or replicate underlying exposures but not for speculation. All derivatives are considered investment derivative instruments. The fair value of all derivative securities is reported in the Statements of Net Assets. At June 30, 2010 and 2009, the SIB had four types of derivative securities: futures, options, swaps and currency forwards.

NOTES TO COMBINED FINANCIAL STATEMENTS

Futures

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specific price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the SIB's credit risk. The net change in the futures contracts' value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included in net change in fair value of investments in the Statement of Changes in Net Assets and totaled \$97.4 million for fiscal year 2010 and \$(59.4) million for fiscal year 2009. At June 30, 2010 and 2009, the SIB investment portfolio had the notional futures balances shown below (expressed in thousands).

<u>Futures</u>	<u>Notional Value</u>	
	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Cash and cash equivalent derivative futures		
Long	\$ 110,876	\$ 253,834
Short	(31,990)	(23,187)
Equity derivative futures		
Long	492,773	684,345
Short	-	-
Fixed income derivative futures		
Long	40,488	10,804
Short	(43,571)	(272,089)
Total futures	<u>\$ 568,576</u>	<u>\$ 653,707</u>

Options

Options represent or give buyers the right, but not the obligation, to buy (call) or sell (put) an asset at a preset price over a specified period. Options are traded on organized exchanges (exchange traded) thereby minimizing the SIB's credit risk. The option's price is usually a small percentage of the underlying asset's value. As a seller of a financial option, the SIB, through its investment manager, receives a premium at the beginning of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a buyer of a financial option, the SIB, through its investment manager, pays a premium at the beginning of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Gains and losses on options are determined based on fair values and recorded with the net change in fair value of investments in the Statement of Changes in Net Assets and totaled \$1.5 million for fiscal year 2010 and \$1.6 million for fiscal year 2009. At June 30, 2010 and 2009, the SIB investment portfolio had the following option balances (expressed in thousands).

NOTES TO COMBINED FINANCIAL STATEMENTS

<u>Options</u>	Fair Value	
	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Cash and cash equivalent options		
Call	\$ (22)	\$ (5)
Put	-	(2)
Equity options		
Call	-	-
Put	1,934	-
Fixed income options		
Call	25	(141)
Put	(2)	(22)
	<u>\$ 1,935</u>	<u>\$ (170)</u>
Total options		

Swaps

A swap is a derivative in which counterparties exchange certain benefits of one party's financial instrument for those of the other party's financial instrument. Specifically, the two counterparties agree to exchange one stream of cash flows for another stream. The SIB, through its investment managers, has entered into various swap agreements in an attempt to manage its exposure to interest rate and credit risk.

Interest rate risk represents the exposure to fair value losses arising from future changes in prevailing market interest rates. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty, who in turn agrees to make return interest payments that float with some reference rate.

Credit risk represents the exposure to fair value losses arising from a credit event such as default, failure to pay, restructuring or bankruptcy. All counterparties were rated "Aa" by Moody's as of June 30, 2010 and 2009. In a credit default swap (CDS) contract, the protection buyer of the CDS makes a series of payments to the protection seller and, in exchange, receives a payoff if the credit instrument experiences a credit event. CDS contracts are also used to establish exposure to a desired credit instrument.

Gains and losses on swaps are determined based on fair values and are recorded with the net change in fair value of investments in the Statement of Changes in Net Assets and totaled \$729 thousand for fiscal year 2010 and \$(678) thousand for fiscal year 2009. The maximum loss that would be recognized at June 30, 2010 and 2009, if all counterparties failed to perform as contracted is \$345 thousand and \$1.2 million respectively. Swap fair values are determined by a third party pricing source. At June 30, 2010 and 2009, the SIB's investment portfolio had the swap fair value balances as shown below (expressed in thousands).

NOTES TO COMBINED FINANCIAL STATEMENTS

Credit Default Swaps

<u>Counterparty</u>	<u>Notional Amount</u>	<u>Expiration Date</u>	<u>Fair Value</u>	
			<u>June 30, 2010</u>	<u>June 30, 2009</u>
Deutsche Bank AG New York	\$ 45	3-20-2014	\$ (9)	\$ (6)
Deutsche Bank AG New York	120	9-20-2013	4	-
Deutsche Bank AG New York	75	3-20-2012	(4)	-
Barclays Capital Securities London	105	6-20-2011	(4)	-
Deutsche Bank Government Securities, Inc.	(3,200)	6-20-2012	-	(195)
Barclays Capital Securities LTD	(1,335)	6-20-2012	-	(178)
Deutsche Bank Government Securities, Inc.	(1,750)	6-20-2012	-	(216)
Deutsche Bank Government Securities, Inc.	(1,750)	9-20-2011	-	(286)
Bear Stearns	(2,492)	6-20-2012	-	(331)
Total credit default swaps	<u>\$ (10,182)</u>		<u>\$ (13)</u>	<u>\$ (1,212)</u>

Interest Rate Swaps

<u>Counterparty</u>	<u>Notional Amount</u>	<u>Rate</u>	<u>Counterparty Rate</u>	<u>Expiration Date</u>	<u>Fair Value</u>	
					<u>June 30, 2010</u>	<u>June 30, 2009</u>
Barclays Bank PLC London	\$ 1,376	4.25%	LIBOR *	4-27-2013	\$ 23	\$ -
Barclays Capital Securities LTD	<u>(1,530)</u>	4.25%	LIBOR*	3-18-1939	<u>-</u>	<u>(43)</u>
Total interest rate swaps	<u>\$ (154)</u>				<u>\$ 23</u>	<u>\$ (43)</u>

* One month London interbank Offered Rate (LIBOR)

Currency Forwards

Currency forwards represent forward exchange contracts that are entered into in order to manage the exposure to changes in currency exchange rates on the currency denominated portfolio holdings. A forward exchange contract is a commitment to purchase or sell a currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net change in fair value of investments in the Statement of Changes in Net Assets and totaled \$3.7 million for fiscal year 2010 and \$15.8 million for fiscal year 2009. At June 30, 2010 and 2009, the SIB's investment portfolio included the currency forwards balances shown below (expressed in thousands).

NOTES TO COMBINED FINANCIAL STATEMENTS

Currency	Cost	Purchases	Sales	Fair Value	
				June 30, 2010	June 30, 2009
Australian dollar	\$ (14,154)	\$ 495	\$ (13,763)	\$ (13,268)	\$ (1,647)
Brazilian real	270	4,201	(4,201)	-	-
British pound sterling	(11,699)	11,662	(23,223)	(11,561)	(1,934)
Canadian dollar	(7,781)	86	(7,760)	(7,674)	(2,074)
Chinese yuan renminbi	2,281	2,236	-	2,236	-
Danish krone	(315)	-	(313)	(313)	(822)
Euro	(43,031)	17	(42,986)	(42,969)	(16,345)
Hong Kong dollar	(4,417)	-	(4,417)	(4,417)	(2,485)
Hungarian forint	32,849	8	(262)	(254)	(110)
Japanese yen	(28,483)	-	(29,226)	(29,226)	(19,374)
Mexican peso	(320)	150	(462)	(312)	-
New Zealand dollar	1,403	1,840	(415)	1,425	802
Norwegian krone	1,828	2,361	(714)	1,647	480
Polish zloty	(95)	1,882	(2,004)	(122)	(95)
Singapore dollar	(653)	-	(652)	(652)	(489)
South Korean won	-	-	-	-	2,748
Swedish krona	(5,103)	-	(5,093)	(5,093)	(1,016)
Swiss franc	(11,808)	-	(12,292)	(12,292)	(8,740)
Turkish lira	3,941	3,989	-	3,989	885
United States dollar	118,399	147,278	(28,879)	118,399	49,507
Total forwards subject to currency risk				<u>\$ (457)</u>	<u>\$ (709)</u>

Derivative Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an interest rate-based derivative investment. The SIB does not have a formal investment policy regarding such derivative investments. At June 30, 2010 and 2009, the tables below show the SIB's derivative investments subject to interest rate risk (expressed in thousands).

All values in \$000

2010	Total Notional Value	3 Months or Less	3 to 6 Months	6 to 12 Months	1-5 Years	Greater Than 5 Years
Futures-interest rate contracts	<u>\$ (18,276)</u>	<u>\$ (19,738)</u>	<u>\$ 12,114</u>	<u>\$ (10,652)</u>	<u>\$ -</u>	<u>\$ -</u>

NOTES TO COMBINED FINANCIAL STATEMENTS

	Total Market Value	3 Months or Less	3 to 6 Months	6 to 12 Months	1-5 Years	Greater Than 5 Years
Options on interest rate futures	\$ 1	\$ 1	\$ -	\$ -	\$ -	\$ -
Swaps - interest rate contracts	23	-	-	-	23	-
Total	\$ 24	\$ 1	\$ -	\$ -	\$ 23	\$ -
<u>2009</u>	Total Notional Value	3 Months or Less	3 to 6 Months	6 to 12 Months	1-5 Years	Greater Than 5 Years
Futures-interest rate contracts	\$ (237,567)	\$ (115,640)	\$ (133,226)	\$ 265	\$ 11,034	\$ -
	Total Market Value	3 Months or Less	3 to 6 Months	6 to 12 Months	1-5 Years	Greater Than 5 Years
Options on interest rate futures	\$ (170)	\$ (170)	\$ -	\$ -	\$ -	\$ -
Swaps - interest rate contracts	(43)	-	-	-	-	(43)
Total	\$ (213)	\$ (170)	\$ -	\$ -	\$ -	\$ (43)

Alternative Investments

In relation to investment asset allocation within the pension pool, the State Investment Board (SIB) considers alternative investments to be any investments that do not fit into any of the other specific asset classes available for investment. Examples of investments the SIB has included in the alternative investments asset class are private equity, venture capital and distressed debt. All of the investments in this asset class are in the form of limited partnerships with specific time horizons and capital commitments.

Private Equity — Private Equity investments are typically private interests in corporations across different areas of the capital structure and in different stages of the corporations' development via limited partnership vehicles. Private Equity investments are illiquid and long term in nature (10-12 years), typically held until maturity. Private Equity portfolios generally have a "J-Curve Effect" whereby there are low to negative returns in the initial years due to the payment of investment management fees and initial funding of investments made by the General Partner during a period when investments are typically carried at cost and returns have not been realized. To diversify the program, Private Equity investments are made across business cycles, vintage years, and different strategies.

Venture Capital — these include investments in companies in a range of stages of development from start-up/seed stage, early stage, and later/expansion stage. Investments are typically made in years one through six and returns typically occur in years four through ten.

NOTES TO COMBINED FINANCIAL STATEMENTS

Distressed Debt — these include investments in the debt instruments of companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments, mortgages and bank loans.

The AICPA expands the definition of Alternative Investments for the purpose of performing audits. The expanded definition includes investments for which a readily determinable fair value does not exist (that is, investments not listed on national exchanges or over-the-counter markets, or for which quoted market prices are not available from sources such as financial publications, the exchanges, or Nasdaq). These types of investments can be held within any of the asset classes used by the SIB based on underlying portfolio holdings and analysis of risk and return relationships. These investments can be structured in different ways, including limited partnerships, limited liability companies, common trusts and mutual funds. Some are closed-ended with a specific life and capital commitment while others are open-ended with opportunity for ad hoc contributions or withdrawals and termination upon proper notice.

Commingled/Mutual Funds — These types of funds are generally open-ended funds and may be utilized in equities or fixed income asset classes. They are funds made up of underlying securities that have readily available fair values (publically traded stocks or bonds). The SIB owns units of these funds rather than the individual securities. Contributions or withdrawals from these funds can be made as needed.

Private Equity — See definition above. The SIB has determined that private equity investments add diversification opportunities within asset classes that traditionally hold public equity investments. Therefore, there are private equity investments within equity asset classes as well as the alternative investments asset class.

Distressed Debt — See definition above. The SIB has determined that certain distressed debt investments add diversification and return opportunities within traditional fixed income asset classes. Therefore, there are distressed debt investments within fixed income asset classes as well as the alternative investments asset class.

Mezzanine Debt — This strategy is a hybrid of debt and equity financing. It is basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to senior debt. The SIB utilizes this strategy, through a limited partnership structure, in its high yield bond allocation.

Equity Long/Short — This strategy is a combination of long and short positions, primarily in publicly traded equities. The SIB utilizes this strategy in its US equity allocations.

Portable Alpha Strategies — This strategy separates alpha from beta in a portfolio by investing in securities that differ from the market index from which their beta is derived. Alpha is the return achieved over and above the return that results from the correlation between the portfolio and the market (beta). This strategy involves investing in areas that have little to no correlation with the beta of the portfolio. The SIB utilizes this strategy in its US equity allocation by “porting” various types of fixed income-based portfolios over S&P 500 beta futures contracts.

Real Estate and Real “Tangible” Assets — These investments are intended to provide allocations to tangible assets that are expected to be inflation protected and provide performance above the inflation rate as indicated by the CPI. Investments are generally structured as limited partnerships or limited liability companies. Investments in Real Estate and Real Assets include:

NOTES TO COMBINED FINANCIAL STATEMENTS

Real Estate — includes investments in private vehicles through limited partnerships or commingled vehicles that have an ownership interest in direct real estate properties. The investment strategies may include “value added” strategies, which derive their return from both income and appreciation, “opportunistic”, which derive their return primarily through appreciation, and “alternative” which invest in less traditional types of property. Both domestic and international real estate funds are utilized. The SIB has a dedicated asset class for these types of investments.

Timberland — includes investments in limited liability companies that have an ownership interest in properties where the value of the property is derived mainly from income-producing timber but also from the “higher and better use” value of the underlying land. The SIB has analyzed this type of investment and determined that its risk and return profile is very similar to bonds. Therefore, they have chosen to include timberland in fixed income asset allocations to provide additional diversification and return options.

Infrastructure — includes investments in limited partnerships that have an ownership interest in transportation assets such as toll roads, tunnels and bridges; and regulated assets such as electricity transmission, gas and oil distribution and wastewater collection. Other possible investments would include communication assets and social infrastructure. Similar to timberland, the SIB has included these types of investments in fixed income asset allocations.

NOTE 4 - SECURITIES LENDING

The following represents the balances relating to the securities lending transactions at June 30, 2010 and 2009 (expressed in thousands).

<u>June 30, 2010</u>	<u>Underlying Securities</u>	<u>Non-Cash Collateral Value</u>	<u>Cash Collateral Investment Value</u>
Securities Lent			
Lent for cash collateral			
US agency securities	\$ -	\$ -	\$ -
US government securities	5,400	-	5,444
US corporate fixed income securities	5,764	-	5,895
Global government fixed income securities	-	-	-
US equities	10,436	-	11,119
Global equities	3,478	-	3,712
Lent for non-cash collateral			
US agency securities	-	-	-
US government securities	-	47	-
US corporate fixed income securities	-	-	-
US equities	-	-	-
Global equities	-	-	-
Total	<u>\$ 25,078</u>	<u>\$ 47</u>	<u>\$ 26,170</u>

(continued on next page)

NOTES TO COMBINED FINANCIAL STATEMENTS

<u>June 30, 2009</u>	<u>Underlying Securities</u>	<u>Non-Cash Collateral Value</u>	<u>Cash Collateral Investment Value</u>
Securities Lent			
Lent for cash collateral			
US agency securities	\$ -	\$ -	\$ -
US government securities	62,920	-	64,024
US corporate fixed income securities	92	-	93
Global government fixed income securities	-	-	-
US equities	11,283	-	12,308
Global equities	558	-	574
Lent for non-cash collateral			
US agency securities	-	-	-
US government securities	919	373	-
US corporate fixed income securities	-	-	-
US equities	-	-	-
Global equities	-	-	-
Total	<u>\$ 75,772</u>	<u>\$ 373</u>	<u>\$ 76,999</u>

NOTE 5 - CAPITAL ASSETS

	<u>June 30 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2010</u>
Office equipment	\$ 33,911	\$ -	\$ -	\$ 33,911	\$ -	\$ -	\$ 33,911
Software	1,213,500	-	-	1,213,500	-	-	1,213,500
Less accumulated depreciation	<u>(691,422)</u>	<u>(244,988)</u>	<u>-</u>	<u>(936,410)</u>	<u>(244,988)</u>	<u>-</u>	<u>(1,181,398)</u>
	<u>\$ 555,989</u>			<u>\$ 311,001</u>			<u>\$ 66,013</u>

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 6 - STATE AGENCY TRANSACTIONS

Due From/To Other State Agencies

Amounts due from/to other state agencies are as follows as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Due From		
Bank of North Dakota	<u>\$ -</u>	<u>\$ 15</u>
Due To		
Information Technology Department	\$ 7,233	\$ 6,532
Attorney General's Office	2,478	2,624
University System - NDSU	230	-
Office of Management and Budget	<u>210</u>	<u>3,326</u>
Total due to other state agencies	<u>\$ 10,151</u>	<u>\$ 12,482</u>

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

NOTE 7 - OPERATING LEASES

RIO leases office space under an operating lease effective July 1, 2009 through June 30, 2011. RIO also incurs rent expense at other locations on a temporary basis to sponsor retirement education for TFFR members. Rent expense totaled \$76,233 and \$75,466 for fiscal 2010 and 2009. Minimum payments under the lease for fiscal 2011 are \$74,933.

NOTE 8 - CHANGES IN NONCURRENT LIABILITIES

Changes in noncurrent liabilities for the years ended June 30, 2010 and 2009 are summarized as follows:

	Beginning Balance <u>7/1/2009</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>6/30/2010</u>	Amounts Due Within One Year
Accrued annual leave	<u>\$ 113,661</u>	<u>\$ 66,817</u>	<u>\$ (72,494)</u>	<u>\$ 107,984</u>	<u>\$ 69,477</u>
	Beginning Balance <u>7/1/2008</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>6/30/2009</u>	Amounts Due Within One Year
Accrued annual leave	<u>\$ 94,499</u>	<u>\$ 83,447</u>	<u>\$ (64,285)</u>	<u>\$ 113,661</u>	<u>\$ 70,788</u>

Pension and Investment Trust Funds liquidate the accrued annual leave.

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 9 - NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

General

The following brief description of TFFR is provided for general information purposes only. Participants should refer to NDCC Chapter 15-39.1 for more complete information.

TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, survivor and disability benefits. The costs to administer the TFFR plan are financed out of TFFR assets.

Membership

As of June 30, 2010 and 2009, the number of participating employer units was 231 consisting of the following:

	<u>2010</u>	<u>2009</u>
Public School Districts	183	184
County Superintendents	11	11
Special Education Units	21	21
Vocational Education Units	5	5
Other	11	10
Total	<u>231</u>	<u>231</u>

TFFR's membership consisted of the following:

	<u>2010</u>	<u>2009</u>
Retirees and beneficiaries currently receiving benefits	6,672	6,466
Terminated employees - vested	1,472	1,490
Terminated employees - nonvested	331	292
Total	<u>8,475</u>	<u>8,248</u>
Current employees		
Vested	8,356	8,301
Nonvested	1,551	1,406
Total	<u>9,907</u>	<u>9,707</u>

Investments

Current investment guidelines set by TFFR's board specify the percentage of assets to be invested in various types of investments (equities, fixed income securities, real estate, private equity, and cash). The overall long-term investment objective for TFFR is to match or exceed an expected rate of return of 8.93%, but at a minimum is not less than the 8% actuarially assumed rate of return determined percentage required to pay future benefits. Long-term performance goals are set and evaluated by the boards of SIB and TFFR for each type of investment.

NOTES TO COMBINED FINANCIAL STATEMENTS

Realized Gains and Losses

Realized gains and losses on sales of investments are components of net appreciation in fair value of investments and are computed as described in Note 1. For the years ended June 30, 2010 and 2009, TFFR had net realized gains/(losses) of \$20,267,459 and \$(118,229,471) respectively.

Investment Expenses

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

Member and Employer Contributions

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 7.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 8.25% (increasing to 8.75% effective July 1, 2010) of the teacher's salary, until the fund reaches 90% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A nonvested member who terminates covered employment must claim a refund of contributions paid before age 70½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

Pension Benefits

For purposes of determining pension benefits, members are classified within one of two "tiers." Tier 1 are those with service credit on file as of July 1, 2008, and Tier 2 are those newly employed and returning refunded members on or after July 1, 2008.

Tier 1

A Tier 1 member is entitled to receive full benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

NOTES TO COMBINED FINANCIAL STATEMENTS

Tier 2

A Tier 2 member is entitled to receive full benefits when five or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member’s retirement age is less than 65 years or the date as of which age plus service equal 90. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the five highest annual salaries earned divided by 60 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Survivor and Disability Benefits

Survivor benefits may be paid to a member’s designated beneficiary. If a member’s death occurs before retirement, the benefit options available are determined by the member’s vesting status prior to death. If a member’s death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated one year of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and assuming the member has a minimum of 20 years of credited service. There is no actuarial reduction for reason of disability retirement.

Funded Status and Funding Progress

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

Actuarial Valuation Date July 1	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
2010	\$ 1,842.0	\$ 2,637.2	\$ 795.2	69.8%	\$ 465.0	171.0%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear funding trend information as obtained from TFFR’s independent actuary’s annual valuation report.

NOTES TO COMBINED FINANCIAL STATEMENTS

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 plan 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.

Additional information as of the latest actuarial valuation follows:

Valuation Date:	July 1, 2010	July 1, 2009
Actuarial Cost Method:	Entry age normal	Entry age normal
Amortization Method:	Level percentage of payroll	Level percentage of payroll
Amortization Period for GASB 25 ARC (**):	30-year open period	30-year open period
Asset Valuation Method:	5 year smoothed market	5 year smoothed market
Actuarial Assumptions:		
Investment Rate of Return (*)	8.00%	8.00%
Projected Salary Increases (*)	4.50% to 14.75%	4.50% to 14.00%
Cost-of-Living Adjustments	None	None

(*) Includes inflation at 3.00%

(**) The GASB Annual Required Contribution (ARC) for this plan is defined as the larger of (a) the sum of (i) the employer normal costs, and (ii) an amount necessary to amortize the UAAL as a level percentage of payroll over an open 30-year amortization period, or (b) the 8.75% statutory employer contribution rate (8.25% for 2009). Payroll is assumed to increase at 3.25% per annum (2% for 2009).

TFFR Plan Changes Affecting Audit Period

- For active members hired on or after July 1, 2008 (called Tier 2 members):
 - Members will be eligible for an unreduced retirement benefit when they reach age 65 with at least five years of service (rather than three years of service); or if earlier, when the sum of the member's age and service is at least 90 (rather than 85).

NOTES TO COMBINED FINANCIAL STATEMENTS

- Members will be eligible for a reduced (early) retirement benefit when they reach age 55 with five years of service, rather than three years of service.
 - Members will be fully vested after five years of service (rather than three years of service).
 - The Final Average Compensation for Tier 2 members is the average of the member's highest five plan year salaries, rather than the average of the three highest salaries.
2. The employer contribution rate increases from 7.75% to 8.25% effective July 1, 2008, but this rate will reset to 7.75% once the Fund reaches a 90% funded ratio, measured using the actuarial value of assets. (If the funded ratio later falls below 90% again, the contribution rate will not automatically return to 8.25%.)
 3. Employer contributions are required on the salary of reemployed retirees.
 4. An individual who retired before January 1, 2009, and is receiving monthly benefits is entitled to receive a supplemental payment from the fund. The supplemental payment is equal to an amount determined by taking twenty dollars multiplied by the member's number of years of service credit plus fifteen dollars multiplied by the number of years since the member's retirement as of January 1, 2009. The supplemental payment may not exceed the greater of 10% of the member's annual annuity or \$750. TFFR made the supplemental payment in December 2009.
 5. The employer contribution rate increases from 8.25% to 8.75% effective July 1, 2010, but this rate will be reset to 7.75% once the Fund reaches a 90% funded ratio, measured using the actuarial value of assets. (If the funded ratio later falls below 90% again, the contribution rate will not automatically return to 8.75%.)

NOTE 10 - PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Permanent employees of RIO participate in PERS, which is also an agency of the State of North Dakota financial reporting entity and is included in the State of North Dakota's Comprehensive Annual Financial Report. PERS is a cost-sharing multiple-employer defined benefit public employee retirement system that provides retirement, disability and death benefits to eligible employees and beneficiaries. PERS is administered in accordance with NDCC Chapter 54-52. PERS issues a publicly available financial report that may be obtained by writing to North Dakota Public Employees Retirement System, 400 East Broadway, Suite 505, Bismarck, North Dakota 58501 or by calling 1-800-803-7377.

The financial statements of PERS are prepared using the accrual basis of accounting. Contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable in accordance with the terms of PERS.

RIO is required to contribute to PERS at an actuarially determined rate for permanent employees. The current contribution rate is 8.26% of annual covered payroll as established by the NDCC. RIO's contributions to PERS for the years ended June 30, 2010, 2009, and 2008, were \$82,788, \$81,030, and \$73,133, equal to the required contributions for each year plus a 1.14% contribution for retiree health benefits.

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 11 - RELATED PARTIES

As stated in Note 1, RIO is an agency of the State of North Dakota; as such, other agencies of the state are related parties.

NOTE 12 - COMMITMENTS

The State Investment Board has at June 30, 2010 committed to fund certain alternative investment partnerships for an amount of \$957.5 million. Funding of \$751.3 million has been provided leaving an unfunded commitment of approximately \$206.2 million.

NOTE 13 - NEW PRONOUNCEMENTS

GASB Statement No. 50, "*Pension Disclosures-an amendment of GASB Statements No. 25 and No. 27*", was issued in May 2008, and implemented for the fiscal year beginning July 1, 2008. This statement modifies the financial reporting requirements for pensions and enhances information disclosed in the notes to the financial statements or presented as required supplementary information.

GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", was issued in June 2008, and implemented for the fiscal year beginning July 1, 2009. This statement addresses the recognition, measurement, and disclosure information regarding derivative instruments entered into by state and local governments.

NOTE 14 - SUBSEQUENT EVENT

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 the 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 whose investments totaled more than \$1.5 billion. Subsequent to the filing of a criminal complaint by federal prosecutors, a receiver was appointed by the court to reconstruct the alleged fraud and determine what recoverable assets exist. The receiver issued a report in May, 2009, indicating that approximately \$893 million of recoverable assets were identified which equates to 60% of the investors' account values. The SIB held three portfolios with Westridge/WG Trading at the time the fraud was discovered. The three portfolios had been valued at a combined \$161.3 million in the month prior to the court actions. \$23.3 million was recovered immediately through liquidation of futures and related collateral positions at Westridge. The remaining assets were held by WG Trading and were frozen by the courts and remain frozen as of the balance sheet date. The fair value reported on the balance sheet as of June 30, 2009, reflects a reduction of 40% of the last known fair value, based on the receiver's initial report.

Subsequent to the closing of the fiscal year ended June 30, 2010, additional information was made available by the receiver regarding the assets readily available for distribution. The amount was reduced from the original \$893 million in May, 2009 to approximately \$800 million due to lack of liquidity. Therefore, the carrying value of these investments has been reduced by an additional 11% to reflect this new information. Due to the uncertainty of the distribution of assets between the parties as of the balance sheet date, this valuation is considered the best available.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

SUPPLEMENTARY INFORMATION

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010 AND 2009

Schedule of Funding Progress
North Dakota Teachers' Fund for Retirement
(Dollars in Millions)

<u>Actuarial Valuation Date July 1</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (Funded Excess)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL (Funded Excess) as a Percentage of Annual Covered Payroll</u>
2005	\$ 1,469.7	\$ 1,965.2	\$ 495.5	74.8%	\$ 386.6	128.2%
2006	1,564.0	2,073.9	509.9	75.4%	390.1	130.7%
2007	1,750.1	2,209.3	459.2	79.2%	401.3	114.4%
2008	1,909.5	2,330.6	421.1	81.9%	417.7	100.8%
2009	1,900.3	2,445.9	545.6	77.7%	440.0	124.0%
2010	1,842.0	2,637.2	795.2	69.8%	465.0	171.0%

Schedule of Employer Contributions
North Dakota Teachers' Fund for Retirement

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2005	44,471,740	68.3%
2006	48,747,189	63.9%
2007	50,532,462	63.1%
2008	44,114,585	76.4%
2009	41,986,174	89.3%
2010	52,053,217	76.5%

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
COMBINING STATEMENT OF NET ASSETS – INVESTMENT TRUST FUNDS
FIDUCIARY FUNDS
AS OF JUNE 30, 2010
(With Comparative Totals for 2009)

	Pension Pool Participants							Insurance Pool Participants			
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	Job Service of North Dakota	City of Fargo Employee Pension Plan	City of Grand Forks Employee Pension Plan	City of Grand Forks Park District	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund
Assets:											
Investments											
Equities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Equity pool	751,717,397	18,705,261	9,414,949	29,873,970	12,814,389	16,816,408	2,076,967	224,389,670	8,809,206	67,576	205,519
Fixed income	-	-	-	-	-	-	-	-	-	-	-
Fixed income pool	600,629,851	20,677,040	8,243,356	47,629,114	8,754,752	11,298,381	1,287,158	901,173,071	14,798,399	1,477,340	3,300,366
Real estate pool	73,611,369	4,368,771	1,792,070	-	1,373,010	1,710,385	-	65,242,803	-	-	-
Alternative Investments	63,362,366	463,308	655,711	-	1,326,969	1,661,840	173,960	-	-	-	-
Cash and cash pool	19,826,474	328,089	144,401	86,685	319,584	3,461,109	36,864	13,846,736	2,662,428	1,191,196	3,061,464
Total investments	1,509,147,457	44,542,469	20,250,487	77,589,769	24,588,704	34,948,123	3,574,949	1,204,652,280	26,270,033	2,736,112	6,567,349
Invested sec lending collateral	9,428,833	250,469	116,166	484,406	151,739	208,455	31,925	7,257,842	201,574	12,902	28,803
Investment income receivable	2,490,355	48,773	30,187	156,782	(25,583)	3,783	(661)	7,853,710	128,508	27,149	58,313
Operating Cash	30,083	-	-	-	-	-	-	35,075	4,591	1,084	814
Miscellaneous receivable	5,747	-	-	-	-	-	-	4,443	101	10	25
Due from other funds	-	-	-	-	-	-	-	-	-	-	-
Due from other state agency	-	-	-	-	-	-	-	-	-	-	-
Total assets	1,521,102,475	44,841,711	20,396,840	78,230,957	24,714,860	35,160,361	3,606,213	1,219,803,350	26,604,807	2,777,257	6,655,304
Liabilities:											
Investment expenses payable	1,598,194	51,276	23,227	91,106	26,735	35,580	3,684	1,436,422	41,933	916	2,083
Securities lending collateral	9,428,833	250,469	116,166	484,406	151,739	208,455	31,925	7,257,842	201,574	12,902	28,803
Accounts payable	44,962	-	-	-	-	-	-	34,758	793	77	194
Accrued expenses	22,945	-	-	-	-	-	-	17,794	384	39	116
Miscellaneous payable	-	3,000	1,375	5,259	1,701	1,169	250	-	-	-	-
Due to other state funds	-	-	-	-	-	-	-	-	-	-	-
Due to other state agencies	1,121	-	-	-	-	-	-	866	20	2	5
Total liabilities	11,096,055	304,745	140,768	580,771	180,175	245,204	35,859	8,747,682	244,704	13,936	31,201
Net assets held in trust for external investment pool participants	\$ 1,510,006,420	\$ 44,536,966	\$ 20,256,072	\$ 77,650,186	\$ 24,534,685	\$ 34,915,157	\$ 3,570,354	\$ 1,211,055,668	\$ 26,360,103	\$ 2,763,321	\$ 6,624,103
Each participant unit is valued at \$1.00											
Participant units outstanding	1,510,006,420	44,536,966	20,256,072	77,650,186	24,534,685	34,915,157	3,570,354	1,211,055,668	26,360,103	2,763,321	6,624,103

Insurance Pool Participants													Individual Investment Account	
Insurance Regulatory Trust Fund	Health Care Trust Fund	Cultural Endowment Fund	Risk Mgmt Fund	Risk Mgmt Work Comp	ND Ass'n. of Counties Fund	ND Ass'n of Counties Program Savings	PERS Group Insurance	Budget Stabilization Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	DPI Board Certification Fund	PERS Retiree Health Credit Fund	Totals	
													2010	2009
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,388,750	\$ 25,388,750	\$ 18,879,086
1,187,341	-	124,035	1,067,610	1,120,713	572,013	344,302	-	-	240,616	12,022,961	-	-	1,091,570,903	937,074,652
-	-	-	-	-	-	-	-	-	-	-	-	19,519,126	19,519,126	16,519,433
1,471,630	-	90,611	2,480,950	1,978,969	448,844	412,762	-	284,018,100	559,485	12,867,202	-	-	1,923,597,381	1,693,796,088
-	-	11,961	-	-	-	-	-	-	-	-	-	-	148,110,369	126,052,018
-	-	-	-	-	-	-	-	-	-	-	-	-	67,644,154	73,458,319
1,453,832	2,315,399	7,188	191,214	97,242	55,075	40,627	4,034,576	38,566,074	42,362	256,240	500,604	-	92,525,463	33,191,958
4,112,803	2,315,399	233,795	3,739,774	3,196,924	1,075,932	797,691	4,034,576	322,584,174	842,463	25,146,403	500,604	44,907,876	3,368,356,146	2,898,971,554
23,476	-	1,715	28,261	24,202	8,459	6,259	-	-	6,908	186,973	-	-	18,459,367	70,170,273
7,450	-	18	49,228	6,553	1,183	803	-	2,593,383	1,533	10,363	-	64,413	13,506,243	13,303,251
676	850	154	876	1,019	-	-	-	7,803	-	-	260	-	83,285	74,746
4	8	1	14	12	-	-	-	1,189	-	-	2	-	11,556	8,677
-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,855
-	-	-	-	-	-	-	-	-	-	-	-	-	-	3
4,144,409	2,316,257	235,683	3,818,153	3,228,710	1,085,574	804,753	4,034,576	325,186,549	850,904	25,343,739	500,866	44,972,289	3,400,416,597	2,982,530,359
5,018	-	543	6,268	6,276	2,590	1,589	-	63,907	1,197	62,488	-	27,743	3,488,775	3,793,008
23,476	-	1,715	28,261	24,202	8,459	6,259	-	-	6,908	186,973	-	-	18,459,367	70,170,273
34	16	7	110	92	-	-	-	2,383	-	-	4	-	83,430	52,441
16	138	3	55	47	-	-	-	3,181	-	-	3	-	44,721	50,041
-	-	-	-	-	250	250	250	-	250	1,661	-	1,592	17,007	12,657
-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,855
1	2	-	2	3	-	-	-	232	-	-	-	-	2,254	2,242
28,545	156	2,268	34,696	30,620	11,299	8,098	250	69,703	8,355	251,122	7	29,335	22,095,554	74,082,517
\$ 4,115,864	\$ 2,316,101	\$ 233,415	\$ 3,783,457	\$ 3,198,090	\$ 1,074,275	\$ 796,655	\$ 4,034,326	\$ 325,116,846	\$ 842,549	\$ 25,092,617	\$ 500,859	\$ 44,942,954	\$ 3,378,321,043	\$ 2,908,447,842
4,115,864	2,316,101	233,415	3,783,457	3,198,090	1,074,275	796,655	4,034,326	325,116,846	842,549	25,092,617	500,859	44,942,954	3,378,321,043	2,908,447,842

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
COMBINING STATEMENT OF CHANGES IN NET ASSETS – INVESTMENT TRUST FUNDS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(With comparative totals for June 30, 2009)

	Pension Pool Participants					Insurance Pool Participants					
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	Job Service of North Dakota	City of Fargo Employee Pension Plan	City of Grand Forks Employee Pension Plan	City of Grand Forks Park District	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund
Additions:											
Investment income:											
Net change in fair value of investments	\$ 153,004,660	\$ 3,838,691	\$ 1,907,796	\$ 7,565,552	\$ 2,756,456	\$ 3,626,358	\$ (138,086)	\$ 86,825,301	\$ 2,554,316	\$ 137,116	\$ 339,451
Interest, dividends and other income	32,225,018	1,121,694	476,013	2,042,786	510,050	674,685	30,872	44,376,314	1,002,687	80,281	194,448
Less investment expenses	185,229,678	4,960,385	2,383,809	9,608,338	3,266,506	4,301,043	(107,214)	131,201,615	3,557,003	217,397	533,899
	6,118,588	190,180	87,805	305,699	106,028	137,909	11,082	4,885,207	87,197	3,338	7,891
Net investment income	179,111,090	4,770,205	2,296,004	9,302,639	3,160,478	4,163,134	(118,296)	126,316,408	3,469,806	214,059	526,008
Securities lending activity:											
Securities lending income	38,342	1,148	533	1,814	614	886	45	278,618	4,142	375	906
Less Securities lending expenses	(77,303)	(1,635)	(869)	(3,070)	(1,344)	(2,250)	(140)	64,402	(391)	156	375
Net securities lending income	115,645	2,783	1,402	4,884	1,958	3,136	185	214,216	4,533	219	531
Total Additions	179,226,735	4,772,988	2,297,406	9,307,523	3,162,436	4,166,270	(118,111)	126,530,624	3,474,339	214,278	526,539
Deductions:											
Administrative Expenses	294,489	-	-	-	-	-	-	213,441	4,790	984	1,270
Net change in net assets resulting from operations	178,932,246	4,772,988	2,297,406	9,307,523	3,162,436	4,166,270	(118,111)	126,317,183	3,469,549	213,294	525,269
Unit transactions at net asset value of \$1 per unit:											
Purchase of units	-	-	-	-	-	3,887,189	3,735,988	28,500,000	2,800,000	400,000	400,000
Redemption of units	(22,100,000)	-	-	(3,805,228)	(500,000)	(3,145,263)	(47,523)	(26,100,000)	(2,225,000)	-	(600,000)
Net change in net assets and units resulting from unit transactions	(22,100,000)	-	-	(3,805,228)	(500,000)	741,926	3,688,465	2,400,000	575,000	400,000	(200,000)
Total change in net assets	156,832,246	4,772,988	2,297,406	5,502,295	2,662,436	4,908,196	3,570,354	128,717,183	4,044,549	613,294	325,269
Net assets:											
Beginning of year	1,353,174,174	39,763,978	17,958,666	72,147,891	21,872,249	30,006,961	-	1,082,338,485	22,315,554	2,150,027	6,298,834
End of year	\$ 1,510,006,420	\$ 44,536,966	\$ 20,256,072	\$ 77,650,186	\$ 24,534,685	\$ 34,915,157	\$ 3,570,354	\$ 1,211,055,668	\$ 26,360,103	\$ 2,763,321	\$ 6,624,103

Insurance Pool Participants													Individual Investment Account	
Insurance Regulatory Trust Fund	Health Care Trust Fund	Cultural Endowment Fund	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n of Counties Fund	ND Ass'n of Counties Program Savings	PERS Group Insurance	Budget Stabilization Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	DPI Board Certification Fund	PERS Retiree Health Credit Fund	Totals	
													2010	2009
\$ 133,302	\$ -	\$ 22,732	\$ 391,534	\$ 242,300	\$ 114,484	\$ 82,493	\$ -	\$ 11,710,253	\$ 82,542	\$ 2,389,046	\$ -	\$ 4,928,103	\$ 282,514,400	\$ (700,881,095)
55,755	8,373	7,822	151,308	102,186	35,633	28,732	38,909	10,013,545	34,359	823,931	1,609	1,829,939	95,866,949	98,323,223
189,057	8,373	30,554	542,842	344,486	150,117	111,225	38,909	21,723,798	116,901	3,212,977	1,609	6,758,042	378,381,349	(602,557,872)
7,581	-	1,057	11,703	10,263	5,541	3,972	1,000	222,199	3,653	102,595	-	100,256	12,410,744	12,014,168
181,476	8,373	29,497	531,139	334,223	144,576	107,253	37,909	21,501,599	113,248	3,110,382	1,609	6,657,786	365,970,605	(614,572,040)
199	-	26	657	414	127	113	-	-	149	3,107	-	-	332,215	2,600,802
(129)	-	(17)	52	(7)	(81)	(32)	-	-	4	(924)	-	-	(23,203)	1,626,006
328	-	43	605	421	208	145	-	-	145	4,031	-	-	355,418	974,796
181,804	8,373	29,540	531,744	334,644	144,784	107,398	37,909	21,501,599	113,393	3,114,413	1,609	6,657,786	366,326,023	(613,597,244)
994	983	348	984	987	-	-	-	37,341	-	-	750	-	557,361	436,987
180,810	7,390	29,192	530,760	333,657	144,784	107,398	37,909	21,464,258	113,393	3,114,413	859	6,657,786	365,768,662	(614,034,231)
3,000,000	-	-	-	1,000,000	-	-	179,500,000	124,936,548	-	4,400,000	500,000	2,753,000	355,812,725	195,202,812
(2,300,000)	-	-	-	-	-	-	(179,500,000)	(11,385,172)	-	-	-	-	(251,708,186)	(245,384,367)
700,000	-	-	-	1,000,000	-	-	-	113,551,376	-	4,400,000	500,000	2,753,000	104,104,539	(50,181,555)
880,810	7,390	29,192	530,760	1,333,657	144,784	107,398	37,909	135,015,634	113,393	7,514,413	500,859	9,410,786	469,873,201	(664,215,786)
3,235,054	2,308,711	204,223	3,252,697	1,864,433	929,491	689,257	3,996,417	190,101,212	729,156	17,578,204	-	35,532,168	2,908,447,842	3,572,663,628
\$ 4,115,864	\$ 2,316,101	\$ 233,415	\$ 3,783,457	\$ 3,198,090	\$ 1,074,275	\$ 796,655	\$ 4,034,326	\$ 325,116,846	\$ 842,549	\$ 25,092,617	\$ 500,859	\$ 44,942,954	\$ 3,378,321,043	\$ 2,908,447,842

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
PENSION AND INVESTMENT TRUST FUNDS – SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	Pension Trust		Investment Trust	
	2010	2009	2010	2009
Salaries and wages				
Salaries and wages	\$ 571,875	\$ 541,834	\$ 377,965	\$ 354,284
Fringe benefits	204,097	189,415	91,551	99,241
Total salaries and wages	775,972	731,249	469,516	453,525
Operating expenses				
Information services	76,726	78,631	11,160	9,199
Intergovernmental services	4,907	5,485	1,815	2,029
Professional services	345,589	165,132	173,067	60,485
Rent of building space	55,147	54,973	21,086	20,493
Mailing services and postage	54,225	41,889	20,963	18,776
Travel and lodging	22,807	23,764	10,864	11,301
Printing	17,377	20,064	7,953	6,933
Office supplies	4,600	17,315	1,593	4,851
Professional development	6,671	16,026	815	3,579
Outside services	8,501	11,010	2,712	2,563
Small office equipment expense	158	13,095	75	5,546
Miscellaneous fees	3,249	1,977	2,264	2,067
Resource and reference materials	432	583	896	777
IT contractual services	110,991	110,439	2,105	4,194
Repairs - office equipment	-	114	-	42
Insurance	681	1,021	252	378
Total operating expenses	712,061	561,518	257,620	153,213
Pension trust portion of investment program expenses	169,775	169,751	(169,775)	(169,751)
Depreciation	244,988	244,988	-	-
Total administrative expenses	1,902,796	1,707,506	557,361	436,987
Less - nonappropriated items:				
Professional fees	345,589	165,132	173,067	60,485
Other operating fees paid under continuing appropriation	13,357	11,543	26,196	22,453
Depreciation	244,988	244,988	-	-
Accrual adjustments to employee benefits	920	11,629	(6,597)	7,533
Total nonappropriated items	604,854	433,292	192,666	90,471
Total appropriated expenditures	\$ 1,297,942	\$ 1,274,214	\$ 364,695	\$ 346,516

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
PENSION AND INVESTMENT TRUST FUNDS – SCHEDULE OF CONSULTANT EXPENSES
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

	Pension Trust		Investment Trust	
	2010	2009	2010	2009
Actuary fees:				
Gabriel, Roeder, Smith & Co.	\$ 196,990	\$ 81,544	\$ -	\$ -
Consulting fees:				
Eide Bailly LLP	44,699	42,970	23,001	22,405
Disability consulting fees:				
Dr. G.M. Lunn	300	300	-	-
Legal fees:				
Calhoun Law Group P.C.	10,258	-	-	-
K&L Gates LLP	71,753	12,585	136,619	27,418
ND Attorney General	21,589	27,733	13,447	10,662
Total legal fees:	<u>103,600</u>	<u>40,318</u>	<u>150,066</u>	<u>38,080</u>
Total consultant expenses	<u>\$ 345,589</u>	<u>\$ 165,132</u>	<u>\$ 173,067</u>	<u>\$ 60,485</u>

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
PENSION AND INVESTMENT TRUST FUNDS – SCHEDULE OF INVESTMENT EXPENSES
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

	Pension Trust		Investment Trust	
	2010	2009	2010	2009
Investment managers' fees:				
Domestic large cap equity managers	\$ 2,505,815	\$ 1,627,491	\$ 3,656,352	\$ 2,681,178
Domestic small cap equity managers	1,115,847	729,394	1,703,243	1,161,747
International equity managers	1,074,828	1,075,153	1,208,085	1,092,099
Emerging markets equity managers	1,103,784	716,801	1,162,657	746,476
Domestic fixed income managers	2,860,668	990,982	8,514,977	4,090,871
High yield fixed income managers	2,078,546	1,587,661	1,806,843	1,306,658
Inflation protected assets managers	-	-	1,682,319	687,577
International fixed income managers	329,889	312,690	380,390	350,872
Real estate managers	1,900,082	1,912,513	1,713,622	1,902,196
Private equity managers	1,676,361	981,168	1,787,378	1,039,468
Enhanced cash managers	-	-	218,275	99,804
Cash and equivalents managers	16,281	7,152	13,361	7,179
Balanced account managers	-	-	174,464	73,830
Total investment managers' fees	<u>14,662,101</u>	<u>9,941,005</u>	<u>24,021,966</u>	<u>15,239,955</u>
Custodian fees	299,800	302,671	595,896	537,855
Investment consultant fees	87,328	87,638	200,526	197,020
SIB service fees	-	-	46,119	33,268
Total investment expenses	<u>\$ 15,049,229</u>	<u>\$ 10,331,314</u>	<u>\$ 24,864,507</u>	<u>\$ 16,008,098</u>
Securities lending fees	<u>\$ (87,999)</u>	<u>\$ 52,019</u>	<u>\$ (23,203)</u>	<u>\$ 1,626,006</u>

Reconciliation of Investment Expenses to Financial Statements

	2010	2009	2010	2009
Investment expenses as reflected in the financial statements	\$ 6,234,267	\$ 6,677,763	\$ 12,410,744	\$ 12,014,168
Plus investment management fees included in investment income				
Domestic large cap equity	817,707	261,949	1,057,567	318,846
Domestic small cap equity	948,784	349,729	1,019,320	419,581
International equity	209,403	148,378	255,569	186,750
Emerging markets equity	670,351	335,963	706,348	348,347
Domestic fixed income	2,245,704	247,917	5,667,804	617,492
High yield				
Inflation protected assets managers	1,650,648	1,087,009	1,432,378	894,982
Real estate	925,840	531,733	562,124	312,406
Alternative investments	1,330,244	683,721	1,418,817	738,742
Enhanced cash managers	-	-	18,304	28,729
Cash equivalents	16,281	7,152	13,361	7,179
Balanced account managers	-	-	80,489	4,013
Investment expenses per schedule	<u>\$ 15,049,229</u>	<u>\$ 10,331,314</u>	<u>\$ 24,864,507</u>	<u>\$ 16,008,098</u>

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
SCHEDULE OF APPROPRIATIONS – BUDGET BASIS
FIDUCIARY FUNDS
JULY 1, 2009 TO JUNE 30, 2011 BIENNIUM

	Approved 2009-2011 Appropriation	2009-2011 Appropriation Adjustment	Adjusted 2009- 2011 Appropriation	Fiscal 2010 Expenses	Unexpended Appropriations
All Fund Types:					
Salaries and wages	\$ 2,674,080	\$ -	\$ 2,674,080	\$ 1,251,165	\$ 1,422,915
Operating expenses	949,570	-	949,570	411,472	538,098
Contingency	82,000	-	82,000	-	82,000
Total	<u>\$ 3,705,650</u>	<u>\$ -</u>	<u>\$ 3,705,650</u>	<u>\$ 1,662,637</u>	<u>\$ 2,043,013</u>

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

Reconciliation of Administrative Expenses to Appropriated Expenditures

	2010
Administrative expenses as reflected in the financial statements	\$ 2,460,157
Less:	
Professional fees*	(518,657)
Other operating fees paid under continuing appropriations*	(39,552)
Depreciation expense	(244,988)
Changes in annual leave and FICA payments	<u>5,677</u>
Total appropriated expenses	<u>\$ 1,662,637</u>

* North Dakota Century Code 21-10-06.2 and 15-39.1-05.2 provide authorization for the continuing appropriation.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
SPECIAL COMMENTS REQUESTED BY THE LEGISLATIVE AUDIT AND FISCAL REVIEW
COMMITTEE
FOR THE YEAR ENDED JUNE 30, 2010**

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?

Unqualified

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

Yes

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. There were not any recommendations included in the management letter.

Audit Committee Communications:

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

None

**SPECIAL COMMENTS REQUESTED BY THE LEGISLATIVE AUDIT AND FISCAL REVIEW
COMMITTEE – page 2**

2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor’s conclusions regarding the reasonableness of those estimates.

RIO 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 a passed audit adjustment detected during the audit. The passed audit adjustment is detailed in the management letter.

4. Identify any disagreements with management, whether or not resolved to the auditor’s satisfaction, relating to financial accounting, reporting, or auditing matter 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 report questions addressed above are directly related to the operations of an information technology system.

Based on the audit procedures performed, the Retirement and Investment Office’s critical information technology system is the CPAS system. There were no exceptions identified that were directly related to this application.

**SPECIAL COMMENTS REQUESTED BY THE LEGISLATIVE AUDIT AND FISCAL REVIEW
COMMITTEE – page 3**

This report is intended solely for the information and use of the audit committee, 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 these specified parties.

Eide Bailly LLP

November 8, 2010
Bismarck, North Dakota



November 8, 2010

Audit Committee
North Dakota Retirement and Investment Office
Bismarck, North Dakota

We have audited the financial statements of the fiduciary funds of the North Dakota Retirement and Investment Office, a department of the State of North Dakota, which collectively comprise RIO's basic financial statements, and the combining and individual fund statements, as listed in the table of contents, as of and for the year ended June 30, 2010. 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 22, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the North Dakota Retirement and Investment Office are described in Note 1 to the financial statements. RIO adopted Governmental Accounting Standards Board No. 53 Accounting and Financial Reporting for Derivative Instruments. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

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. The most sensitive estimates affecting the North Dakota Retirement and Investment Office's financial statements were:

Management's estimate of the fair value of investments is based on quoted market prices, estimates of fair value from investment managers, cash flow analysis and recent sales of alternative investments, and yields currently available on comparable securities. We evaluated the key factors and assumptions used to develop the fair value estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of actuarial accrued liability was provided to us by Gabriel Roeder, Smith, & Company and is considered complete and accurate and was prepared on a consistent basis with prior years. This estimate is reflected in financial statements.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements was:

The disclosure of Investments and North Dakota Teachers' Fund for Retirement in Notes 3 and 9 to the financial statements, respectively.

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. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the North Dakota Retirement and Investment Office's financial statements taken as a whole. The following misstatement detected was not corrected by management:

	<u>Debit</u>	<u>Credit</u>
Net change in Fair Value of Investments	\$2,711,870	
Investments		\$2,711,870
<i>To adjust the investments to fair market value as of June 30, 2010.</i>		

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 8, 2010.

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 Governor, Legislative Audit and Fiscal Review Committee, and Audit Committee and management of the North Dakota Retirement and Investment Office and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

November 8, 2010
Bismarck, North Dakota