SIB AUDIT COMMITTEE MEETING

November 20, 2014 3:00 PM

Workforce Safety and Insurance (WSI) – Board Room

1600 East Century Avenue, Suite 1, Bismarck, ND 58503-0649

1. Call to Order and Approval of Agenda – Chair (committee action) (5 minutes)
2. Approval of October 24, 2014 Minutes – Chair (committee action) (5 minutes)
3. Presentation of June 30, 2014 Financial Audit Report of RIO (GASB 67 & 68) – Thomas Rey, Clifton Larson Allen, LLP (committee action) (60 minutes)
4. External Auditor Request for Proposal (RFP) Process – Ron Tolstad (to follow) (30 minutes)
5. 2014 – 2015 First Quarter Audit Activities Report and Review of Current Audit Activities – Terra Miller Bowley (committee action) (10 minutes)
6. Review of Executive Limitations Activities – Terra Miller Bowley (to follow) (20 minutes)
7. Other – Next SIB Audit Committee Meeting – February 27, 2015 – 1:00 PM - WSI
8. Adjournment

Any individual requiring an auxiliary aid or service should contact the Retirement and Investment Office at (701) 328-9885 at least (3) days prior to the scheduled meeting.

STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
OCTOBER 24, 2014, MEETING

COMMITTEE MEMBERS PRESENT:	Rebecca Dorwart, Chair Mike Gessner, TFFR Board/Liaison to the SIB Karol Riedman, Health Dept. Mike Sandal, PERS Board Cindy Ternes, Workforce Safety & Insurance
STAFF PRESENT:	Bonnie Heit, Assistant to the Audit Committee David Hunter, Executive Director/CIO Fay Kopp, Deputy Executive Director/CRO Terra Miller Bowley, Suprv Audit Services Dottie Thorsen, Internal Auditor

CALL TO ORDER:

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 1:00 p.m., on Friday, October 24, 2014, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO APPROVE THE AGENDA FOR THE OCTOBER 24, 2014, MEETING AS DISTRIBUTED.

AYES: MR. SANDAL, MS. TERNES, MS. RIEDMAN, MR. GESSNER, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

MINUTES:

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO APPROVE THE MAY 23, 2014, MINUTES AS DISTRIBUTED.

AYES: MR. GESSNER, MR. SANDAL, MS. TERNES, MS. RIEDMAN, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

INTRODUCTIONS:

Mr. Hunter welcomed Ms. Karol Riedman as a member of the SIB Audit Committee. Ms. Riedman is the Chief Audit Executive for the Office of Internal Audit of the North Dakota Department of Health.

Mr. Hunter also welcomed Ms. Terra Miller Bowley. Ms. Miller Bowley began her duties as RIO's Supervisor of Audit Services effective October 13, 2014.

OFFICER ELECTIONS:

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED BY A ROLL CALL VOTE TO NOMINATE MS. DORWART AS CHAIR AND MR. GESSNER AS VICE CHAIR/SIB LIAISON FOR THE PERIOD OF JULY 1, 2014 THROUGH JUNE 30, 2015.

AYES: MS. TERNES, MS. RIEDMAN, MR. SANDAL, MR. GESSNER, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

AUDIT ACTIVITIES REPORT:

Ms. Thorsen updated the Audit Committee on audit activities for the period of July 1, 2013 – through June 30, 2014.

School District Compliance Audit Reports – As of June 30, 2014, 22 audits were completed (21 in compliance and 1 generally in compliance) with three audits and one not in compliance review in progress. Three districts who were found to be not in compliance in their previous audit were reviewed. These districts corrected the errors and no further review was required.

The Audit Division is in the third cycle of school district auditing with 40 left to be completed as of October 24, 2014.

Benefits Payments Audit Report – Ms. Thorsen reviewed deaths, purchase of service, refunds, long outstanding checks, and long term annuitants to determine that established policy and procedures were being followed by the Retirement Services Division. No exceptions were noted.

File Maintenance Audit Report – Ms. Thorsen tested quarterly changes made to TFFR member account data. Two exceptions were noted.

Year End Reports – Included in the Audit Activities Report was the Internal Audit Division's annual report on time.

The annual financial audit of RIO for the year ended June 30, 2014, is being finalized by CliftonLarsonAllen and will be presented to the Audit Committee at their November 21, 2014, meeting.

Executive Limitations Review – The Audit Committee agreed to forgo the 2013 Executive Limitations audit by the Audit Division because the Executive Director/CIO vacancy was not filled until December 2, 2013. The Executive Director has been working with staff to compile documentation in support of an Executive Limitations review for the calendar year ending 2014. Ms. Miller

Bowley is in the process of reviewing the information and gathering additional information to conduct the audit.

Staff will schedule a meeting with Ms. Dorwart to review the Executive Limitations Governance Policy Monitoring Summary prior to the November 21, 2014, meeting, to ensure adherence to all governance policies regarding the Executive Limitations audit. Ms. Miller Bowley will provide an update at the November 21, 2014, meeting.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. SANDAL AND CARRIED BY A VOICE VOTE TO ACCEPT THE INTERNAL AUDIT ACTIVITIES REPORT FOR THE JULY 1, 2013 – JUNE 30, 2014, PERIOD.

AYES: MR. GESSNER, MS. MERTZ, MR. SANDAL, MS. TERNES, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

ANNUAL REPORT TO SIB:

Mr. Hunter reviewed an annual summary of the Audit Committee’s activities which will be presented to the SIB at their November 21, 2014, meeting.

Discussion was held on scheduling the Audit Committee’s November meeting prior to the SIB’s November 21, 2014, meeting to enable the Audit Committee time to review RIO’s financial audit report for Fiscal Year 2014 with CliftonLarsonAllen prior to submitting it to the SIB at their November meeting. Staff will follow up with CliftonLarsonAllen and report back to the Audit Committee.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. GESSNER AND CARRIED BY A VOICE VOTE TO APPROVE THE AUDIT COMMITTEE’S ANNUAL REPORT TO THE SIB.

AYES: MR. SANDAL, MS. TERNES, MS. RIEDMAN, MR. GESSNER, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

AUDIT PROGRESS REPORT:

Ms. Thorsen stated for the period of July 1, 2014, through October 24, 2014, four audits have been completed, two are in process, and the Williston not in compliance review is in progress. Ms. Miller Bowley is also conducting a review of Nesson.

Ms. Thorsen stated one quarter of the File Maintenance Audit and the Benefits Payment Audit were also completed during this time period.

GASB UPDATE:

Ms. Kopp updated the Audit Committee on GASB 67 & 68 implementation. RIO staff have been working closely with PERS, State Auditor’s Office, CliftonLarsonAllen, BradyMartz, and Segal to develop plans for implementing the two new pension reporting standards. Ms. Kopp stated details and issues continue to emerge as the entities work through the implementation process and is confident the pension reporting standards will be implemented into RIO/TFFR’s 2014 financial statements and the TFFR employers 2015 financial statements.

AUDIT PLANNING & PRIORITIES:

Mr. Hunter reviewed the Audit Division's audit plan through June 30, 2015. RIO staff and Ms. Dorwart recommended the Audit Division focus on the following three key objectives: new investment and governance related audit initiatives; TFFR employer compliance audits including a comprehensive risk assessment of RIO's existing audit program; and GASB 67 and 68 related implementation initiatives.

The Audit Committee determined they would not formulize a work plan through June 30, 2015, in order to enable Ms. Miller Bowley time to review and assess the current audit program and to develop a program for the July 1, 2015 through June 30, 2016, time period.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. SANDAL TO APPROVE THE AUDIT PLANNING AND PRIORITIES MEMO STAFF AND MS. DORWART DATED OCTOBER 24, 2014,

AYES: MR. GESSNER, MR. SANDAL, MS. TERNES, MS. RIEDMAN, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

OTHER:

The next Audit Committee meeting is scheduled for November 21, 2014, at 1:00 p.m. at the State Capitol, Brynhild Haugland Room.

ADJOURNMENT:

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 2:35 p.m.

Respectfully Submitted:

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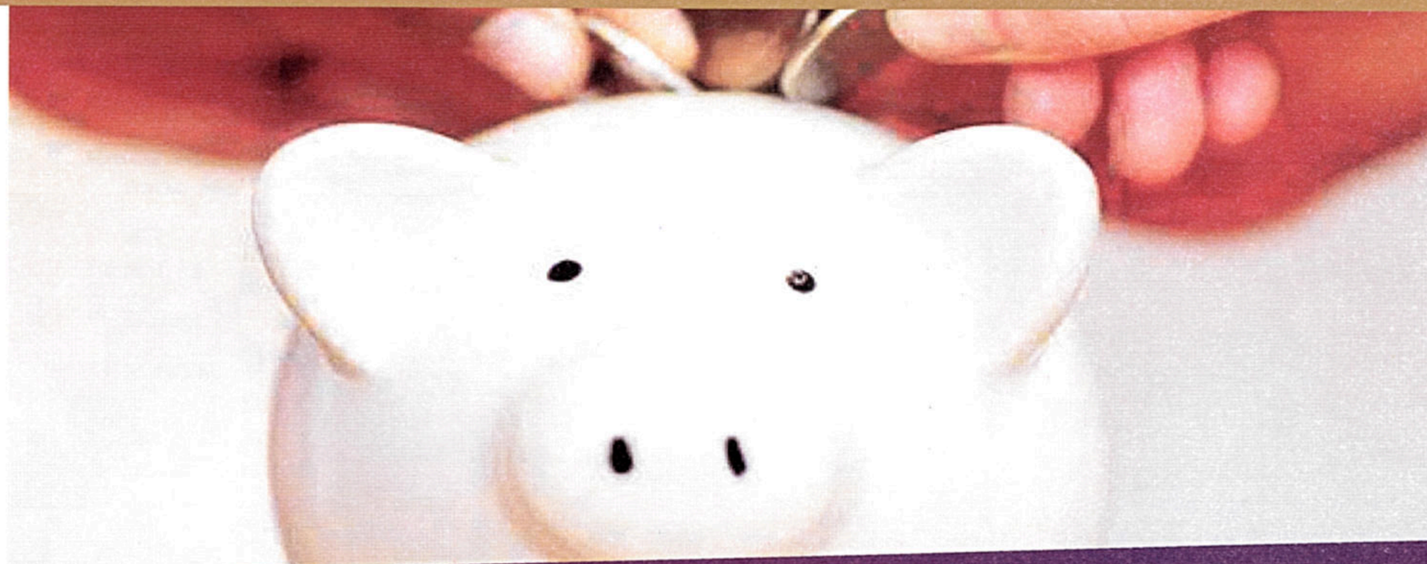
Ms. Rebecca Dorwart, Chair
SIB Audit Committee

____
Bonnie Heit
Assistant to the Audit Committee



November 20, 2014

Audit Results Presentation to:

North Dakota Retirement and Investment Office – Audit Committee

CliftonLarsonAllen

www.cliftonlarsonallen.com

Agenda

- Introductions
- 2014 Audit Results
- Financial Highlights
- Required Communications
- New GASB Pronouncements Regarding Pension Plans

2014 Audit Results

- Independent Auditors' Report - Unmodified "clean" opinion that the financial statements are presented fairly, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles (GAAP).
  - Significant disclosure changes due to implementation of GASB 67
- Limited procedures were performed, and no opinion rendered, on management's discussion and analysis, required supplemental information, supplemental schedules, and the Introductory, Investment, Actuarial, and Statistical sections.
- 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*
  - No material weaknesses were identified.
  - No significant deficiencies were identified.
- Letter to the Board providing required communications with those charged with governance

Financial Highlights

North Dakota Retirement and Investment Office
Net Position – Fiduciary Funds
(In Millions)

	2014	2013	Total % Change
Assets			
Investments	$ 9,374	$ 7,422	26.3%
Receivables	48	44	9.2%
Cash & Other	17	16	5.9%
Total Assets	9,439	7,482	26.2%
Liabilities			
Accounts Payable	11	7	41.9%
Total Liabilities	11	7	41.9%
Total Net Position	$ 9,428	$ 7,475	26.1%

Financial Highlights, cont'd.

North Dakota Retirement and Investment Office
Changes in Net Position – Fiduciary Funds
(In Millions)

	2014	2013	Total % Change
Additions:			
Contributions	$ 121	$ 116	4.4%
Investment Income	988	638	54.8%
Total Additions	1,109	754	47.1%
Deductions	165	151	8.8%
Net change from unit transactions	1,010	818	23.4%
Total change in net position	$ 1,954	$ 1,421	37.5%

Required Governing Body Communications

- Auditor's responsibility under U.S. Generally Accepted Auditing Standards
- Significant accounting policies
- Management judgments and accounting estimates
  - Valuation of alternative investments
  - Actuarial assumptions and methods used
- Financial statement disclosures

Other Communications

- Management was very cooperative and professional during the audit process
- No disagreements with management
- Management did not consult with other accountants on the application of GAAP or GAAS
- No major issues were discussed with management prior to retention
- Management Representations

Recently Issued GASB Statements Regarding Public Pension Plans

CliftonLarsonAllen

cliftonlarsonallen.com

GASB Pension Standards

Standard #	Title	Effective Date
GASB 67	Financial Reporting for Pension Plans	Fiscal Years beginning after June 15, 2013
GASB 68	Accounting and Financial Reporting for Pensions	Fiscal years beginning after June 15, 2014

Overview of New GASB 67 Disclosures

Net Pension Liability

The components of the net pension liability of TFFR at June 30, 2014 and 2013, were as follows:

	June 30, 2014	June 30, 2013
Total pension liability	3,138,799,773	2,997,139,087
Plan fiduciary net position	(2,090,977,056)	(1,839,583,960)
Net pension liability (NPL)	1,047,822,717	1,157,555,127
Plan fiduciary net position as a percentage of the total pension liability	66.6%	61.4%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2014 and 2013, using the following actuarial assumptions:

Valuation date	July 1, 2014	July 1, 2013
Inflation	3.00%	3.00%
Salary increases	4.50% to 14.75%; varying by service, including inflation and productivity	4.50% to 14.75%
Cost of living adjustments	None	None
Investment rate of return	8% net of pension plan investment expense	8% net of pension plan investment expense

Mortality rates were based on the following:

For active members, mortality rates were based on the post-retirement mortality rates multiplied by 60% for males and 40% for females. For inactive members and healthy retirees, mortality rates were based on 80% of GRS Table 378 and 75% of GRS Table 379. For disabled retirees, mortality rates were based on the RP-2000 Disabled-Life tables for Males and Females multiplied by 80% and 95% respectively.

Overview of New GASB 67 Disclosures

Investment Policy

The TFFR Board is responsible for establishing investment policy for the fund assets under NDCC 15-39.1-05.2. Benefit payments are projected to occur over a long period of time. This allows TFFR to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact of funded status and contribution rates. The following was the TFFR Board's adopted asset allocation policy as of June 30, 2014 and 2013.

Asset Class	Target Allocation
Global Equity	57.0%
Global Fixed Income	22.0%
Global Real Assets	20.0%
Cash Equivalents	1.0%
Total	100.0%

Private equity is included in the Global Equity asset class.

Investment Rate of Return

The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 16.35% and 13.60% for the years ended June 30, 2014 and 2013, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Overview of New GASB 67 Disclosures

The long-term expected rate of return on TFFR investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the TFFR target asset allocation as of June 30, 2014 (see the discussion of TFFR investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Global Equity	7.5%
Global Fixed Income	1.4%
Global Real Assets	5.4%
Cash Equivalents	0.0%

Discount Rate

The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that member and employer contributions will be made at rates equal to those based on the July 1, 2014 Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, TFFR's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members as of July 1, 2014. Therefore, the long-term expected rate of return on TFFR investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

Overview of New GASB 67 Disclosures

Sensitivity of Net Pension Liability

The following presents the net pension liability of the TFFR employers calculated using the discount rate of 8 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

2014

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employers' net pension liability	$ 1,414,755,083	$ 1,047,822,717	$ 739,221,908

2013

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employers' net pension liability	$ 1,511,142,356	$ 1,157,555,127	$ 860,669,595

Overview of New GASB 67 Disclosures

Schedule of Changes in Net Pension Liability and Related Ratios
North Dakota Teachers' Fund for Retirement
(Dollars in thousands)

	2014
Total pension liability	
Service cost	$ 56,752
Interest	237,821
Changes of benefit terms	-
Differences between expected and actual experience	9,347
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(162,259)
Net change in total pension liability	141,661
Total pension liability - beginning	2,997,139
Total pension liability - ending (a)	$ 3,138,800
Plan fiduciary net position	
Contributions - employer	$ 64,437
Contributions - member	56,555
Net investment income	294,246
Benefit payments, including refunds of member contributions	(162,259)
Administrative expenses	(1,586)
Net change in plan fiduciary net position	251,393
Plan fiduciary net position - beginning	1,839,584
Plan fiduciary net position - ending (b)	$ 2,090,977
Plan's net pension liability - ending (a) - (b)	$ 1,047,823
Plan fiduciary net position as a percentage of the total pension liability	66.6%
Covered-employee payroll	$ 580,053
Plan's net pension liability as a percentage of covered-employee payroll	180.6%

Notes to Schedule:
Complete data for this schedule is not available prior to 2014.

Overview of New GASB 67 Disclosures

Schedule of Employer Contributions
North Dakota Teachers' Fund for Retirement
(Dollars in thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	59,530	52,396	69,374	65,113	52,053	41,986	44,115	50,532	48,747	44,472
Contributions in relation to the actuarially determined contribution	62,355	59,301	46,126	44,545	39,837	37,488	33,684	31,865	31,171	30,388
Contribution deficiency (excess)	(2,825)	(6,905)	23,248	20,568	12,216	4,498	10,431	18,667	17,576	14,084
Covered-employee payroll	580,053	551,656	527,156	509,091	482,868	454,396	434,626	411,167	402,204	392,107
Contributions as a percentage of covered-employee payroll	10.75%	10.75%	8.75%	8.75%	8.25%	8.25%	7.75%	7.75%	7.75%	7.75%

Notes to Schedule

Valuation Date: Actuarially determined contributions for each fiscal year are based on the actuarial valuation as of the beginning of the year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	29 years
Asset valuation method	5-year smoothed market
Inflation	3.0%
Salary increases	4.50% - 14.75%, including inflation
Investment rate of return	8.0%, net of investment expenses, including inflation
Retirement age	Expected retirement ages of plan members were last adjusted in 2010 to more closely reflect actual experience.
Mortality	Assumed life expectancies were last adjusted in 2010 to more closely reflect actual experience.

GASB 68 Overview

CliftonLarsonAllen

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Cost-Sharing Multiple-Employer Plans – AICPA Recommendations

- **Include supplemental "schedule of employer allocations" in plan financial statements for which <u>plan auditor</u> is engaged to provide opinion.**
  - Use allocation method based on covered payroll or required (actual) contributions depending on whether there are different classes of benefits and whether allocations expected to be representative of future contributions
  - Projected future contributions could be used if necessary
  - Standard does not preclude employers from calculating their own allocation percentage; however, this could potentially result in different employers who participate in same plan allocating collective pension amounts on a different basis. Additionally, it could be difficult for employer auditor to get sufficient competent audit evidence on allocation. For example,
    - If employer allocates based on covered payroll, the denominator for the calculation (i.e. total covered payroll) is not audited by plan auditors.
    - If employer allocates based on rates, you don't know if that same relative percentage goes to the liability

Example Schedule of Employer Allocations

EXAMPLE COST SHARING PENSION PLAN

Schedule of Employer Allocations

June 30, 2015

Employer/ Nonmployer (special funding situation)	**2015 Actual Employer Contributions**	**Employer Allocation Percentage**
State of Example	$ 2,143,842	38.9 %
Employer 1	268,425	4.9
Employer 2	322,142	5.8
Employer 3	483,255	8.8
Employer 4	633,125	11.5
Employer 5	144,288	2.6
Employer 6	95,365	1.7
Employer 7	94,238	1.7
Employer 8	795,365	14.4
Employer 9	267,468	4.9
Employer 10	267,128	4.8
Total	$ 5,514,641	100.0

Cost-Sharing Multiple-Employer Plans – AICPA Recommendations

- Plan prepare "schedule of plan pension amounts by employer" for which plan auditor engaged to provide opinion
  - Supplemental schedule of plan pension amounts by employer includes net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense for each employer
    - ◊ An alternative could be to include a "schedule of collective pension amounts" for the plan as a whole
    - ◊ Plan auditor needs to consider the appropriateness of the materiality used in the audit of PERS financial statements.
  - Employer auditor issues opinion on total of each of the four "elements" in accordance with AU-C 805
    - ◊ Net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense

Example Schedule of Plan Pension Amounts by Employer

EXAMPLE COST SHARING PENSION PLAN
Schedule of Pension Amounts by Employer
As of and for the year ended 6/30/20X5

		Deferred Outflows of Resources					Deferred Inflows of Resources				Pension Expense		
Entity	Net Pension Liability	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Employer Pension Expense
Employer 1	$ 45,224,620	438,859	1,569,847	1,404,206	695,426	4,108,338	355,917	–	726,425	1,082,342	1,907,283	12,375	1,919,658
Employer 2	5,661,780	54,942	196,533	175,796	84,231	511,502	44,558	–	74,326	118,884	238,777	(1,793)	236,984
Employer 3	6,795,628	65,945	235,892	211,001	117,354	630,192	53,481	–	98,465	151,946	286,596	(8,088)	278,508
Employer 4	10,193,442	98,917	353,838	316,502	161,215	930,472	80,222	–	165,453	245,675	429,894	3,021	432,915
Employer 5	13,355,038	129,597	463,584	414,668	199,845	1,207,694	105,103	–	197,645	302,748	563,229	(9,900)	553,329
Employer 6	3,043,487	29,534	105,646	94,499	53,453	283,132	23,952	–	48,453	72,405	128,355	599	128,954
Employer 7	2,011,585	19,520	69,827	62,459	33,458	185,264	15,831	–	35,345	51,176	84,836	625	85,461
Employer 8	1,987,964	19,291	69,007	61,725	35,425	185,448	15,645	–	16,453	32,098	83,839	(5,712)	78,127
Employer 9	16,777,717	162,811	582,393	520,941	248,356	1,514,501	132,040	–	284,543	416,583	707,576	8,405	715,981
Employer 10	5,641,888	54,749	195,843	175,178	95,465	521,235	44,401	–	44,356	88,757	237,938	(1,188)	236,750
Employer 11	8,512,562	82,606	295,490	264,312	136,453	778,861	66,993	–	148,543	215,536	359,005	1,254	360,259
Employer 12	3,499,761	33,962	121,485	108,666	52,145	316,258	27,543	–	64,354	91,897	147,597	453	148,050
Employer 13	1,443,418	14,007	50,104	44,818	23,156	132,085	11,360	–	33,453	44,813	60,874	(205)	60,669
Employer 14	131,785	1,279	4,575	4,092	1,968	11,914	1,037	–	894	1,931	5,558	147	5,705
Employer 15	44,757	434	1,554	1,390	1,456	4,834	352	–	698	1,050	1,888	7	1,895
Total for All Entities	$ 124,325,432	1,206,453	4,315,618	3,860,253	1,939,406	11,321,730	978,435	–	1,939,406	2,917,841	5,243,245	–	5,243,245

Example Schedule of Collective Pension Amounts

EXAMPLE COST SHARING PENSION PLAN
Schedule of Collective Pension Amounts
As of and for the year ended 6/30/20X5

	Deferred Outflows of Resources				Deferred Inflows of Resources			
Net Pension Liability	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Total Deferred Outflows of Excluding Employer Specific Amounts *	Differences Differences Between Expected and Actual Experience	Changes of Assumptions	Total Deferred Inflows of Excluding Employer Specific Amounts *	Plan Pension Expense
$ 124,325,432	1,206,453	4,315,618	3,860,253	9,382,324	978,435	–	978,435	5,243,245

* Employer specific amounts that are excluded from this schedule are the changes in proportion and differences between employer contributions and proportionate share of contributions as defined in paragraphs .54 and .55 of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.*

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November 11, 2014

State Investment Board
Teachers' Fund for Retirement
North Dakota Retirement and Investment Office
1930 Burnt Boat Drive
Bismarck, ND 58507-7100

We have audited the financial statements of the North Dakota Retirement and Investment Office (RIO) as of and for the year ended June 30, 2014, and have issued our report thereon dated November 11, 2014. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

<u>Accounting policies</u>

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by RIO are described in Note 1 to the financial statements.

For the year ended June 30, 2014, the financial statements include the impact of adoption of Governmental Accounting Standards Board Statement (GASB) number 67.

GASB 67, *Financial Reporting for Pension Plans,* is effective to fiscal years ending after June 15, 2014 an has been implemented in the financial statements prepared by RIO for the fiscal year ended June 30, 2014. This statement addresses accounting and financial reporting requirements for pension plans that are administered though trusts. GASB 67 requires a change in actuarial calculation of total and net pension liability in addition to changes in the presentation of plan financial statements, expanded note disclosures and additional required supplementary information.

We noted no transactions entered into by RIO 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.

<u>Accounting estimates</u>

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. There were significant estimates in the valuation of alternative investments and the calculation of the actuarial information included in the footnotes and required supplementary information.

The valuation of alternative investments, including private equity and real asset investments, are a management estimate which is primarily based upon net asset values reported by the investment managers and comprise 13% of the total investment portfolio. The values for these investments are reported based upon the most recent financial data available and are adjusted for cash flows through June 30, 2014. Our audit procedures validated this approach through the use of confirmations sent directly to a sample of investment managers and the review of the most recent audited financial statements for these funds. Furthermore, we reviewed management's estimate and found it to be reasonable.

The actuarially calculated information was based on the assumptions and methods adopted by the Board, including an expected investment rate of return of 8.0% per annum compounded annually. The valuation takes into account all of the promised benefits required by the Retirement Code to which members are entitled as of July 1, 2014. Our audit procedures included reviewing the actuarial valuation and related assumptions used therein and we believe the estimate to be reasonable.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

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

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Corrected misstatements

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the attached management representation letter dated November 11, 2014.

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 entity's financial statements or a determination of the type of auditors' 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.

Significant issues discussed with management prior to engagement

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

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the schedules of administrative expenses, consultant expenses, investment expenses, and appropriations – budget basis – fiduciary funds (collectively, the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated November 11, 2014.

Other information is being included in documents containing the audited financial statements and the auditors' report thereon. Our responsibility for such other information does not extend beyond the financial information identified in our auditors' report. We have no responsibility for determining whether such other information is properly stated and do not have an obligation to perform any procedures to corroborate other information contained in such documents. As required by professional standards, we read the introductory, investment, actuarial and statistical sections of the comprehensive annual financial report (the other information) in order to identify material inconsistencies between the audited financial statements and the other information. We did not identify any material inconsistencies between the other information and the audited financial statements.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

* * *

This communication is intended solely for the information and use of the State Investment Board, the Board of the Teachers' Fund for Retirement and management of RIO and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 11, 2014

ND Retirement and Investment Office

Teachers' Fund for Retirement
State Investment Board

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
Toll Free 800-952-2970
Fax 701-328-9897
www.nd.gov/rio

November 11, 2014

CliftonLarsonAllen LLP
9515 Deereco Road, Suite 500
Timonium, Maryland 21093

This representation letter is provided in connection with your audit of the financial statements of North Dakota Retirement and Investment Office (RIO), which comprise the financial position of the entity as of June 30, 2014, and the changes in financial position for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of November 11, 2014, the following representations made to you during your audit.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the Contract between the State of North Dakota and CliftonLarsonAllen LLP dated May 8, 2012, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

- We acknowledge and have fulfilled our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

- All significant plan amendments, adopted during the period or subsequent to the date of the financial statements, and their effects on benefits and financial status have been disclosed in the financial statements.

- The values of non-readily marketable investments represent good faith estimates of fair value. The methods and significant assumptions used result in a measure of fair value appropriate for financial measurement and disclosure purposes.

- Significant estimates have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Significant estimates are estimates at the financial statement date that could change materially within the next year.

- No events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

- We have not identified or been notified of any uncorrected financial statement misstatements.

- The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

- Guarantees, whether written or oral, under which the entity is contingently liable, if any, have been properly recorded or disclosed in accordance with U.S. GAAP.

- We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

- With respect to actuarial assumptions and valuations:

  - Management agrees with the actuarial methods and assumptions used by the actuary for funding purposes and for determining the total pension liability and has no knowledge or belief that would make such methods or assumptions inappropriate in the circumstances. We did not give any, nor cause any, instructions to be given to RIO's actuary with respect to values or amounts derived, and we are not aware of any matters that have impacted the independence or objectivity of RIO's actuary.

  - There were no omissions from the participant data provided to the actuary for the purpose of determining the total pension liability and other actuarially determined amounts in the financial statements.

  - There have been no changes in the actuarial methods or assumptions used in calculating the amounts recorded or disclosed in the financial statements. There have been no changes in plan provisions between the actuarial valuation date and the date of this letter.

- We believe the plan and trust established under the plan is qualified under the appropriate section of The North Dakota Century Code, and we intend to continue them as a qualified plan and trust.

Information Provided

- We have provided you with:

  - Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.

  - Additional information that you have requested from us for the purpose of the audit.

- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

- Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

- All actuarial reports prepared for the plan during the year.

- All material transactions have been recorded in the accounting records and are reflected in the financial statements.

- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

  - Management;

  - Employees who have significant roles in internal control; or

  - Others when the fraud could have a material effect on the financial statements.

- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, regulators, or others.

- We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations and provisions of contracts, or abuse whose effects should be considered when preparing financial statements.

- We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

- There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.

- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

- We are responsible for compliance with the laws, regulations, and provisions of contracts applicable to RIO, and we have identified and disclosed to you all laws, regulations, and provisions of contracts that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

- There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts, or any debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

- The entity has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- Investments, derivative instruments, and land and other real estate held by RIO are properly valued.
- Expenses have been appropriately classified in the statement of changes in net position, and allocations have been made on a reasonable basis.
- Revenues are appropriately classified in the statement of changes in net position.
- Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- Deposits and investment securities and derivative instruments are properly classified as to risk and are properly valued and disclosed.
- Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- We acknowledge our responsibility for presenting the schedules (the supplementary information) in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditors' report thereon.

Signature: ______________________ Title: Executive Director/CIO

Signature: ______________________ Title: Fiscal & Investment Ops Mgr

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
Bismarck, ND

FINANCIAL STATEMENTS
June 30, 2014 and 2013

PAGE

CliftonLarsonAllen LLP
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Independent Auditors' Report

Governor Jack Dalrymple
The Legislative Assembly
David Hunter, Executive Director/CIO
State Investment Board
Teacher's Fund for Retirement Board
North Dakota Retirement and Investment Office

Report on the Financial Statements

We have audited the accompanying financial statements of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which comprise the statements of net position – fiduciary funds as of June 30, 2014 and 2013, and the related statements of changes in net position – fiduciary funds for the years then ended, and the related notes to the financial statements, 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, 2014 and 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RIO as of June 30, 2014 and 2013, and the respective changes in financial position for the years then ended in accordance 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, 2014 and 2013, and the results of the changes in financial position of such funds for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of RIO are intended to present the financial position and the changes in financial position of only that portion 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, 2014 and 2013, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise RIO's basic financial statements and the combining and individual fund financial statements. The schedules of administrative expenses, consultant expenses, investment expenses, and appropriations – budget basis – fiduciary funds, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Audit Standards*, we have also issued our report dated November 11, 2014, on our consideration of RIO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits

CliftonLarsonAllen LLP

Baltimore, Maryland
November 11, 2014

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governor Jack Dalrymple
The Legislative Assembly
David Hunter, Executive Director/CIO
State Investment Board
Teacher's Fund for Retirement Board
North Dakota Retirement and Investment Office

We have audited, in accordance with the 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, the financial statements of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which comprise the statements of net position – fiduciary funds, the related statements of changes in net position – fiduciary funds, and the combining and individual fund financial statements, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 11, 2014.

Internal Control over Financial Reporting

Management of RIO is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RIO's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of RIO's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering RIO's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Baltimore, Maryland
November 11, 2014

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, 2014. 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 position increased in the fiduciary funds by $1.95 billion or 26.1% from the prior year. Over 50% of that increase is due to the growth of the Legacy Fund. The Legacy Fund was created by a constitutional amendment in 2010. The amendment provides that 30% of oil and gas gross production and oil extraction taxes on oil produced after June 30, 2011, be transferred to the Legacy Fund. Transfers into the Legacy Fund totaled $907.2 million during the fiscal year.

Additions in the fiduciary funds for the year increased $354.9 million from the previous year. Net investment income increased by $349.7 million and total contributions increased $5.1 million.

Deductions in the fiduciary funds increased over the prior year by $13.7 million or 8.8%. 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 on which the benefits of new retirees are based.

The TFFR funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2014, the TFFR pension plan had a Net Pension Liability (NPL) of $1.0 billion and Plan Fiduciary Net Position as a percent of Total Pension Liability (TPL) of 66.6%.

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 position and a statement of changes in net position.

Financial Analysis

RIO's fiduciary fund total assets as of June 30, 2014, were $9.4 billion and were comprised mainly of investments. Total assets increased by nearly $2 billion or 26.2% from the prior year primarily due to the growth of the Legacy Fund and strong financial markets.

Total liabilities as of June 30, 2014, were $11 million and were comprised mostly of investment expenses payable. Total liabilities increased by $3.2 million or 41.9% from the prior year due mainly to an increase in investment expenses payable at June 30, 2014, caused by the timing of the payment of those expenses.

RIO's fiduciary fund total net position was $9.4 billion at the close of fiscal year 2014.

North Dakota Retirement and Investment Office
Net Position – Fiduciary Funds
(In Millions)

	2014	2013	Total % Change
Assets			
Investments	$ 9,374	$ 7,422	26.3%
Receivables	48	44	9.2%
Cash & Other	17	16	5.9%
Total Assets	9,439	7,482	26.2%
Liabilities			
Accounts Payable	11	7	41.9%
Total Liabilities	11	7	41.9%
Total Net Position	$ 9,428	$ 7,475	26.1%

	2013	2012	Total % Change
Assets			
Investments	$ 7,422	$ 6,010	23.5%
Receivables	44	35	25.4%
Cash & Other	16	15	11.6%
Total Assets	7,482	6,060	23.5%
Liabilities			
Accounts Payable	7	6	18.5%
Total Liabilities	7	6	18.5%
Total Net Position	$ 7,475	$ 6,054	23.5%

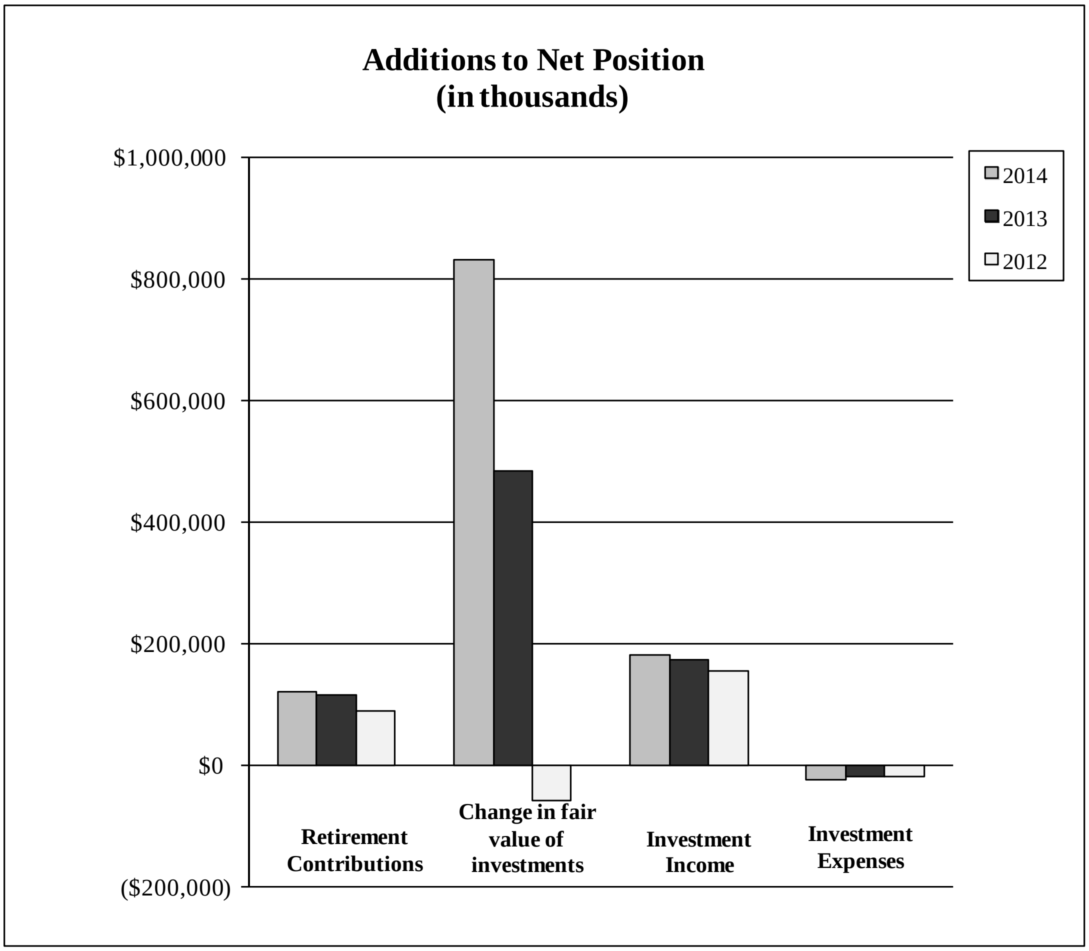
North Dakota Retirement and Investment Office
Changes in Net Position – Fiduciary Funds
(In Millions)

	2014	2013	Total % Change
Additions:			
Contributions	$ 121	$ 116	4.4%
Investment Income	988	638	54.8%
Total Additions	1,109	754	47.1%
Deductions	165	151	8.8%
Net change from unit transactions	1,010	818	23.4%
Total change in net position	$ 1,954	$ 1,421	37.5%

	2013	2012	Total % Change
Additions:			
Contributions	$ 116	$ 89	30.4%
Investment Income	638	79	707.9%
Total Additions	754	168	349.3%
Deductions	151	140	8.1%
Net change from unit transactions	818	436	87.7%
Total change in net position	$ 1,421	$ 464	206.3%

Statement of Changes in Net Position – Additions

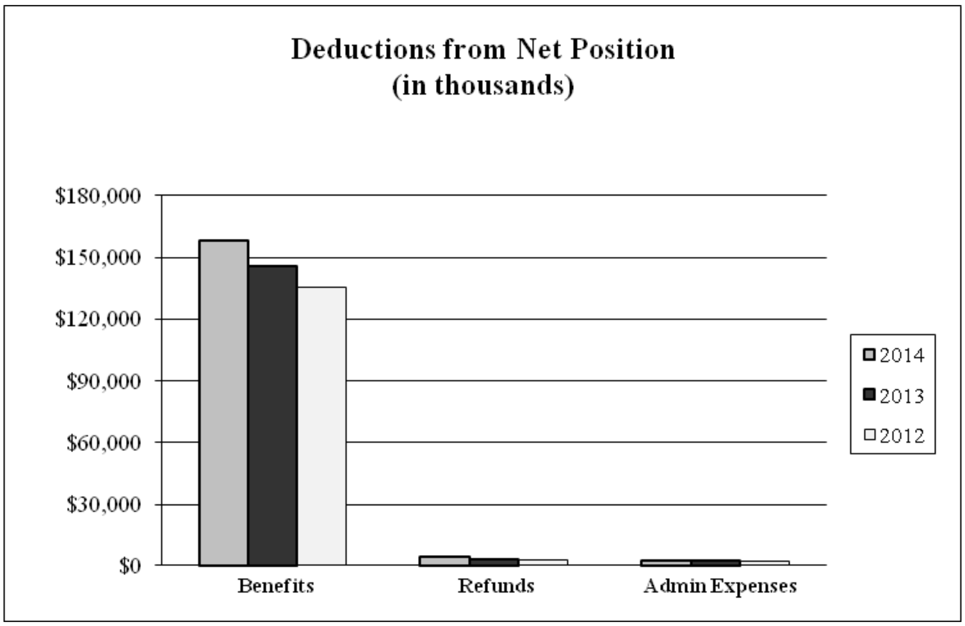
Contributions and net investment income are the two components of the fiduciary fund additions. Contributions collected by the pension trust fund increased by $5.1 million or 4.4% over the previous fiscal year. There was no contribution rate increase in FY2014. The increase is due to an increase in the salaries on which the contributions are collected and an increase in the number of members on which contributions are collected. Net investment income (net of investment expenses) increased by $349.7 million or 54.8% from last year. This was the result of strong financial markets during the fiscal year.



Statement of Changes in Net Position – Deductions

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by $12.4 million or 8.5% during the fiscal year ended June 30, 2014. This was due to an increase in the total number of retirees in the plan as well as an increased retirement salary on which the benefits are based upon. Refunds increased in fiscal year 2014 by $0.9 million or 28.0%.

Administrative expenses increased by $97,558 or 4.5%. This increase over the previous year's administrative expenses is due to the filling of the Executive Director/CIO position in December 2013. That position had been vacant since May 2012.



Conclusion

As consistent with the prior fiscal year, financial markets performed well. Aggressive efforts by central banks in developed markets to stimulate economic growth fostered a favorable backdrop for investing, in general. For the year, most developed stock markets advanced to levels exceeding that achieved during the last market cycle. On an absolute basis, all asset and sub-asset classes overseen by the State Investment Board generated positive returns. Relative to underlying benchmarks, most asset classes performed in-line or outperformed.

Despite a barrage of policy initiatives, including near-zero interest rates and interference in financial markets by central banks and policy makers, the leading economies remain generally fragile, underscoring the structural (rather than cyclical) nature of the challenges faced in the post-credit crisis era. Of little doubt, however, are the distorting effects of policy settings designed explicitly to shield financial asset prices from normal market forces and the threat that it may lead to a heightening of the very risks which gave the financial system its dependency on central bank support in the first place.

In this environment, financial markets are, we anticipate, likely to remain unstable. To meet this challenge, the State Investment Board will continue to research strategies and consider investment options to address funding issues in the challenging years ahead.

To address TFFR's funding shortfall, the ND State Legislature took action in 2011 and approved legislation to increase contributions and modify certain benefits. The first phase of the funding improvement plan went into effect on July 1, 2012 with 2% member and 2% employer contribution increases. Benefit changes for non-grandfathered employees became effective July 1, 2013. The final phase of rate increases will go into effect on July 1, 2014 with 2% member and 2% employer contribution increases. Increased contribution rates will be in effect until TFFR reaches 100% funding on an actuarial basis. This comprehensive funding recovery plan, along with solid investment performance in the future, is expected to improve TFFR's funding level over the long term. As of July 1, 2014 TFFR's funding level was 61.8% on an actuarial basis, and is projected to reach 100% within 30 years. Protecting the long term solvency of the pension plan is the TFFR Board's fiduciary responsibility. The Board will continue to proactively address TFFR funding issues so the plan will be financially strong and sustainable for past, present, and future ND educators.

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.

	Pension Trust		Investment Trust	
	2014	2013	2014	2013
Assets:				
Investments, at fair value				
Equities	$ -	$ -	$ 55,112,752	$ 43,854,432
Equity pool	1,089,067,377	951,272,867	2,787,747,097	1,543,210,098
Fixed income	-	-	533,078,401	1,611,285,649
Fixed income pool	478,677,486	392,807,091	3,083,559,151	1,692,041,813
Real assets pool	369,078,739	340,442,941	645,467,366	516,202,669
Private equity pool	97,357,862	94,185,760	114,064,794	111,364,820
Cash pool	20,045,640	24,369,601	100,251,550	100,765,983
Total investments	2,054,227,104	1,803,078,260	7,319,281,111	5,618,725,464
Receivables:				
Investment income	7,457,808	7,657,195	24,467,745	20,787,440
Contributions	16,233,852	15,648,020	-	-
Miscellaneous	4,362	5,172	11,316	12,752
Total receivables	23,696,022	23,310,387	24,479,061	20,800,192
Due from other state agency	-	616	-	-
Cash and cash equivalents	17,012,740	16,044,045	145,652	159,403
Total assets	2,094,935,866	1,842,433,308	7,343,905,824	5,639,685,059
Liabilities:				
Accounts payable	58,356	69,417	39,232	50,916
Investment expenses payable	3,262,454	2,113,717	6,599,159	4,549,821
Accrued expenses	631,740	658,494	70,572	60,040
Miscellaneous payable	-	-	14,804	17,382
Due to other state agencies	6,260	7,720	1,169	1,235
Total liabilities	3,958,810	2,849,348	6,724,936	4,679,394
Net position:				
Held in trust for pension benefits	2,090,977,056	1,839,583,960	-	-
Held in trust for external investment pool participants:				
Pension pool	-	-	2,603,764,672	2,276,983,263
Insurance pool	-	-	4,643,121,726	3,284,399,099
Held in trust for individual investment account	-	-	90,294,490	73,623,303
Total net position	$ 2,090,977,056	$ 1,839,583,960	$ 7,337,180,888	$ 5,635,005,665
Each participant unit is valued at $1.00				
Participant units outstanding			7,337,180,888	5,635,005,665

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

	Pension Trust		Investment Trust	
	2014	2013	2014	2013
Additions:				
Contributions:				
Employer contributions	$ 62,355,146	$ 59,300,720	$ -	$ -
Member contributions	56,554,767	53,784,461	-	-
Purchased service credit	2,034,289	2,641,019	-	-
Interest, penalties and other	47,766	123,148	-	-
Total contributions	120,991,968	115,849,348	-	-
Investment income:				
Net change in fair value of investments	264,759,565	185,196,374	567,151,376	299,338,412
Interest, dividends and other income	36,744,024	41,018,935	144,142,458	132,358,789
	301,503,589	226,215,309	711,293,834	431,697,201
Less investment expenses	7,257,140	6,010,000	18,023,588	14,116,162
Net investment income	294,246,449	220,205,309	693,270,246	417,581,039
Total additions	415,238,417	336,054,657	693,270,246	417,581,039
Deductions:				
Benefits paid to participants	157,529,892	145,079,333	-	-
Partial lump-sum distributions	820,463	863,990	-	-
Refunds	3,908,921	3,053,395	-	-
Administrative expenses	1,586,045	1,623,638	693,895	558,744
Total deductions	163,845,321	150,620,356	693,895	558,744
Net change in net position resulting from operations	251,393,096	185,434,301	692,576,351	417,022,295
Unit transactions at net position value of $1.00 per unit:				
Purchase of units	-	-	1,360,499,546	1,053,337,604
Redemption of units	-	-	(350,900,674)	(234,858,869)
Net change in position and units resulting from unit transactions	-	-	1,009,598,872	818,478,735
Total change in net position	251,393,096	185,434,301	1,702,175,223	1,235,501,030
Net position:				
Beginning of year	1,839,583,960	$ 1,654,149,659	$ 5,635,005,665	$ 4,399,504,635
End of Year	$ 2,090,977,056	$ 1,839,583,960	$ 7,337,180,888	$ 5,635,005,665

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

Note 1 - Summary of Significant Accounting Policies

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 accounted for within the pension and investment trust funds and are shown, by fund, 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 position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Reclassification

Certain 2013 amounts have been reclassified in conformity with the 2014 presentation. These reclassifications had no effect on net position or changes therein.

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, North Dakota Association of Counties 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, ND State Board of Medical Examiners, Legacy 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, Risk Management, Risk Management Workers Comp, Cultural Endowment Fund, Legacy 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 statements of net position.

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:

	Years
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.

Pooled Investments

Most 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 for permanent employees of the state of North Dakota is a part of their 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 $130,567 and $147,115 at June 30, 2014 and 2013, respectively. The current portions of accrued leave amounted to $80,686 and $71,864 at June 30, 2014 and 2013, respectively, and are included in accrued expenses of the Fiduciary Funds in the statements of net position.

Changes in accrued leave for the years ended June 30, 2014 and 2013 consisted of the following:

Balance, July 1, 2012	$ 136,458
Additions	94,877
Deductions	(84,220)
Balance, June 30, 2013	147,115
Additions	91,844
Deductions	(108,392)
Balance, June 30, 2014	$ 130,567

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, 2014 and 2013 were deposited in the Bank of North Dakota. At June 30, 2014 and 2013, the carrying amount of TFFR's deposits was $17,012,740 and $16,044,045, respectively, and the bank balance was $17,015,906 and $16,055,352 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 and an insurance trust cash pool (cash pool as of June 30, 2013 only) are recorded as investments and have a cost and carrying value of $106,948,787 and $188,293,365 at June 30, 2014 and 2013, respectively. In addition these funds carry cash deposits totaling $145,652 and $159,403 at June 30, 2014 and 2013, respectively. These cash deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these cash deposits are held at the Bank of North Dakota and are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

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.

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.

At June 30, 2014 and 2013, the following tables show the investments by investment type and maturity (expressed in thousands).

2014	Total Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years
Asset Backed Securities	$ 176,669	$ 284	$ 70,094	$ 20,166	$ 86,125
Bank Loans	5,064	-	2,364	2,700	-
Collateralized Bonds	-	-	-	-	-
Commercial Mortgage-Backed	99,632	-	971	534	98,127
Commercial Paper	94,092	94,092	-	-	-
Corporate Bonds	1,091,736	48,549	543,307	254,173	245,707
Corporate Convertible Bonds	23,368	2,237	11,021	3,176	6,934
Government Agencies	114,149	7,696	92,328	3,027	11,098
Government Bonds	555,494	110,533	245,140	117,872	81,949
Gov't Mortgage Backed and CMB	555,576	-	6,919	12,327	536,330
Repurchase Agreements	21,700	21,700	-	-	-
Index Linked Government Bonds	7,854	1,663	-	5,109	1,082
Municipal/Provincial Bonds	25,393	1,813	1,795	2,002	19,783
Non-Government Backed CMOs	35,264	-	3,587	3,312	28,365
Other Fixed Income	13,191	1,926	11,265	-	-
Short Term Bills and Notes	58,075	58,075	-	-	-
Funds/Pooled Investments	1,312,173	4,223	228,429	689,626	389,895
Total Debt Securities	$ 4,189,430	$ 352,791	$ 1,217,220	$ 1,114,024	$ 1,505,395

2013	Total Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years
Asset Backed Securities	$ 199,406	$ 301	$ 99,376	$ 24,782	$ 74,947
Bank Loans	2,928	-	2,447	481	-
Collateralized Bonds	325	-	-	325	-
Commercial Mortgage-Backed	72,266	-	205	1,011	71,050
Commercial Paper	325,951	325,951	-	-	-
Corporate Bonds	895,610	70,183	536,976	140,078	148,373
Corporate Convertible Bonds	23,851	237	11,481	3,071	9,062
Government Agencies	136,027	37,219	76,811	10,765	11,232
Government Bonds	439,887	99,659	261,554	30,147	48,527
Gov't Mortgage Backed and CMB	521,193	-	3,742	15,179	502,272
Guaranteed Fixed Income	-	-	-	-	-
Index Linked Government Bonds	12,289	1,442	6,894	-	3,953
Municipal/Provincial Bonds	17,273	-	7,244	867	9,162
Non-Government Backed CMOs	25,052	-	3,054	729	21,269
Other Fixed Income	9,901	482	9,419	-	-
Short Term Bills and Notes	31,442	31,442	-	-	-
Funds/Pooled Investments	924,518	5,430	554,075	120,030	244,983
Total Debt Securities	$ 3,637,919	$ 572,346	$ 1,573,278	$ 347,465	$ 1,144,830

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 $6.6 million and $4.2 million, and POs valued at $3.3 million and $3.4 million at June 30, 2014 and 2013 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, 2014 and 2013 (expressed in thousands).

		Credit Rating*												
2014	Total Fair Value	A-1	A-2	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset Backed Securities	$ 176,669	$ -	$ -	$ 91,996	$ 33,423	$ 23,358	$ 13,390	$ 2,085	$ 2,789	$ 8,881	$ 285	$ -	$ 462	$ -
Bank Loans	5,064	-	-	-	-	-	745	3,169	1,150	-	-	-	-	-
Commercial Mortgage Backed	82,222	-	-	45,984	13,950	5,659	8,276	1,890	5,949	302	-	-	212	-
Commercial Paper	94,092	-	55,026	-	-	11,372	27,694	-	-	-	-	-	-	-
Corporate Bonds	1,091,736	-	-	4,268	38,299	230,481	597,349	156,864	42,974	21,107	-	-	394	-
Corporate Convertible Bonds	23,368	-	-	-	-	1,634	3,017	10,451	7,565	701	-	-	-	-
Gov't Agencies	109,616	-	-	4,682	94,785	4,413	5,736	-	-	-	-	-	-	-
Gov't Bonds	110,146	-	-	-	14,875	33,686	47,799	13,089	697	-	-	-	-	-
Gov't Issued Commercial & Gov't Mortgage Backed	395,225	-	-	-	395,225	-	-	-	-	-	-	-	-	-
Index Linked Bonds	169	-	-	-	-	169	-	-	-	-	-	-	-	-
Municipal/Provincial Bonds	25,393	-	-	6,161	6,089	8,292	4,434	417	-	-	-	-	-	-
Non-Gov't Backed CMOs	34,576	-	-	3,224	6,513	6,912	8,193	560	2,772	3,108	182	-	3,112	-
Other Fixed Income	13,191	-	-	974	8,211	488	3,277	241	-	-	-	-	-	-
Repurchase Agreements	21,700		-	21,700	-	-	-	-	-	-	-	-	-	-
Short Term Bills & Notes	56,219	-	-	-	49,394	5,438	500	-	887	-	-	-	-	-
Funds/Pooled Investments	1,312,173	-	-	362,413	368,683	361,285	18,038	22,714	19,107	-	-	159,933	-	-
Total Credit Risk of Debt Securities	3,551,559	$ -	$ 55,026	$ 541,402	$ 1,029,447	$ 693,187	$ 738,448	$ 211,480	$ 83,890	$ 34,099	$ 467	$ 159,933	$ 4,180	$ -
US Gov't & Agencies **	637,871													
Total Debt Securities	$ 4,189,430													

2013	Total Fair Value	Credit Rating*												
		A-1	A-2	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset Backed Securities	$ 199,406	$ -	$ -	$ 115,713	$ 41,692	$ 24,401	$ 10,545	$ 3,274	$ 2,011	$ 1,623	$ 145	$ -	$ 2	$ -
Bank Loans	2,928	-	-	-	-	-	291	2,066	571	-	-	-	-	-
Collateralized Bonds	325	-	-	325	-	-	-	-	-	-	-	-	-	-
Commercial Mortgage Backed	70,815	-	-	39,405	12,598	14,157	3,507	1,148	-	-	-	-	-	-
Commercial Paper	325,951	14,692	311,259	-	-	-	-	-	-	-	-	-	-	-
Corporate Bonds	895,610	-	-	3,853	43,139	225,872	462,032	102,342	37,470	18,932	1,529	-	441	-
Corporate Convertible Bonds	23,851	-	-	-	-	2,170	1,522	11,692	6,876	1,591	-	-	-	-
Gov't Agencies	136,027	-	-	8,534	118,474	5,256	3,763	-	-	-	-	-	-	-
Gov't Bonds	86,364	-	-	500	12,507	27,039	34,309	9,386	164	-	-	-	-	2,459
Gov't Issued Commercial & Gov't Mortgage Backed	398,611	-	-	705	397,906	-	-	-	-	-	-	-	-	-
Index Linked Corporate Bonds	1,300	-	-	-	-	-	1,300	-	-	-	-	-	-	-
Municipal/Provincial Bonds	17,273	-	-	4,868	4,166	5,375	2,346	518	-	-	-	-	-	-
Non-Gov't Backed CMOs	23,956	-	-	1,804	5,922	6,108	5,328	234	63	3,529	623	276	69	-
Other Fixed Income	9,901	-	-	9,901	-	-	-	-	-	-	-	-	-	-
Short Term Bills & Notes	15,626	-	-	-	15,626	-	-	-	-	-	-	-	-	-
Funds/Pooled Investments	924,518	-	-	216,755	399,773	32,218	61,911	-	17,519	-	-	196,342	-	-
Total Credit Risk of Debt Securities	3,132,462	$ 14,692	$ 311,259	$ 402,363	$ 1,051,803	$ 342,596	$ 586,854	$ 130,660	$ 64,674	$ 25,675	$ 2,297	$ 196,618	$ 512	$ 2,459
US Gov't & Agencies **	505,457													
Total Debt Securities	$ 3,637,919													

* 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.

** US government agency securities explicitly guaranteed by the US government are categorized here. Credit ratings of US government agency securities that are only implicitly guaranteed by the US government are categorized accordingly in the main body of this table. Implicitly guaranteed agency securities included in the *Gov't Mortgage Backed*, *Gov't Agencies*, and *Short Term Bills and Notes* categories are issued by FNMA, FDIC, FHLB, FHLMC, Federal Financing Corp., SBA, Farmer Mac and Federal Farm Credit.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single issuer. As of June 30, 2014 and 2013, the SIB's portfolio has no single issuer exposure that comprises 5% or more of the overall portfolio, excluding investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments. Therefore, there is no concentration of credit risk.

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, 2014 and 2013 (expressed in thousands).

2014

Currency	Short-Term	Debt	Equity	Total
Australian dollar	$ (5,730)	$ 13,470	$ 33,756	$ 41,496
Brazilian real	(300)	8,533	7,204	15,437
British pound sterling	(128)	7,322	161,777	168,971
Canadian dollar	568	-	27,981	28,549
Chilean peso	9,453	1,051	-	10,504
Chinese yuan renminbi	380	-	-	380
Columbian peso	1	-	-	1
Czech koruna	2	-	1,491	1,493
Israeli shekel	57	-	3,121	3,178
Danish krone	(435)	-	6,918	6,483
Euro	(22,927)	20,730	246,579	244,382
Hong Kong dollar	152	-	38,146	38,298
Hungarian forint	50	4,188	1,325	5,563
Iceland krona	34	-	-	34
Indian rupee	377	-	-	377
Indonesian Rupiah	-	4,155	198	4,353
Japanese yen	(5,479)	576	156,421	151,518
Malaysian Ringgit	310	2,375	-	2,685
Mexican peso	2,735	25,359	-	28,094
New Zealand dollar	(2,657)	3,339	923	1,605
Norwegian krone	142	-	12,972	13,114
Peruvian nuevo sol	(56)	-	-	(56)
Philippine peso	-	2,209	-	2,209
Polish zloty	(4,162)	4,987	2,853	3,678
Russian ruble	359	-	-	359
Singapore dollar	355	-	6,904	7,259
South African rand	345	3,734	3,967	8,046
South Korean won	33	5,052	12,814	17,899
Swedish krona	(233)	-	19,287	19,054
Swiss franc	222	54	63,763	64,039
Thai baht	103	-	1,997	2,100
Turkish lira	288	1,529	1,483	3,300
International commingled funds (various currencies)	-	115,294	697,197	812,491
Total international investment securities	$ (26,141)	$ 223,957	$ 1,509,077	$ 1,706,893

Negative amounts represent short positions.

2013

Currency	Short-Term	Debt	Equity	Total
Australian dollar	$ (7,940)	$ 10,481	$ 13,350	$ 15,891
Brazilian real	1,898	4,833	6,905	13,636
British pound sterling	13,886	5,191	71,637	90,714
Canadian dollar	132	830	17,011	17,973
Chilean peso	3,297	(2)	-	3,295
Chinese yuan renminbi	137	(2)	-	135
Columbian peso	100	14	-	114
Czech koruna	(1)	2	1,922	1,923
Israeli shekel	42	-	1,590	1,632
Danish krone	-	-	1,328	1,328
Euro	(15,889)	22,493	127,923	134,527
Hong Kong dollar	128	-	18,215	18,343
Hungarian forint	(16)	4,004	1,034	5,022
Iceland krona	31	-	-	31
Indian rupee	4,605	8	-	4,613
Indonesian Rupiah	-	-	56	56
Japanese yen	14,150	72	64,525	78,747
Malaysian Ringgit	94	4,209	2,173	6,476
Mexican peso	317	19,102	-	19,419
New Zealand dollar	(2,692)	3,040	-	348
Norwegian krone	449	9	3,193	3,651
Peruvian nuevo sol	(61)	-	-	(61)
Philippine peso	-	2,219	-	2,219
Polish zloty	65	4,204	1,239	5,508
Russian ruble	15	(9)	-	6
Singapore dollar	450	(1)	4,233	4,682
South African rand	91	3,100	4,024	7,215
South Korean won	(4,224)	4,435	8,344	8,555
Swedish krona	1,067	-	7,447	8,514
Swiss franc	-	-	29,353	29,353
Thai baht	56	1	1,172	1,229
Turkish lira	(394)	3,220	997	3,823
International commingled funds (various currencies)	-	91,153	327,274	418,427
Total international investment securities	$ 9,793	$ 182,606	$ 714,945	$ 907,344

Negative amounts represent short positions

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 position. At June 30, 2014 and 2013, the SIB had four types of derivative securities: futures, options, swaps and currency forwards.

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 counterparty 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 statements of changes in net position and totaled $101.2 million for fiscal year 2014 and $90.1 million for fiscal year 2013. At June 30, 2014 and 2013, the SIB investment portfolio had the notional futures balances shown below (expressed in thousands).

Futures	Notional Value June 30, 2014	Notional Value June 30, 2013
Cash & Cash Equivalent Derivative Futures		
Long	$ 35,663	$ 180,058
Short	(511,036)	(165,105)
Equity Derivative Futures		
Long	486,293	478,996
Short	-	-
Fixed Income Derivative Futures		
Long	27,888	3,124
Short	(61,524)	(64,623)
Total Futures	$ (22,716)	$ 432,450

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 counterparty 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 statements of changes in net position and totaled $801,500 for fiscal year 2014 and $43,000 for fiscal year 2013. At June 30, 2014 and 2013, the SIB investment portfolio had the following option balances (expressed in thousands).

Options	Fair Value June 30, 2014	Fair Value June 30, 2013
Cash & Other Options		
Call	$ 988	$ -
Put	(39)	-
Fixed Income Options		
Call	(170)	-
Put	(11)	-
Total Options	$ 768	$ -

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. 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.

Currency risk represents the exposure to fair value losses arising from the change in price of one currency against another. A currency swap is a foreign-exchange agreement between two parties to exchange principal and interest in one currency for the same in another currency.

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 statements of changes in net position and totaled $17 thousand for fiscal year 2014 and $(933) thousand for fiscal year 2013. The maximum loss that would be recognized at June 30, 2014 and 2013, if all counterparties failed to perform as contracted is $3.25 million and $4.25 million respectively. Swap fair values are determined by a third party pricing source. At June 30, 2014 and 2013, the SIB's investment portfolio had the swap fair value balances as shown below (expressed in thousands).

Credit Default Swaps

	Notional Amount			Fair Value	
Counterparty/Moody's Rating	June 30, 2014	June 30, 2013	Expiration Date	June 30, 2014	June 30, 2013
Bank of America/A2	$ -	$ 1,560	12/20/2017	$ -	$ 6
Bank of America/A2	(500)	-	6/20/2019	(7)	-
Barclays/A2 (6 contracts)	(1,400)	-	6/20/2019	35	-
BNP Paribas/A2 (2 contracts)	(800)	-	6/20/2019	(25)	-
Citibank/A3	(100)	-	6/20/2016	(7)	-
Citibank/A3 (2 contracts)	(5,800)	-	12/20/2017	80	-
Citibank/A3	(400)	-	6/20/2019	(9)	-
Citigroup Global Markets/A1	(6,500)	-	12/20/2018	142	-
Credit Suisse First Boston/A1	(11,200)	-	12/20/2017	243	-
Credit Suisse First Boston/A1 (8 contracts)	(2,793)	-	6/20/2019	104	-
Credit Suisse International/A1	240	240	12/20/2016	(18)	(15)
Credit Suisse International/A1	(400)	-	9/20/2018	3	-
Credit Suisse International/A1	(400)	-	6/20/2019	11	-
Deutsche Bank/A2	-	120	9/20/2013	-	-
Deutsche Bank/A2 (3 contracts)	2,160	2,160	12/20/2016	(167)	(135)
Deutsche Bank/A2 (2 contracts)	2,400	3,120	6/20/2017	(62)	2
Deutsche Bank/A2 (3 contracts)	-	(1,690)	12/20/2017	-	40
Deutsche Bank/A2 (2 contracts)	(700)	-	6/20/2019	18	-
Goldman Sachs/A3 (5 contracts)	(4,900)	-	6/20/2019	30	-
HSBC Bank/A1 (3 contracts)	(4,000)	-	6/20/2019	49	-
HSBC Bank/A1	(450)	-	9/20/2019	(17)	-
JP Morgan Chase/Aa3	400	400	3/20/2017	-	-
JP Morgan Chase/Aa3 (4 contracts)	-	12,700	6/20/2017	-	(140)
JP Morgan Chase/Aa3 (2 contracts)	-	4,400	12/20/2017	-	(46)
JP Morgan Chase/Aa3	6,500	-	12/20/2018	(142)	-
JP Morgan Chase/Aa3	(600)	-	3/20/2019	117	-
JP Morgan Chase/Aa3 (5 contracts)	(2,100)	-	6/20/2019	103	-
JP Morgan Chase/Aa3 (4 contracts)	12	30	10/12/2052	-	1
Total Credit Default Swaps	$ (31,331)	$ 23,040		$ 481	$ (287)

The notional amount may be positive or negative depending on whether the position is long or short, respectively.

Currency Swaps

	Notional Amount			Fair Value	
Counterparty/Moody's Rating	June 30, 2014	June 30, 2013	Expiration Date	June 30, 2014	June 30, 2013
Barclays/A2	$ 310	$ -	7/22/2018	$ (7)	$ -
Barclays/A2	330	-	7/23/2018	(8)	-
Citibank N.A. NY/A3	49	49	5/2/2015	2	-
Deutsche Bank London/A2	281	-	5/14/2017	(2)	-
HSBC Bank USA/A1	500	-	9/5/2015	11	-
Total Currency Swaps	$ 1,470	$ 49		$ (4)	$ -

The notional amount may be positive or negative depending on whether the position is long or short, respectively.

Interest Rate Swaps

Counterparty	Notional Amount June 30, 2014	Notional Amount June 30, 2013	Rate Range	Counterparty Rate	Expiration Date Range	Counterparty Rating (Moody's)	Fair Value June 30, 2014	Fair Value June 30, 2013
Bank of Nova Scotia	$ (315)	$ -	1.888%		10/2/2019	Aa2	$ 8	$ -
Bank of Nova Scotia (4 contracts)	-	(493)	0.751 - 1.355%	Various overnight bank rates depending on currency	8/2013 - 10/2019	Aa2	-	34
Barclays (26 contracts)	2,029,119	-	0 - 7.42%		7/2014 - 12/2032	A2	(62)	-
Barclays (17 contracts)	-	5,986	0 - 7.42%		7/2013 - 12/2032	A2	-	(125)
BNP Paribas	5,957	-	12.255%		1/2/2017	A2	103	-
Citibank (18 contracts)	3,626	-	0 - 4.845%		11/2014 - 5/2023	A3	317	-
Citibank (17 contracts)	-	(730)	0 - 4.42%		12/2014 - 12/2032	A3	-	(1)
Citigroup Global Markets (4 contracts)	(7,855)	-	0.56 - 2.49%		9/2015 - 8/2020	A1	(97)	-
Credit Suisse First Boston (26 contracts)	280,000	-	1.00 - 8.19%		9/2014 - 9/2044	A1	9	-
Credit Suisse First Boston (5 contracts)	-	1,785	0.689 - 7.25%		6/2018 - 5/2023	A1	-	(6)
Deutsche Bank (5 contracts)	268,701	-	0 - 6.54%		11/2018 - 10/2023	A2	37	-
Deutsche Bank (2 contracts)	-	670	1.96 - 3.12%		10/2013 - 1/2014	A2	-	(0)
Goldman Sachs (4 contracts)	(48,140)	-	1.755 - 6.3%		8/2018 - 4/2024	A3	(186)	-
Goldman Sachs (2 contracts)	-	233	0.52 - 1.4375%		4/19/2020	A3	-	3
HSBC Bank (6 contracts)	15,807	-	0 - 8.97%		6/2015 - 9/2033	A1	(218)	-
HSBC Bank (6 contracts)	-	2,277	0 - 2.965%		7/2013 - 1/2028	A1	-	54
JP Morgan Chase (22 contracts)	113,840	-	0.22 - 7.2%		9/2015 - 3/2044	Aa3	205	-
JP Morgan Chase (5 contracts)	-	206	0 - 4.74%		7/2013 - 8/2016	Aa3	-	(24)
Morgan Stanley (2 contracts)	7,400	-	5.08 - 6.37%		1/2015 - 5/2022	Baa1	18	-
Morgan Stanley (8 contracts)	-	(1,046)	0 - 6.37%		10/2013 - 5/2022	Baa1	-	(24)
Total Interest Rate Swaps	$ 2,668,140	$ 8,888					$ 135	$ (89)

The notional amount may be positive or negative, depending on whether the position is long (fixed rate payer) or short (floating rate payer), respectively.

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 (positive) or sell (negative) 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 statements of changes in net position and totaled $2.2 million for fiscal year 2014 and $0.2 million for fiscal year 2013. At June 30, 2014 and 2013, the SIB's investment portfolio included the currency forwards balances shown below (expressed in thousands).

				Fair Value	
Currency	Cost	Purchases	Sales	6/30/2014	6/30/2013
Australian dollar	$ (6,188)	$ 1,970	$ (8,158)	$ (6,290)	$ (8,874)
Brazilian real	290	834	(544)	293	1,899
British pound sterling	(174)	933	(1,107)	(181)	8,074
Canadian dollar	637	1,895	(1,259)	643	98
Chilean peso	9,436	9,436	-	9,451	3,296
Chinese yuan renminbi	397	5,228	(4,830)	379	138
Colombian peso	(4)	460	(463)	-	101
Czech koruna	-	-	-	-	(2)
Euro	(23,914)	1,344	(25,258)	(23,813)	(23,087)
Hungarian forint	(49)	786	(835)	(55)	(35)
Indian rupee	380	380	-	377	4,605
Israeli shekel	(23)	-	(23)	(23)	-
Japanese yen	(5,855)	1,525	(7,380)	(5,890)	(345)
South Korean won	228	228	-	240	(4,225)
Malaysian ringgit	232	452	(220)	236	68
Mexican peso	(2,774)	3,404	(6,178)	(2,820)	317
New Zealand dollar	(2,633)	1,127	(3,761)	(2,653)	(2,694)
Norwegian krone	150	949	(799)	135	373
Peruvian nuevo sol	(55)	-	(56)	(56)	(61)
Polish zloty	(4,207)	873	(5,080)	(4,219)	66
Russian ruble	385	695	(311)	379	15
Singapore dollar	292	1,120	(827)	291	378
South African rand	77	956	(879)	80	-
Swedish krona	(4)	627	(631)	(6)	388
Swiss franc	(57)	-	(57)	(58)	-
Turkish lira	(267)	634	(901)	(287)	(395)
United States dollar	33,700	69,557	(35,857)	33,700	20,705
Total forwards subject to currency risk				$ (147)	$ 803

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, 2014 and 2013, the tables below show the SIB's derivative investments subject to interest rate risk (expressed in thousands).

2014

	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	$ (509,009)	$ (454,788)	$ (55,927)	$ -	$ 1,706	$ -

	Total Fair 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	$ (166)	$ (51)	$ (115)	$ -	$ -	$ -
Options - interest rate contracts	(15)	(15)	-	-	-	-
Swaps - interest rate contracts	135	27	18	10	(43)	123
Total	$ (46)	$ (39)	$ (97)	$ 10	$ (43)	$ 123

2013

	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	$ (218,918)	$ (38,025)	$ (98,722)	$ (89,857)	$ 7,686	$ -

	Total Fair 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	$ -	$ -	$ -	$ -	$ -	$ -
Swaps - interest rate contracts	(90)	22	10	(31)	(142)	51
Total	$ (90)	$ 22	$ 10	$ (31)	$ (142)	$ 51

Alternative Investments

The AICPA defines Alternative Investments for the purpose of performing audits. The 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 equity or fixed income asset classes. They are funds made up of underlying securities that have readily available fair values (publicly 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 — 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. The SIB has a dedicated asset class for private equity investments.

> **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.
>
> **Buyouts —** these include investments in funds that seek out and purchase underperforming or undervalued companies in order to improve them and sell them or take them public many years later. These funds are also often involved in management buyouts, which are buyouts conducted by the management of the company being purchased, and they often play key roles in leveraged buyouts, which are buyouts that are funded with borrowed money.

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 SIB is including these types of investments in its private equity 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 below investment grade fixed income allocation.

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

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:

> **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 a dedicated asset class for these types of investments.

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. The SIB has a dedicated asset class for these types of investments.

Note 4 - Capital Assets

	June 30, 2012	Additions	Retirements	June 30, 2013	Additions	Retirements	June 30, 2014
Office equipment	$19,321	$ -	$ -	$19,321	$ -	$ -	$19,321
Less accumulated depreciation on office equipment	(18,559)	(762)	-	(19,321)	-	-	(19,321)
Software	1,213,500	-	-	1,213,500	-	-	1,213,500
Less accumulated depreciation on software	(1,213,500)	-	-	(1,213,500)	-	-	(1,213,500)
	$762			$0			$0

Note 5 - State Agency Transactions

Due From/To Other State Agencies

Amounts due from/to other state agencies are as follows as of June 30, 2014 and 2013:

	2014	2013
Due To		
Information Technology Department	$ 6,605	$ 7,010
Office of Attorney General	468	1,035
Office of Management and Budget	281	910
University System	75	-
Total due to other state agencies	$ 7,429	$ 8,955
Due From		
Public Employees Retirement System	$ -	$ 616
Total due from other state agencies	$ -	$ 616

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 6 - Operating Leases

RIO leases office space under an operating lease effective July 1, 2013 through June 30, 2015. RIO also incurs rent expense at other locations on a temporary basis to sponsor retirement education for TFFR members. Rent expense totaled $79,668 and $77,948 for fiscal 2014 and 2013. Minimum payments under the lease for fiscal 2015 are $78,467.

Note 7 - Changes in Noncurrent Liabilities

Changes in noncurrent liabilities for the years ended June 30, 2014 and 2013 are summarized as follows:

	Beginning Balance 7/1/2013	Additions	Reductions	Ending Balance 6/30/2014	Amounts Due Within One Year
Accrued Leave	$147,115	$91,844	($108,392)	$130,567	$80,686

	Beginning Balance 7/1/2012	Additions	Reductions	Ending Balance 6/30/2013	Amounts Due Within One Year
Accrued Leave	$136,458	$94,877	($84,220)	$147,115	$71,864

Pension and Investment Trust Funds liquidate the accrued annual leave.

Note 8 - North Dakota Teachers' Fund for Retirement

Administration

The following brief description of TFFR is provided for general informational 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, death and disability benefits. The cost to administer the TFFR plan is financed by investment income and contributions.

Responsibility for administration of the TFFR benefits program is assigned to a seven-member Board of Trustees (Board). The Board consists of the State Treasurer, the Superintendent of Public Instruction, and five members appointed by the Governor. The appointed members serve five-year terms which end on June 30 of alternate years. The appointed Board members must include two active teachers, one active school administrator, and two retired members. The TFFR Board submits any necessary or desirable changes in statutes relating to the administration of the fund, including benefit terms, to the Legislative Assembly for consideration. The Legislative Assembly has final authority for changes to benefit terms and contribution rates.

Membership

As of June 30, 2014 and 2013, the number of participating employer units was 219 and 220, respectively, consisting of the following:

	2014	2013
Public School Districts	178	179
County Superintendents	7	7
Special Education Units	19	19
Vocational Education Units	5	5
Other	10	10
Total	219	220

TFFR's membership consisted of the following:

	2014	2013
Retirees and beneficiaries currently receiving benefits	7,747	7,489
Terminated employees - vested	1,509	1,500
Terminated employees - nonvested	661	563
Total	9,917	9,552
Current employees		
Vested	7,406	7,465
Nonvested	2,899	2,673
Total	10,305	10,138

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 9.75% 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 10.75% of the teacher's salary. Member contributions will increase to 11.75% on 7/1/2014. Employer contributions will increase to 12.75% on 7/1/2014. Member and employer contributions will be reduced to 7.75% each when the fund reaches 100% 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 three categories. Tier 1 grandfathered and Tier 1 non-grandfathered members are those with service credit on file as of July 1, 2008. Tier 2 members are those newly employed and returning refunded members on or after July 1, 2008.

Tier 1 Grandfathered

A Tier 1 grandfathered member is entitled to receive unreduced 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.

Tier 1 Non-grandfathered

A Tier 1 non-grandfathered member is entitled to receive unreduced 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 has reached age 60 and 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 8% per year from the earlier of age 60/Rule of 90 or age 65. 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.

Tier 2

A Tier 2 member is entitled to receive unreduced 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 has reached age 60 and 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 8% per year from the earlier of age 60/Rule of 90 or age 65. 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.

Death and Disability Benefits

Death 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 five years 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 uses the member's actual years of credited service. There is no actuarial reduction for reason of disability retirement.

Investment Policy

The TFFR Board is responsible for establishing investment policy for the fund assets under NDCC 15-39.1-05.2. Benefit payments are projected to occur over a long period of time. This allows TFFR to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact of funded status and contribution rates. The following was the TFFR Board's adopted asset allocation policy as of June 30, 2014 and 2013.

Asset Class	Target Allocation
Global Equity	57.0%
Global Fixed Income	22.0%
Global Real Assets	20.0%
Cash Equivalents	1.0%
Total	100.0%

Private equity is included in the Global Equity asset class.

Investment Rate of Return

The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 16.35% and 13.60% for the years ended June 30, 2014 and 2013, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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, 2014 and 2013, TFFR had net realized gains of $129,815,358 and $73,604,646 respectively.

Net Pension Liability

The components of the net pension liability of TFFR at June 30, 2014 and 2013, were as follows:

	June 30, 2014	June 30, 2013
Total pension liability	3,138,799,773	2,997,139,087
Plan fiduciary net position	(2,090,977,056)	(1,839,583,960)
Net pension liability (NPL)	1,047,822,717	1,157,555,127
Plan fiduciary net position as a percentage of the total pension liability	66.6%	61.4%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2014 and 2013, using the following actuarial assumptions:

Valuation date	July 1, 2014	July 1, 2013
Inflation	3.00%	3.00%
Salary increases	4.50% to 14.75%; varying by service, including inflation and productivity	4.50% to 14.75%
Cost of living adjustments	None	None
Investment rate of return	8% net of pension plan investment expense	8% net of pension plan investment expense

Mortality rates were based on the following:

For active members, mortality rates were based on the post-retirement mortality rates multiplied by 60% for males and 40% for females. For inactive members and healthy retirees, mortality rates were based on 80% of GRS Table 378 and 75% of GRS Table 379. For disabled retirees, mortality rates were based on the RP-2000 Disabled-Life tables for Males and Females multiplied by 80% and 95% respectively.

The actuarial assumptions used in the July 1, 2014 and 2013 valuations were based on the results of an actuarial experience study dated January 21, 2010, for the period July 1, 2004 – June 30, 2009. An actuarial experience study is generally conducted every five years.

The long-term expected rate of return on TFFR investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the TFFR target asset allocation as of June 30, 2014 (see the discussion of TFFR investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Global Equity	7.5%
Global Fixed Income	1.4%
Global Real Assets	5.4%
Cash Equivalents	0.0%

Discount Rate

The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that member and employer contributions will be made at rates equal to those based on the July 1, 2014 Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, TFFR's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members as of July 1, 2014. Therefore, the long-term expected rate of return on TFFR investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

Sensitivity of Net Pension Liability

The following presents the net pension liability of the TFFR employers calculated using the discount rate of 8 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

2014	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employers' net pension liability	$ 1,414,755,083	$ 1,047,822,717	$ 739,221,908

2013	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employers' net pension liability	$ 1,511,142,356	$ 1,157,555,127	$ 860,669,595

Note 9 - 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 (as of January 1, 2014) is 11.12% of annual covered payroll as established by the NDCC. Prior to that date the contribution rate was 10.12% (as of January 1, 2013), 9.12% (as of January 1, 2012), and 8.12% prior to January 1, 2012. RIO's contributions to PERS for the years ended June 30, 2014, 2013, and 2012, were $128,657, $108,353 and $102,664, equal to the required contributions for each year plus a 1.14% contribution for retiree health benefits.

Note 10 - 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 11 - Commitments

The State Investment Board has at June 30, 2014, committed to fund certain alternative investment partnerships in the amount of $982.4 million. Funding of $741.7 million has been provided leaving an unfunded commitment of approximately $240.7 million.

Note 12 - Litigation

WG Trading

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. Investors had been offered two options: invest directly in WG Trading Company (WGTC) by purchasing a limited partnership interest in it; or lend money to WG Trading Inc. (WGTI). WGTC was subject to SEC regulation, capital requirements, reporting and oversight, whereas WGTI was an unregulated and unaudited entity. SIB chose to invest directly in the regulated, audited WGTC.

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

The SIB did not agree with the method used to distribute the assets, and along with the other WGTC limited partners appealed the District Court's ruling. It was the SIB's position that the District Court incorrectly determined the amount of the distribution; and that the audited limited partners were entitled to a greater share of the recovered assets than the unaudited note holders. In April, 2013, the District Court's original ruling was upheld by the United States Court of Appeals for the Second Circuit and the SIB received an additional $3.1 million *pro rata* distribution, bringing the total distributions received to $67.1 million, which represents approximately 89% of its remaining cost basis with WGTC. It should be noted that the receiver continues to pursue certain "clawback" actions and to dispose of various real and personal property held by the receiver in order to recover additional funds that may eventually be distributed to the investors, including the SIB. The receiver has also indicated that it intends to make a third distribution to the investors. While future additional distributions are possible, the amount of any additional distributions to the SIB will likely be small as compared to the initial distributions. Total distributions to date have resulted in a net realized loss attributable to the fraud of $8.2 million which was allocated to the participating pooled funds as follows (expressed in thousands):

	Initial Recovery April 2011 (in thousands)	Subsequent Recovery April 2013 (in thousands)	Cost Basis (in thousands)	Net Realized loss (in thousands)
Teachers' Fund for Retirement	$ 23,001	$ 1,129	$ 27,080	$ (2,950)
Public Employees Retirement System	26,012	1,277	30,626	(3,337)
Bismarck City Employee Pension Plan	503	25	592	(64)
Bismarck City Police Pension Plan	268	13	316	(35)
Job Service of ND	1,408	69	1,657	(180)
City of Fargo Employee Pension Plan	445	22	524	(57)
Workforce Safety & Insurance	10,616	521	12,499	(1,362)
State Fire & Tornado	512	25	603	(66)
State Bonding	51	2	60	(7)
Risk Mgmt	88	4	104	(12)
Risk Mgmt Work Comp	63	3	74	(8)
Insurance Regulatory Trust Fund	16	1	18	(1)
Petroleum Tank Release Comp Fund	155	8	182	(19)
ND Ass'n of Counties Fund	54	3	64	(7)
City of Bismarck Deferred Sick Leave	13	1	15	(1)
City of Fargo FargoDome Permanent Fund	718	35	846	(93)
Cultural Endowment Fund	8	-	10	(2)
Totals	$ 63,931	$ 3,138	$ 75,270	$ (8,201)

Tribune Company

The SIB has been listed as a defendant in a putative defense class action originally filed in the United States Bankruptcy Court for the District of Delaware, styled The Official Committee of Unsecured Creditors of Tribune Company v. Fitzsimmons, et al., Bankr. Case No. 10-54010 (the "Adversary Proceeding"), and subsequently transferred to a multi-district litigation proceeding in the United States District Court for the Southern District of New York, Case Nos. 12-cv-02652, and 11-md-02296. In addition to the Adversary Proceeding, other Tribune creditors have filed numerous state court actions (the "State Court Actions") to assert fraudulent transfer claims against certain recipients of the offering described below. The SIB was not named in any of these actions, which have since been consolidated and transferred to the MDL Proceeding (the State Court Actions together with the Adversary Proceeding, the "Tribune LBO Litigation").

The Adversary Proceeding arises out of a leveraged buyout by which the Tribune Company converted to a privately held company in 2007 pursuant to which beneficial owners of Tribune stock were paid $34 a share. The Official Committee of Unsecured Creditors (the "Committee") contends that there was misconduct in connection with that offering, including fraud. No such allegations have been made against the SIB. Nevertheless, the Committee seeks to recover the payments made pursuant to the offering to beneficial owners, allegedly including the SIB (among thousands of other putative shareholder defendants) in connection with the leveraged buyout. The SIB's records indicate that it received, in the aggregate, $1,003,000.00 in Tribune leveraged buyout payments, comprised of two separate payments.

On February 23, 2012, the MDL Court entered an order appointing co-interim liaison defense counsel and a sub-set of six lead liaison counsel representing the various groups of defendants (the "Defense Executive Committee"). On November 6, 2012, the Defense Executive Committee submitted a "Phase One" Motion to Dismiss on behalf of all defendants in the State Court Actions. On September 23, 2013, the MDL Court granted the motion, and dismissed the State Court Actions. Both the plaintiffs in the State Court Actions and the Defense Executive Committee have appealed the MDL Court order and judgment of dismissal to the United States Court of Appeals for the Second Circuit. The Second Circuit has consolidated these appeals with the appeal in another case, Whyte v. Barclays Bank PLC, Barclays Capital, Inc., No. 13-2653 (2d Cir. 2013).

Following the dismissal of the State Court Actions, on May 23, 2014, Liaison Defense Counsel filed the Global Count One Motion to Dismiss. NDSIB, the Pension Trust, and the Investment Trust were automatically included in this Motion. The Litigation Trustees filed an opposition to the Motion to Dismiss on June 23, 2014. The Court postponed briefing on issues relating to service, jurisdiction, and dismissal based on sovereign immunity (and other theories that relate to a subset of shareholder defendants) pending resolution of the Global Count One Motion to Dismiss. Until further order of the MDL Court, individual defendants will not be required to file answers and no discovery shall proceed with the exception of discovery related to determining the amounts received in the Offering by certain entities that received subpoenas issued by the Litigation Trustee's predecessor.

SUPPLEMENTARY INFORMATION

Schedule of Changes in Net Pension Liability and Related Ratios
North Dakota Teachers' Fund for Retirement
(Dollars in thousands)

	2014
Total pension liability	
Service cost	$ 56,752
Interest	237,821
Changes of benefit terms	-
Differences between expected and actual experience	9,347
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(162,259)
Net change in total pension liability	141,661
Total pension liability - beginning	2,997,139
Total pension liability - ending (a)	$ 3,138,800
Plan fiduciary net position	
Contributions - employer	$ 64,437
Contributions - member	56,555
Net investment income	294,246
Benefit payments, including refunds of member contributions	(162,259)
Administrative expenses	(1,586)
Net change in plan fiduciary net position	251,393
Plan fiduciary net position - beginning	1,839,584
Plan fiduciary net position - ending (b)	$ 2,090,977
Plan's net pension liability - ending (a) - (b)	$ 1,047,823
Plan fiduciary net position as a percentage of the total pension liability	66.6%
Covered-employee payroll	$ 580,053
Plan's net pension liability as a percentage of covered-employee payroll	180.6%

Notes to Schedule:
Complete data for this schedule is not available prior to 2014.

Schedule of Employer Contributions
North Dakota Teachers' Fund for Retirement
(Dollars in thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	59,530	52,396	69,374	65,113	52,053	41,986	44,115	50,532	48,747	44,472
Contributions in relation to the actuarially determined contribution	62,355	59,301	46,126	44,545	39,837	37,488	33,684	31,865	31,171	30,388
Contribution deficiency (excess)	(2,825)	(6,905)	23,248	20,568	12,216	4,498	10,431	18,667	17,576	14,084
Covered-employee payroll	580,053	551,656	527,156	509,091	482,868	454,396	434,626	411,167	402,204	392,107
Contributions as a percentage of covered-employee payroll	10.75%	10.75%	8.75%	8.75%	8.25%	8.25%	7.75%	7.75%	7.75%	7.75%

Notes to Schedule

Valuation Date: Actuarially determined contributions for each fiscal year are based on the actuarial valuation as of the beginning of the year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	29 years
Asset valuation method	5-year smoothed market
Inflation	3.0%
Salary increases	4.50% - 14.75%, including inflation
Investment rate of return	8.0%, net of investment expenses, including inflation
Retirement age	Expected retirement ages of plan members were last adjusted in 2010 to more closely reflect actual experience.
Mortality	Assumed life expectancies were last adjusted in 2010 to more closely reflect actual experience.

Schedule of Investment Returns
North Dakota Teachers' Fund for Retirement

	2014	2013
Annual money-weighted rate of return, net of investment expense	16.35%	13.60%

Note: Annual money-weighted rates of return not available prior to 2013.

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	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	1,240,186,948	33,059,580	15,915,819	38,686,267	-	31,708,081	3,547,605	345,060,125	10,163,695	-	-
Fixed income	-	-	-	-	-	-	-	-	-	-	-
Fixed income pool	548,850,746	27,909,773	10,682,370	58,655,436	-	14,646,475	1,549,489	1,239,423,556	15,990,674	1,774,399	3,495,009
Real assets pool	407,588,841	14,271,144	6,159,738	-	-	7,951,362	534,099	101,294,503	-	-	-
Private equity pool	106,067,699	3,024,449	1,680,352	-	-	3,006,188	286,106	-	-	-	-
Cash pool	26,700,028	489,498	173,510	387,369	10,985	579,384	23,046	6,638,123	2,896,957	1,465,300	3,535,361
Total investments	2,329,394,262	78,754,444	34,611,789	97,729,072	10,985	57,891,490	5,940,345	1,692,416,307	29,051,326	3,239,699	7,030,370
Investment income receivable	3,349,776	49,882	31,415	96,697	(1,283)	5,121	(1,352)	11,571,673	172,381	29,292	62,628
Operating Cash	64,856	-	-	-	-	-	-	46,849	684	940	875
Miscellaneous receivable	3,920	-	-	-	-	-	-	2,901	50	6	12
Due from other state agency											
Total assets	2,332,812,814	78,804,326	34,643,204	97,825,769	9,702	57,896,611	5,938,993	1,704,037,730	29,224,441	3,269,937	7,093,885
Liabilities:											
Investment expenses payable	3,693,696	126,248	56,233	140,392	1	89,373	8,087	825,816	14,559	699	1,388
Accounts payable	14,500	-	-	-	-	-	-	9,981	187	21	47
Accrued expenses	28,991	-	-	-	-	-	-	21,885	404	45	120
Miscellaneous payable	-	2,493	1,101	3,218	48	1,711	250	-	-	-	-
Due to other state agencies	405	-	-	-	-	-	-	300	5	-	1
Total liabilities	3,737,592	128,741	57,334	143,610	49	91,084	8,337	857,982	15,155	765	1,556
Net position held in trust for external investment pool participants	$ 2,329,075,222	$ 78,675,585	$ 34,585,870	$ 97,682,159	$ 9,653	$ 57,805,527	$ 5,930,656	$ 1,703,179,748	$ 29,209,286	$ 3,269,172	$ 7,092,329
Each participant unit is valued at $1.00											
Participant units outstanding	2,329,075,222	78,675,585	34,585,870	97,682,159	9,653	57,805,527	5,930,656	1,703,179,748	29,209,286	3,269,172	7,092,329

Insurance Pool Participants											Individual Investment Acct.	Totals	
Insurance Regulatory Trust Fund	Cultural Endowment Fund	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n. of Counties Fund	PERS Group Insurance	Budget Stabilization Fund	Legacy Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	State Board of Medical Examiners	PERS Retiree Health Credit Fund	2014	2013
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 55,112,752	$ 55,112,752	$ 43,854,432
344,076	200,031	2,075,168	2,196,838	1,029,070	-	-	1,042,136,352	253,348	20,785,567	398,527	-	2,787,747,097	1,543,210,098
-	-	-	-	-	-	-	497,915,992	-	-	-	35,162,409	533,078,401	1,611,285,649
392,563	135,647	4,476,835	3,582,058	1,966,431	-	579,361,741	548,141,701	552,213	20,527,401	1,444,634	-	3,083,559,151	1,692,041,813
-	18,318	-	-	-	-	-	107,610,970	-	-	38,391	-	645,467,366	516,202,669
-	-	-	-	-	-	-	-	-	-	-	-	114,064,794	111,364,820
399,306	10,163	338,346	172,488	443,593	37,425,118	3,987,057	14,138,522	41,433	387,637	8,326	-	100,251,550	100,765,983
1,135,945	364,159	6,890,349	5,951,384	3,439,094	37,425,118	583,348,798	2,209,943,537	846,994	41,700,605	1,889,878	90,275,161	7,319,281,111	5,618,725,464
10,093	820	57,813	13,938	6,279	449	2,851,083	5,997,605	2,824	75,387	19	85,205	24,467,745	20,787,440
649	398	1,131	1,127	-	-	12,961	15,182	-	-	-	-	145,652	159,403
2	1	12	10	-	-	1,030	3,372	-	-	-	-	11,316	12,752
1,146,689	365,378	6,949,305	5,966,459	3,445,373	37,425,567	586,213,872	2,215,959,696	849,818	41,775,992	1,889,897	90,360,366	7,343,905,824	5,639,685,059
441	216	3,462	3,209	1,599	137	204,189	1,337,566	419	27,381	925	63,123	6,599,159	4,549,821
8	3	42	37	-	-	3,371	11,035	-	-	-	-	39,232	50,916
16	4	79	68	-	-	5,235	13,725	-	-	-	-	70,572	60,040
-	-	-	-	250	1,256	-	-	250	1,307	167	2,753	14,804	17,382
-	-	1	1	-	-	107	349	-	-	-	-	1,169	1,235
465	223	3,584	3,315	1,849	1,393	212,902	1,362,675	669	28,688	1,092	65,876	6,724,936	4,679,394
$ 1,146,224	$ 365,155	$ 6,945,721	$ 5,963,144	$ 3,443,524	$ 37,424,174	$ 586,000,970	$ 2,214,597,021	$ 849,149	$ 41,747,304	$ 1,888,805	$ 90,294,490	$ 7,337,180,888	$ 5,635,005,665
1,146,224	365,155	6,945,721	5,963,144	3,443,524	37,424,174	586,000,970	2,214,597,021	849,149	41,747,304	1,888,805	90,294,490	7,337,180,888	5,635,005,665

	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	$ 293,366,241	$ 8,799,404	$ 4,059,353	$ 10,466,656	$ 3,209,058	$ 7,198,621	$ 768,855	$ 147,114,353	$ 2,812,662	$ 81,431	$ 160,709
Interest, dividends and other income	40,924,671	1,414,916	615,490	1,725,637	312,254	947,544	82,159	36,959,249	634,670	50,268	99,366
	334,290,912	10,214,320	4,674,843	12,192,293	3,521,312	8,146,165	851,014	184,073,602	3,447,332	131,699	260,075
Less investment expenses	8,155,526	276,989	123,574	304,454	50,674	198,607	18,886	3,940,613	49,301	2,761	5,481
Net investment income	326,135,386	9,937,331	4,551,269	11,887,839	3,470,638	7,947,558	832,128	180,132,989	3,398,031	128,938	254,594
Total Additions	326,135,386	9,937,331	4,551,269	11,887,839	3,470,638	7,947,558	832,128	180,132,989	3,398,031	128,938	254,594
Deductions:											
Administrative Expenses	274,416	-	-	-	-	-	-	177,987	3,163	983	962
Net change in net position resulting from operations	325,860,970	9,937,331	4,551,269	11,887,839	3,470,638	7,947,558	832,128	179,955,002	3,394,868	127,955	253,632
Unit transactions at net position value of $1 per unit:											
Purchase of units	7,250,000	-	-	-	-	4,111,083	293,605	4,000,000	-	-	-
Redemption of units	(2,600,000)	-	-	(4,565,538)	(37,553,903)	(4,341,919)	(299,652)	(37,500,000)	(800,000)	-	-
Net change in net position and units resulting from unit transactions	4,650,000	-	-	(4,565,538)	(37,553,903)	(230,836)	(6,047)	(33,500,000)	(800,000)	-	-
Total change in net position	330,510,970	9,937,331	4,551,269	7,322,301	(34,083,265)	7,716,722	826,081	146,455,002	2,594,868	127,955	253,632
Net position:											
Beginning of year	1,998,564,252	68,738,254	30,034,601	90,359,858	34,092,918	50,088,805	5,104,575	1,556,724,746	26,614,418	3,141,217	6,838,697
End of year	$ 2,329,075,222	$ 78,675,585	$ 34,585,870	$ 97,682,159	$ 9,653	$ 57,805,527	$ 5,930,656	$ 1,703,179,748	$ 29,209,286	$ 3,269,172	$ 7,092,329
	2,329,075,222	78,675,585	34,585,870	97,682,159	9,653	57,805,527	5,930,656	1,703,179,748	29,209,286	3,269,172	7,092,329

North Dakota Retirement and Investment Office

Combining Statement of Changes in Net Position – Investment Trust Funds – Fiduciary Funds

Year Ended June 30, 2014 (with Comparative Totals for 2013)

Insurance Pool Participants											Individual Investment Acct.		
Insurance Regulatory Trust Fund	Cultural Endowment Fund	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n of Counties Fund	PERS Group Insurance	Budget Stabilization Fund	Legacy Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	State Board of Medical Examiners	PERS Retiree Health Credit Fund	Totals 2014	Totals 2013
$ 87,259	$ 47,641	$ 618,416	$ 598,129	$ 267,459	$ -	$ (2,296,687)	$ 74,027,273	$ 88,516	$ 5,037,808	$ 17,764	$ 10,620,455	$ 567,151,376	$ 299,338,412
17,515	8,031	154,962	131,002	66,825	5,659	13,897,151	43,256,691	22,312	823,378	8,273	1,984,435	144,142,458	132,358,789
104,774	55,672	773,378	729,131	334,284	5,659	11,600,464	117,283,964	110,828	5,861,186	26,037	12,604,890	711,293,834	431,697,201
1,491	796	10,776	9,613	6,192	4,539	574,726	3,956,722	2,552	89,077	1,535	238,703	18,023,588	14,116,162
103,283	54,876	762,602	719,518	328,092	1,120	11,025,738	113,327,242	108,276	5,772,109	24,502	12,366,187	693,270,246	417,581,039
103,283	54,876	762,602	719,518	328,092	1,120	11,025,738	113,327,242	108,276	5,772,109	24,502	12,366,187	693,270,246	417,581,039
994	519	969	977	-	-	59,345	173,580	-	-	-	-	693,895	558,744
102,289	54,357	761,633	718,541	328,092	1,120	10,966,393	113,153,662	108,276	5,772,109	24,502	12,366,187	692,576,351	417,022,295
-	-	-	-	400,000	249,000,000	181,060,584	907,214,971	-	1,000,000	1,864,303	4,305,000	1,360,499,546	1,053,337,604
-	(13,000)	-	-	-	(254,368,258)	(7,183,404)	-	(275,000)	(1,400,000)	-	-	(350,900,674)	(234,858,869)
-	(13,000)	-	-	400,000	(5,368,258)	173,877,180	907,214,971	(275,000)	(400,000)	1,864,303	4,305,000	1,009,598,872	818,478,735
102,289	41,357	761,633	718,541	728,092	(5,367,138)	184,843,573	1,020,368,633	(166,724)	5,372,109	1,888,805	16,671,187	1,702,175,223	1,235,501,030
1,043,935	323,798	6,184,088	5,244,603	2,715,432	42,791,312	401,157,397	1,194,228,388	1,015,873	36,375,195	-	73,623,303	5,635,005,665	4,399,504,635
$ 1,146,224	$ 365,155	$ 6,945,721	$ 5,963,144	$ 3,443,524	$ 37,424,174	$ 586,000,970	$ 2,214,597,021	$ 849,149	$ 41,747,304	$ 1,888,805	$ 90,294,490	$ 7,337,180,888	$ 5,635,005,665
1,146,224	365,155	6,945,721	5,963,144	3,443,524	37,424,174	586,000,970	2,214,597,021	849,149	41,747,304	1,888,805	90,294,490	7,337,180,888	5,635,005,665

	Pension Trust		Investment Trust	
	2014	2013	2014	2013
Salaries and wages:				
Salaries and wages	$670,233	$661,555	$474,880	$370,585
Fringe benefits	237,322	250,440	140,156	116,457
Total salaries and wages	907,555	911,995	615,036	487,042
Operating expenses:				
Information services	75,839	66,750	12,874	12,415
Intergovernmental services	5,374	5,558	2,529	2,616
Professional services	138,963	166,169	55,382	51,949
Rent of building space	53,314	52,299	26,353	25,649
Mailing services and postage	48,393	49,934	28,108	25,483
Travel and lodging	20,759	21,359	25,186	12,056
Printing	13,485	21,859	5,412	6,550
Supplies	2,879	3,446	1,671	1,674
Professional development	9,045	10,344	3,205	5,939
Outside services	10,832	8,033	64,927	51,005
Small office equipment expense	431	2,040	129	2,483
Miscellaneous fees	6,620	2,642	4,784	30,341
Resource and reference materials	601	427	342	1,270
IT contractual services	108,723	125,506	30,432	15,018
Repairs - office equipment	94	510	50	215
Insurance	417	709	196	334
Total operating expenses	495,769	537,585	261,580	244,997
Pension trust portion of investment program expenses	182,721	173,295	(182,721)	(173,295)
Depreciation	-	763	-	-
Total administrative expenses	1,586,045	1,623,638	693,895	558,744
Less - nonappropriated items:				
Professional fees	138,963	166,169	55,382	51,949
Other operating fees paid under continuing appropriation	28,224	20,607	73,573	47,831
Depreciation	-	763	-	-
Accrual adjustments to employee benefits	(14,644)	10,118	(1,902)	539
Total nonappropriated items	152,542	197,657	127,053	100,319
Total appropriated expenditures	$ 1,433,503	$ 1,425,981	$ 566,841	$ 458,425

	Pension Trust		Investment Trust	
	2014	2013	2014	2013
Actuary fees:				
Segal Company	$ 71,264	$ 94,848	$ -	$ -
Auditing fees:				
CliftonLarsonAllen LLC	45,942	45,385	28,423	26,290
Disability consulting fees:				
Dr. G.M. Lunn	375	775	-	-
Legal fees:				
K&L Gates LLP	11,474	9,073	15,585	10,692
Jenner & Block	-	2,337	-	3,644
ND Attorney General	9,908	13,751	11,374	11,323
Total legal fees:	21,381	25,161	26,959	25,659
Total consultant expenses	$ 138,963	$ 166,169	$ 55,382	$ 51,949

	Pension Trust		Investment Trust	
	2014	2013	2014	2013
Investment managers' fees:				
Global equity managers	$ 2,605,453	$ 1,403,825	$ 3,315,966	$ 1,761,085
Domestic large cap equity managers	1,018,026	661,279	2,189,555	1,201,040
Domestic small cap equity managers	551,815	656,041	1,244,211	1,111,392
International equity managers	822,849	911,366	2,303,178	1,630,296
Emerging markets equity managers	258,679	378,684	374,705	559,955
Domestic fixed income managers	1,585,083	2,787,286	6,614,783	10,394,210
Below investment grade fixed income managers	747,407	1,604,541	958,784	2,108,519
Inflation protected assets managers	-	-	1,515,030	1,782,509
International fixed income managers	340,634	317,489	422,383	395,909
Real estate managers	1,899,944	1,863,035	3,468,358	3,090,481
Infrastructure managers	676,349	939,370	824,064	1,148,077
Timber managers	341,757	349,639	405,526	422,177
Private equity managers	2,433,316	1,850,618	2,850,600	2,148,730
Short term fixed income managers	-	-	1,562,163	1,235,929
Cash & equivalents managers	23,964	26,873	201,708	34,063
Balanced account managers	-	-	352,919	294,454
Total investment managers' fees	13,305,276	13,750,046	28,603,933	29,318,826
Custodian fees	293,776	257,367	850,504	717,989
Investment consultant fees	172,148	198,775	365,242	412,898
SIB Service Fees	-	-	48,498	47,331
Total investment expenses	$ 13,771,200	$ 14,206,188	$ 29,868,177	$ 30,497,044

Reconciliation of investment expenses to financial statements

	2014	2013	2014	2013
Investment expenses as reflected in the financial statements	$ 7,257,140	$ 6,010,000	$ 18,023,588	$ 14,116,162
Plus investment management fees included in investment income				
Domestic large cap equity managers	260,958	61,579	481,686	103,667
Domestic small cap equity managers	363,661	365,861	470,141	468,421
International equity managers	225,470	177,806	568,360	318,745
Emerging markets equity managers	89,760	94,991	129,633	140,772
Domestic fixed income managers	1,322,680	2,595,308	4,388,520	8,593,171
Below investment grade fixed income managers	285,306	1,227,212	367,748	1,603,162
Inflation protected assets managers	-	-	488,078	729,506
Real estate managers	1,003,875	1,076,639	1,176,368	1,257,309
Infrastructure managers	225,341	466,573	273,692	571,119
Timber managers	341,757	349,639	405,526	422,177
Private equity managers	2,395,252	1,780,580	2,805,772	2,068,299
Cash equivalents managers	-	-	163,876	-
Balanced account managers	-	-	125,189	104,534
Investment expenses per schedule	$ 13,771,200	$ 14,206,188	$ 29,868,177	$ 30,497,044

All Fund Types:	Approved 2013-2015 Appropriation	2013-2015 Appropriation Adjustment	Adjusted 2013-2015 Appropriation	Fiscal 2014 Expenses	Unexpended Appropriations
Salaries and wages	$ 3,772,504	$ -	$ 3,772,504	$ 1,501,994	$ 2,270,510
Accrued Leave Payments	71,541		71,541	37,144	34,397
Operating expenses	973,324	-	973,324	399,219	574,105
Contingency	82,000	-	82,000	61,987	20,013
Total	$ 4,899,369	$ -	$ 4,899,369	$ 2,000,344	$ 2,899,025

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

Reconciliation of Administrative Expenses
to Appropriated Expenditures

	2014
Administrative expenses as reflected in the financial statements	2,279,940
Less:	
Professional fees*	(194,345)
Other operating fees paid under continuing appropriations*	(101,797)
Changes in annual leave and FICA payments	16,546
Total appropriated expenses	$2,000,344

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

Special Comments Requested by the Legislative Audit
and Fiscal Review Committee
Year Ended June 30, 2014

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?

Unmodified

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 reports?

There were no prior year findings or recommendations.

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 no 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.

   For the year ended June 30, 2014, the financial statements include the impact of adopting Governmental Accounting Standards Board Statement (GASB) number 67.

   GASB 67, Financial Reporting for Pension Plans, is effective to fiscal years ending after June 15, 2014 and has been implemented in the financial statements prepared by RIO for the fiscal year ended June 30, 2014. This statement addresses accounting and financial reporting requirements for pension plans that are administered though trusts. GASB 67 requires a change in actuarial calculation of total and net pension liability in addition to changes in the presentation of plan financial statements, expanded note disclosures and additional required supplementary information.

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.

   The valuation of alternative investments, including private equity and real asset investments, are a management estimate which is primarily based upon net asset values reported by the investment managers and comprise 13% of the total investment portfolio. The values for these investments are reported based upon the most recent financial data available and are adjusted for cash flows through June 30, 2014. Our audit procedures validated this approach through the use of confirmations sent directly to a sample of investment managers and the review of the most recent audited financial statements for these funds. Furthermore, we reviewed management's estimate and found it to be reasonable.

   The actuarial valuation was based on the actuarial assumptions and methods adopted by the Board, including an actuarial expected investment rate of return of 8.0% per annum compounded annually. The valuation takes into account all of the promised benefits to which members are entitled as of July 1, 2014 as required by the North Dakota Century Code. The valuation provides certain information required by GASB to be disclosed in the financial statements. Additionally, the valuation is used to determine the adequacy of the current employer contribution rate. Our audit procedures included reviewing the actuarial valuation and related assumptions used therein and we believe the estimate to be reasonable.

3. Identify any significant audit adjustments.

   None

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

   None

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

None

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

None

7. Identify any management consultations with other accounts 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.

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.

CliftonLarsonAllen LLP

Baltimore, Maryland
November 11, 2014

AGENDA ITEM IV

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee

FROM: Terra Miller Bowley, Supervisor of Audit Services

DATE: November 20, 2014

SUBJECT: External Auditor Request for Proposal (RFP) Process

Ron Tolstad from the State Auditor's Office will be available from 4:00 to 4:30 PM to provide information on the RFP process for the selection of an external auditing firm as well as answer any questions that members of the SIB Audit Committee may have.

Office of the State Auditor
Division of State Audit

State Of North Dakota
(11/2014)

Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060

Request for Proposal (RFP)

RFP Title: Retirement and Investment Office Audits
(Fiscal Years 2015, 2016 and 2017)

RFP Number: #117-14-10

Date of Issue: November 21, 2014

Purpose of RFP: To solicit proposals from qualified CPA firms for the audit of the Retirement and Investment Office.

Offerors are not required to return this form.

Procurement Officer: Ron Tolstad Jr.

DRAFT

Robert R. Peterson
State Auditor

REQUEST FOR PROPOSAL
INDEPENDENT FINANCIAL AUDIT SERVICES
TABLE OF CONTENTS

Page

Section One - Introduction and Instructions

A. Purpose of the Request for Proposal

The purpose of this Request for Proposal ("RFP"), including all of its attachments, is to solicit proposals from qualified independent CPA Firms ("Firm" or "Contractor") who will provide the North Dakota Office of the State Auditor ("State" or "Auditor") with annual:

1. financial statements audits of the Retirement and Investment Office (RIO), in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States;
2. opinions, in accordance with AU-C section 805, *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement,* on Teachers' Fund For Retirement's "Schedule of Employer Allocations" and related notes to the schedule, and;
3. opinions in accordance with AU-C section 805, *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement* on Teacher's Fund For Retirement's "Schedule of Pension Amounts" by Employer and related notes to the schedule.

B. Contact Person, Telephone, Fax, E-mail

The procurement officer is the point of contact for this RFP. <u>All vendor communications regarding this RFP must be directed to the procurement officer.</u> Unauthorized contact regarding the RFP with other employees of the State of North Dakota, including RIO, may result in the vendor being disqualified, and the vendor may also be suspended or disbarred from the state bidders list.

Procurement Officer:

Ronald I. Tolstad Jr., CPA, MAcc
Technical Specialist / Audit Manager
Office of the State Auditor
600 East Boulevard Avenue - Dept. 117
Bismarck, ND 58505-0060

Phone: (701) 328-2243
Fax: (701) 328-1406
TTY Users call: 7-1-1

E-mail: rtolstad@nd.gov

E-mail communications will normally be confirmed, if you don't receive a confirmation please contact the procurement officer.

C. RFP Schedule of Events

This schedule of events represents the State's best estimate of the schedule that will be followed for this RFP. If a component of this schedule, such as the deadline for receipt of proposals, is delayed, the rest of the schedule will be shifted by the same number of days.

The approximate RFP schedule is as follows:

- RFP Issued: ***November 21, 2014***
- Deadline for receipt of questions and objections related to the RFP: ***December 19, 2014***
- Responses to questions / RFP amendments (if required): ***December 24, 2014***
- Deadline for the receipt of proposals: ***5:00 P.M. Thursday January 15, 2015***
- RFP Opening: ***January 19, 2015***
- Proposal evaluation completed by approximately: ***January 23, 2015***
- State issues Notice of Intent to Award a Contract approximately: ***January 26, 2015***
- State issues contract approximately: ***February 2, 2015***
- Contract start: ***June 1, 2015***

D. Return Mailing Address and Deadline for Receipt of Proposals

Offerors must submit four (4) copies of its proposal in a sealed envelope or package. Offerors must enclose a searchable electronic copy of their proposal in the same sealed envelope or package.

Envelopes or packages containing proposals must be clearly addressed as described below to ensure proper delivery and to avoid being opened before the deadline for receipt. Envelopes or packages must be addressed as follows:

Office of the State Auditor
Audit Procurement
Request for Proposal #117-14-2
Attn: Ron Tolstad Jr.
600 East Boulevard Avenue - Dept. 117
Bismarck, ND 58505-0060

Proposals must be received by the State Auditor at the location specified by the date and time noted in the RFP Schedule of Events. Proposals will not be publicly read at the opening.

Proposals may not be delivered orally, by facsimile transmission, by other telecommunication or electronic means.

Offerors assume the risk of the method of dispatch chosen. The State of North Dakota assumes no responsibility for delays caused by any delivery service. Postmarking by the due date will not substitute for actual proposal receipt by the State. An offeror's failure to submit its proposal prior to the deadline will cause the proposal to be rejected. Late proposals or amendments will not be opened or accepted for evaluation.

E. Assistance to Offerors with Disability

Offerors with a disability that need an accommodation should contact the Procurement officer prior to the deadline for receipt of proposals that reasonable accommodation can be made.

F. Deadline for Receipt of Questions and Objections

Offerors must carefully review this solicitation, the contract, risk management provisions, and all attachments for defects, questionable, or objectionable material. All questions must be in writing and addressed as noted above under "Return Mailing Address and Deadline for Receipt of Proposals." The procurement officer must receive these written requests by the deadline specified in the "RFP Schedule of Events" to allow issuance of any necessary amendments.

This will also help prevent the opening of a defective solicitation and exposure of offeror's proposals upon which an award could not be made. Protests based on the content of the solicitation will be disallowed if these faults have not been brought to the attention of the Procurement Officer, in writing, before the time indicated in the "RFP Schedule of Events."

If the question may be answered by directing the questioner to a specific section of the RFP, then the procurement officer may answer the question over the telephone. Other questions may be more complex and may require a written amendment to the RFP. The procurement officer will make this determination. Oral communications is considered unofficial and non-binding on the State. The offeror must confirm telephone conversations in writing.

G. Approved Vendor Registration Requirements

Vendors Must Be Approved by Time Set for Proposal Opening

North Dakota law requires that every person or entity that desires to bid or submit a proposal for contracts for commodities or services be an approved vendor in order to be placed on the State's bidders list. An offeror that is not registered by the deadline for receipt of proposal will be determined to be non-responsive, and its proposal will be rejected.

To become an approved vendor, offerors must: 1) be registered with the North Dakota Secretary of State (fees apply), and 2) submit a completed Bidders List Application to the North Dakota Vendor Registry. Prospective offerors may access the Procurement Vendor Database on-line to verify whether their firm is currently on the bidders list. The bidders list that will be used for this solicitation is commodity codes 918-04 and 946-20.

The Procurement Vendor Database, registration instructions and forms are available on-line at: http://www.nd.gov/spo/vendor/registry/ . Contact the North Dakota Vendor Registry at 701-328-2683 or infospo@nd.gov for assistance.

H. Pre-proposal Conference

No pre-proposal conference will be held for this RFP. Offerors are advised to carefully review the RFP and all attachments and submit all questions to the procurement officer by the deadline indicated for submission of questions in the schedule of events.

I. Amendments to the RFP

If an amendment to this RFP is issued, it will be provided to all offerors who were notified of the RFP and to those that have requested a copy of the RFP from the procurement officer. Amendments will also be posted to the State Procurement Website at **www.nd.gov/spo**.

J. News Releases

News releases related to this RFP will not be made without prior approval of the procurement officer.

K. Notice Provided

Notice of this solicitation has been provided in accordance with North Dakota Century Code (N.D.C.C.) § 54-44.4-09.

L. Letter of Interest

Vendors interested in receiving any notices related to this RFP are invited to contact the procurement officer with their name, mailing address, telephone number, fax number, and e-mail address. The sole purpose of the letter of interest is to provide the State Auditor with a contact person to receive any notices related to the RFP. Submission of a letter of interest is not a requirement for submitting a proposal.

Section Two – Background Information

A. Retirement and Investment Office

The North Dakota Retirement and Investment Office (RIO) was established in 1989 to coordinate the activities of the State Investment Board (SIB) and the Teachers' Fund for Retirement (TFFR) as stated in Section 54-52.5-01 of the North Dakota Century Code.

State Investment Board:
The SIB is established in Chapter 21-10 of the North Dakota Century Code.

The SIB has statutory responsibility for the administration of the investment programs of several funds including the Public Employees Retirement System, The Teachers' Fund for Retirement, the Workforce Safety & Insurance Fund, and the Legacy Fund. The SIB also maintains contractual relationships for investment management with certain political subdivisions. The 11 member Board includes the Lt. Governor, State Treasurer, State Insurance Commissioner, Executive Director of Workforce Safety & Insurance, Land Commissioner, three representatives of PERS and three representatives of TFFR.

All funds invested under the direction of the SIB follow the 'Prudent Investor Rule.' Investments are managed exclusively in the interest of meeting the funds' individual objectives. Professional investment managers, consultants and custodians are retained to assist in the implementation of the investment program. RIO assists the SIB in carrying out its responsibilities for investment program administration.

Teachers' Fund for Retirement:
TFFR was established in 1913 to provide retirement income to public educators. TFFR is a qualified defined benefit public pension plan covered under Section 401(a) of the Internal Revenue Code. The North Dakota Century Code Chapter 15-39-1 contains the actual language governing the Fund and is supplemented by Title 82 of the North Dakota Administrative Code. TFFR has approximately 220 participating employer units.

Responsibility for administration of the TFFR benefits program is assigned to a seven-member Board of Trustees (Board). The Board consists of the State Treasurer, the Superintendent of Public Instruction, and five members appointed by the Governor. The appointed members serve five-year terms which end on June 30 of alternate years. The appointed Board members must include two active teachers, one active school administrator, and two retired members.

TFFR's funds are invested under the direction of the State Investment Board (SIB) following the 'Prudent Investor Rule.' The investments must be invested exclusively for the benefit of the TFFR members. Four of the TFFR Board members serve as voting members on the eleven-member SIB.

RIO has been audited by CliftonLarsonAllen LLP for the past three years. The most recent audit (fiscal year June 30, 2014 should be posted soon) can be found at:

http://www.nd.gov/auditor/reports.htm#Private

Section Three - Scope

A. Scope of Work

The auditor shall:

1. Express an opinion on the fair presentation of the combined and combining financial statements (each individual fund) of RIO for the years ending June 30, 2015, 2016 and 2017. The Firm must give an opinion on supplementary financial information (other than the combining statements) in relation to the financial statements taken as a whole. The firm will report on required supplementary information in accordance with the current guidance from the AICPA.
2. Express an opinion on the fairness of the "Schedule of Employer Allocations" and Schedule of Pension Amounts by Employer."
3. Perform testing census data (as detailed in the SLGEP Pension Whitepaper Series or updated guidance).

Audits will be done 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, AU-C section 805, *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, and *Guidelines to Independent Certified Public Accountants Performing Audits of State Agencies*, issued by the Auditor. The Firm will also follow the guidance of the AICPA Audit and Accounting Guide "Audits of State and Local Governmental Units," and any other applicable AICPA audit and accounting guide.

RIO did not receive or expend federal funds during fiscal year 2014 and does not anticipate receiving federal funds in the future.

B. Compliance Testing

The engaged CPA firm will be expected to test for compliance with applicable state and federal laws and report violations of any laws regardless of financial materiality (unless clearly inconsequential). Testing shall include, but not be limited to the provisions of title 15-39.1, 21-10 and 54-52.5 of the North Dakota Century Code (NDCC) and applicable Session Laws (testing of appropriation laws and legislative intent relating to transfers). Specific NDCC Sections to be tested shall include:

15-39.1-05.2	21-10-01	54-27.2-01
15-39.1-08	21-10-02	
15-39.1-09	21-10-02.1	54-44-16
15-39.1-10	21-10-06	54-52.5-03
15-39.1-10.1-12	21-10-06.1	
15-39.1-23	21-10-06.2	Article X
15-39.1-26	21-10-07	Section 26 of
	21-10-08	the State
15-39.2-01	21-10-11	Constitution
15-39.2-01.1		
15-39.2-05		

The CPA firm will also perform each of the following tests:

a) Examine fixed asset equipment additions and deletions for propriety.

b) Determine that all clearing accounts are approved by the State Auditor. (NDCC 54-06-08.1)

c) Examine recorded liabilities and perform a search for unrecorded liabilities, to ensure that expenditures were charged to the proper fiscal year, and proper biennial appropriation.

d) Physically inspect a sample of equipment items.

e) Determine that a physical inventory was taken. (NDCC 44-04-07)

f) Determine whether bond coverage is reviewed and evaluated on an annual basis, and appears adequate. (NDCC 26.1-21-08)

g) Determine whether receipts are being deposited into the appropriate fund(s), and disbursements are being made out of the appropriate fund(s).

h) Determine whether all state funds are being deposited with the Bank of North Dakota. (NDCC 6-09-07 & NDCC 21-04-02)

i) Agree final appropriation amounts on statement of appropriations, to ConnectND reports.

j) Determine that legislative intent included in appropriation laws has been complied with.

k) Determine whether there were Emergency Commission or Budget Section changes to RIO's appropriation, and if so, whether RIO complied with the documented intent of the changes. (NDCC 54-16-03 & NDCC 54-10-01.1)

l) Determine the legality of investments.

m) Select a sample of administrative expenditures and determine compliance with OMB policy and state purchasing requirements with an emphasis on contracting for services. (NDAC 4-12-08)

n) Determine that all public moneys were paid over to the state treasurer, unless the State Treasurer has appointed the Bank of North Dakota as an agent for the purpose of receiving public moneys, and were disbursed only pursuant to appropriation made by the legislature. [State Constitution, Article X, Section 12.]

C. Audit Report Contents

The audit report should be addressed to the Governor of North Dakota and the Legislative Assembly in addition to RIO.

The audit report must also include the following:

- Auditor's Report on Financial Statements and Supplementary Information.
- Management's Discussion and Analysis.
- Comparative Financial Statements.
- Notes to the Financial Statements.

- Required Supplementary Information.
- Combining Statements.
- Supplementary schedules.
- Comments addressing each of the items under section "Special Comments Requested by the Legislative Audit and Fiscal Review Committee" in "Guidelines to Independent CPA's," issued by the Auditor.
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.
- Findings, Recommendations and Agency Response.
- Summary schedule of prior audit findings.

The audit report will include all of the aforementioned sections bound together as a single document. A searchable electronic format must be provided in addition to the hard copies.

D. Special Considerations

1. The financial statements of RIO will be included in the Comprehensive Annual Financial Report (CAFR) of the State of North Dakota. The work of the Firm will be relied on and referred to by the Auditor.
2. If the financial statements of RIO are not prepared in accordance with generally accepted accounting principles, or if the Firm's report is other than unmodified, the Auditor must be notified as soon as possible.
3. The State's CAFR will be submitted to the Government Finance Officers Association for the purpose of obtaining a Certificate of Achievement for Excellence in Financial Reporting.
4. The Firm agrees to cooperate with the Office of Management and Budget, and/or the Auditor in matters affecting the adjusting, consolidating, combining or eliminating of RIO accounts and transactions, for inclusion in the basic financial statements of the State of North Dakota. This includes providing the information necessary for the State to qualify for the GFOA's Certificate of Achievement for Excellence in Financial Reporting.
5. The FIRM shall consider the AUDITOR as an audit committee when making the required GAS and AICPA audit committee communications.

E. Assistance Available To Contractor

Assistance to be supplied by the RIO, including arrangements for working space, preparation of schedules and answering of questions, will be discussed and coordinated with Ms. Connie Flanagan, Fiscal and Investment Operations Manager. RIO maintains an audit services function consisting of the Supervisor of Audit Services and one staff auditor.

The staff of RIO will prepare the following statements, schedules and workpapers for the selected audit firm:

1. Trial Balance that is cross referenced to the Basic Financial Statements.
2. Management's Discussion and Analysis.
3. Statement of Net Position – Fiduciary Funds.
4. Statement of Changes in Net Position – Fiduciary Funds.
5. Notes to the Financial Statements.
6. Required Supplementary Information.

7. Combining Statement of Net Position – Investment Trust Funds – Fiduciary Funds.
8. Combining Statement of Changes in Net Position – Investment Trust Funds and Fiduciary Funds.
9. Pension and Investment Trust Funds – Schedule of Administrative Expenses.
10. Pension and Investment Trust Funds – Schedule of Consultant Expenses.
11. Pension and Investment Trust Funds – Schedule of Investment Expenses.
12. Schedule of Appropriations – Budget Basis
13. Bank Reconciliations.
14. Cash Transfers Listing.
15. Receivable Listings.
16. Payable Listings.
17. Investment Reconciliations.
18. Fixed Asset Listing (including Depreciation).
19. Copies of Leases and Contracts.
20. Schedule of Leave Activity.
21. List of all nonstandard entries and year-end adjusting entries.
22. Summary schedule of prior audit findings
23. Fair value of investments
24. Corrective action plan

All other information required to be included in the financial statements and audit report will be prepared by the Firm.

RIO has an Audit Services Division that, in addition to conducting certain internal audits, also performs employer compliance audits. TFFR compliance audits review employer reported data including eligibility, service credit and salary. Currently, these compliance reviews cover a two-year time period prior to the year covered by the financial audit. RIO is interested in having the Audit Services Division help with the census audit requirements where ever possible. Modifications to the current Audit Services workplan and compliance audit procedures could be made to assist with this function if it is found that efficiencies can be realized.

F. Deliverables

The Contractor will be required to provide the following deliverables:

1. On-site presentations of the audit scope and approach to the SIB audit committee.

2. Summary of census audit testing and results to be delivered to RIO management.

3. Draft financial statement audit report to be reviewed by the Auditor.

4. Draft report containing the "Schedule of Employer Allocations" and "Schedule of Pension Amounts" and opinions thereon to be reviewed by the Auditor.

5. A final financial statement report including 35 paper copies of the financial statement report and one searchable, unprotected pdf file with bookmarks for the table of contents items.

6. A final report containing the "Schedule of Employer Allocations" and "Schedule of Pension Amounts" and opinions thereon. Including 15 paper copies and one searchable, unprotected pdf file with bookmarks for the table of contents items.

7. Summary of the census audit results.

8. One on-site presentation of the final report will be required to be made to the SIB audit committee.

9. One on-site presentation of the final report will be required to be made to the Legislative Audit and Fiscal Review Committee.

G. Location of Work

Significant on-site work will be required. The principal accounting records of RIO are located at the 1930 Burnt Boat Drive, Bismarck, North Dakota. RIO will provide access to office personnel, documents and data as required by the Firm. While the Firm is conducting on-site work RIO will provide the Firm with a reasonable office space.

The Firm should include in its price proposal: transportation, lodging, and per diem costs sufficient to perform the proposed on-site work and a presentation of the final report.

H. Prior Experience

The Firm should possess significant pension, investment, and governmental audit experience.

I. Required Licenses

At the time specified by the deadline for submission of proposals, the offeror must have and keep current any professional licenses and permits required by federal, state, and local laws for performance of this contract. Offerors that do not possess required licenses at the time proposals are due will be determined non-responsive.

J. Contract Schedule

This schedule of events represents the State's best estimate of the contract schedule that will be followed. If a component of this schedule, such as the award date, is delayed, the rest of the schedule will be shifted by the same number of days.

The approximate contract schedule is as follows:

- Contract start: June 1, 2015.
- "Kick off" conference: June 2015.
- Work period: June 2015 through November 2017.
- Presentation of Audit Scope and Approach to SIB Audit Committee: August 2015, 2016, 2017
- Firm submits first draft of the financial statement audit: October 31, 2015, 2016 & 2017.

- State provides Firm with comments for revision as needed: November 5, 2015, 2016 & 2017.
- Contractor submits final financial statement audit reports to the State: November 15, 2015, 2016 & 2017.
- Firm submits draft report containing the "Schedule of Employer Allocations" and "Schedule of Pension Amounts" to the state for comments: November or December 2015, 2016 & 2017.
- Contractor submits summary of the census audit results to the Supervisor of Audit Services: November 2015, 2016 & 2017.
- Contractor submits final financial statement audit reports to the State: November 15, 2015, 2016 & 2017.
- Contractor submits final report containing the "Schedule of Employer Allocations" and "Schedule of Pension Amounts" to the state: December 2015, 2016 & 2017.
- Financial Statement audit report presentation to the SIB audit committee: November 2015, 2016 & 2017.
- Report presentation to the legislative audit and fiscal review committee: To be determined.

Section Four - General Contract Information

A. Contract Term, Extension and Renewal Options

Contract Term:
The State intends to enter into a contract with an effective date beginning June 1, 2015 and ending after report presentations

Extension Option:
There will be no contract extensions.

Renewal Option:
This contract will not renew.

B. Contract Type

This contract is a firm fixed price contract.

C. Standard Contract Provisions

The successful offeror will be required to sign and submit the contract form attached to this RFP. The Contractor must comply with the contract provisions set out in this attachment. Any objections to the contract provisions must be set out in the offeror's proposal. No alteration of these provisions will be permitted without prior written approval from the Auditor.

Offerors are instructed to contact the procurement officer in writing by the deadline set for questions with any concerns regarding the contract provisions.

D. Proposal as a Part of the Contract

This RFP and the successful proposal will be incorporated into the contract.

E. Additional Terms and Conditions

The Auditor reserves the right to add, delete, or modify terms and conditions during contract negotiations. These terms and conditions will be within the scope of the RFP and will not affect the proposal evaluations.

F. Supplemental Terms and Conditions

Proposals including supplemental terms and conditions will be accepted, but supplemental conditions that conflict with those contained in this RFP or that diminish the State's rights under any contract resulting from the RFP will be considered null and void. The State is not responsible for identifying conflicting supplemental terms and conditions before issuing a contract award. After award of contract:

(a) if conflict arises between a supplemental term or condition included in the proposal and a term or condition of the RFP, the term or condition of the RFP will prevail; and

(b) if the State's rights would be diminished as a result of application of a supplemental term or condition included in the proposal, the supplemental term or condition will be considered null and void.

G. Contract Approval

This RFP does not, by itself, obligate the State. The State's obligation will commence when the Auditor approves the contract. Upon written notice to the Contractor, the State may set a different starting date for the contract. The State will not be responsible for any work done by the Contractor, even work done in good faith, if it occurs prior to the contract start date set by the State.

H. Contract Changes - Unanticipated Amendments

During the course of this contract, the Contractor may be required to perform additional work. That work will be within the general scope of the initial contract. When additional work is required, the procurement officer designated by the State will provide the Contractor a written description of the additional work and request the Contractor to submit a firm time schedule for accomplishing the additional work and a firm price for the additional work. Cost and pricing data must be provided to justify the cost of amendments.

The Contractor will not commence additional work until the procurement officer has secured any required State approvals necessary for the amendment and issued a written contract amendment, approved by the State Auditor.

I. Indemnification and Insurance Requirements

Offerors must review the attached indemnification and insurance requirements contained in the attached contract template. The indemnification and insurance provisions will be incorporated into the final contract.

Objections to any of the provisions of the indemnification and insurance requirements must be made in writing to the attention of the procurement officer by the time and date set for receipt of questions. No alteration of these provisions will be permitted without prior written approval from the Auditor in consultation with the North Dakota Risk Management Division.

Upon receipt of the Notice of Intent to Award, the successful offeror must obtain the required insurance coverage and provide the procurement officer with proof of coverage prior to contract approval. The coverage must be satisfactory to the Auditor, in consultation with the North Dakota Risk Management Division. An offeror's failure to provide evidence of insurance coverage is a material breach and grounds for withdrawal of the award or termination of the contract.

J. Taxes and Taxpayer Identification

The Contractor must provide a valid Vendor Tax Identification Number as a provision of the contract.

The State is not responsible for and will not pay local, state, or federal taxes. The State sales tax exemption number is E-2001, and certificates will be furnished upon request by the State Auditor.

A Contractor performing any contract, including service contracts, for the United States Government, State of North Dakota, or RIO within North Dakota is not exempt from payment of sales or use tax on material and supplies used or consumed in carrying out contracts. In these cases, the Contractor is required to file returns and pay sales and use tax just as required for contracts with private parties. Contact the North Dakota Tax Department at 701-328-1246 or visit its website at www.nd.gov/tax for more information.

A Contractor performing any contract, including a service contract, within North Dakota is also subject to the corporation income tax, individual income tax, and withholding tax reporting requirements, whether the contract is performed by a corporation, partnership, or other business entity, or as an employee of the Contractor. In the case of employees performing the services in the state, the Contractor is required to withhold state income tax from the employees' compensation and remit to the state as required by law. Contact the North Dakota Tax Department at 701-328-1248 or visit its web site for more information

K. Proposed Payment Procedures

The contract will specify the maximum fee to be paid for performance of the proposed services as set forth in the successful offeror's proposal. Billings shall be for the actual hours worked, at the billing rates quoted in the Contractor's proposal, not to exceed the maximum fee established contract price.

Progress billings may be submitted to RIO for up to 80% of the total fee. Billing for the final 20% of the contract fee will be accepted and paid after the reports have been approved in writing by the Auditor.

L. Contract Funding

Payment for the contract is subject to funds already appropriated and identified.

M. Payment Terms

No payment will be made until the State Auditor approves the contract.

Payment for commodities and services received under contracts will normally be made within 30 calendar days after receipt and acceptance by the State Auditor or after receipt of a correct invoice, whichever is later.

N. Contract Personnel

The procurement officer must approve any change of the Contractor's team members named in the proposal, in advance and in writing. Personnel changes that are not approved by the State may be grounds for the State to terminate the contract.

O. Inspection & Modification - Reimbursement for Unacceptable Deliverables

The Contractor is responsible for the completion of all work set out in the contract. All work is subject to inspection, evaluation, and approval by the Auditor. The State may employ all reasonable means to ensure that the work is progressing and being performed in compliance with the contract. Should the Auditor determine that corrections or modifications are necessary in order to accomplish its intent, the Auditor may direct the Contractor to make changes. The Contractor will not unreasonably withhold changes.

Substantial failure of the Contractor to perform the contract may cause the Auditor to terminate the contract. In this event, the State may require the Contractor to reimburse monies paid (based on the identified portion of unacceptable work received) and may seek associated damages.

P. Termination for Default

If the State Auditor determines that the Contractor has refused to perform the work or has failed to perform the work with diligence as to ensure its timely and accurate completion, the State may, by providing written notice to the Contractor, terminate the Contractor's right to proceed with part or all or the remaining work.

This clause does not restrict the State's right to termination under the contract provisions of the Service Contract (see attached contract template).

Q. Open Records Laws - Confidentiality

Any records that are obtained or generated by the contractor under this contract are subject to North Dakota open records law regarding public records and handling of confidential information.

R. Independent Entity

The contractor is an independent entity under this contract and is not a State employee for any purpose. The contractor retains sole and absolute discretion in the manner and means of carrying out the contractor's activities and responsibilities under the contract, except to the extent specified in the contract.

S. Assignment

Contractor may not assign or otherwise transfer or delegate any right or duty without the State's express written consent. However, the Contractor may enter into subcontracts provided that the subcontract acknowledges the binding nature of this contract and incorporates this contract, including any attachments.

T. Disputes - Applicable Law and Venue

Any dispute arising out of this agreement will be resolved under the laws of the State of North Dakota.

Section Five - Evaluation Criteria and Contractor Selection

The Total Number of Points Used
to Score Proposals is 100

A. Mandatory Criteria

Proposals will be evaluated using the mandatory criteria set out below:

1. The Firm is required to acknowledge that RIO is a component of the State of North Dakota as a group audit and the Firm understands and agrees to comply with the ethical requirements that are relevant to the group audit of the State of North Dakota. (AU-C Section 600.22 a.)

2. The Firm agrees to help provide any information affecting the State of North Dakota group audit consolidation process. (AU-C Section 600.22 d.)

3. The Firm and auditors must be licensed to public practice in North Dakota.

4. The auditors must be independent in accordance with:
   b) Government Auditing Standards, issued by the Comptroller General of the United States, and;
   c) AICPA standards.

5. Auditors must meet the continuing professional education requirements of Government Auditing Standards.

6. The Firm's most recent peer review, or quality review report, must have been unqualified.

B. Methodology

Thirty Percent (30%) of the total possible evaluation points will be assigned to this criterion.

Proposals will be evaluated against the questions set out below:

1. How well has the offeror identified pertinent issues and risks related to the audit?

2. Has the offeror demonstrated an understanding of the deliverables (including timing) the State expects it to provide?

3. How well does the methodology depict a logical approach to fulfilling the requirements of the RFP?

4. Is the audit work plan comprehensive and adequate to meet the requirements of this audit? Including the planned audit approach (reliance and testing of internal control and substantive testing – including the extent of reliance on analytical procedures and audit plan for census data).

5. Are materiality, performance materiality and tolerable misstatement levels appropriate in relation to the group audit of the State of North Dakota? (Including related methodology - how levels will be used to determine the extent of testing).

C. Management Plan for the Audit

Fifteen Percent (15%) of the total possible evaluation points will be assigned to this criterion.

Proposals will be evaluated against the questions set out below:

1. How well does the management plan support all of the audit requirements and logically lead to the deliverables required in the RFP?

2. How well is the organization of the audit team defined?

3. Does the proposed schedule meet the State's time requirements set out in the RFP?

4. Is the proposal practical, feasible, and within budget?

5. Are there realistic time estimates of each major segment of the audit plan and the estimated number of hours for each staff level assigned?

D. Experience and Qualifications

Fifteen Percent (15%) of the total possible points will be assigned to this criterion.

Proposals will be evaluated against the questions set out below:

1. Are the qualifications of supervisory personnel, consultants and of the audit team doing field work adequate?

2. Is the amount and the applicability of directly related continuing professional education appropriate?

3. Is quality control adequately addressed specifically relating to the general direction and supervision to be exercised over the audit team by the firm's management personnel?

4. Considering the State Auditor's policy to rotate audit firms, how well does the firm's proposal address the goals of adequate professional skepticism and having new auditors (especially AIC and above) participate on the audit?

Questions relating to the firm.

1. How much experience does the firm have auditing similar entities?

2. How much governmental audit experience does the firm have?

3. Does the firm have positive references (or prior experience with the State Auditor)?

4. Do the firm size, structure and resources available appear to be adequate?

E. Contract Cost

Forty Percent (40%) of the total possible evaluation points will be assigned to cost.

Any prompt payment discounts terms proposed by the offeror will not be considered in evaluating cost. The cost amount used for evaluation may be affected by the application of North Dakota preference laws (N.D.C.C. § 44-08-01). The lowest cost proposal will receive the maximum number of points allocated to cost. The point allocations for cost on the other proposals will be evaluated according to the method set forth in the Proposal Evaluation form attached to this RFP.

Section Six - Proposal Format and Content

A. Proposal Format and Content

The State discourages overly lengthy and costly proposals; however, in order for the State to evaluate proposals fairly and completely, offerors must follow the format set out in this RFP and provide all information requested.

B. Introduction

Proposals must include the complete name and address of offeror's firm and the name, mailing address, and telephone number of the person the State should contact regarding the proposal.

Proposals must confirm that the offeror will comply with all provisions in this RFP with an emphasis on the mandatory criteria outlined in Section Five. The proposal must disclose any threats to independence and anticipated safeguards or resolutions of those threats.

Proposals must be signed by a firm officer empowered to bind the firm. An offeror's failure to include these items in the proposals may cause the proposal to be determined to be non-responsive and the proposal may be rejected.

C. Understanding of the Audit

Offerors must provide comprehensive narrative statements that illustrate their understanding of the requirements of the audit, deliverables, audit schedule, and contract terms and conditions. Offerors must also identify any pertinent issues and risks related to the audit.

D. Methodology

Offerors must provide comprehensive narrative statements that set out the methodology it intends to employ. Offerors must illustrate how the methodology will serve to accomplish the work and provide the deliverables described in the scope of work within the State's audit schedule.

For the most significant account balances and classes of transactions the anticipated audit approach should be discussed including extent of testing of internal control, analytical procedures and other substantive tests.

Further the audit plan for testing census data should be presented.

The firms approach to audit risk and materiality should be discussed including anticipated percentages or amounts to be used for materiality, performance materiality and tolerable misstatement. Also the firm should discuss if different percentages or amounts are anticipated for different account balances or classes of transactions.

E. Management Plan for the Audit

Offerors must provide comprehensive narrative statements that set out the management plan it intends to follow and illustrate how the plan will serve to accomplish the work and furnish the deliverables described in the scope of work within the State's audit schedule.

The following information should be included in the plan for the audit:

1. A narrative or organizational chart that describes the organization of the audit team. The organizational chart must illustrate the lines of authority, designate the individual responsible and accountable for the completion of each component and deliverable of the RFP;
2. Proposed segmentation of the audit, and;
3. The number of hours anticipated for each proposed segment (including census data) of the audit.

F. Profile of the Firm

The Firm's proposal should include discussion of the following:

- State the size of the firm and whether it is local or regional;
- The location of the office from which the work is to be done and the number of professional staff employed at that office;
- The range of auditing and accounting activities performed by the local office, and;
- The local office's capability to audit information systems, including the qualifications of personnel skilled in information systems auditing who will work on the audit.

G. Summary of Qualifications

The proposal should also:

- Include a description of the qualifications and experience of each audit team member, including staff, who will be engaged in performing the audits, including staff from other than the local office. It is assumed that the audit staff identified in the proposal will be used on the audit engagements. Any substitution of audit manager(s), supervisor(s), or in-charge auditor(s) must have prior approval of the Auditor. A written request for substitution of audit personnel must be accompanied by a listing of relevant continuing professional education (CPE) courses and recent audits in which the individual has participated.
- Include an itemized listing of relevant CPE courses attended by each member of the audit team during the last three years.
- Include an itemized listing of audit engagements performed by the local and regional offices similar to the type of audit requested. This listing must include only those audits completed during the last four years.
- Include a minimum of three client references who can respond regarding the Firm's performance. References should be clients who have purchased the types of services described in the RFP within the last four years.
- Include a copy of the firm's most recent external quality review, or peer review report, including any letter of comments, with a statement indicating whether the review included a review of specific government engagements.

An offeror's failure to provide this information may cause the State to consider its proposal non-responsive and reject it.

H. Auditor Rotation

The State Auditor has a policy to attempt to rotate Firms periodically to provide a fresh perspective and ensure the appropriate level of professional skepticism. Given this policy, if a Firm has audited the agency for six or more years, the Firm's proposal should address how it will mitigate concerns relating to auditors being too familiar with the Agency.

I. Nonaudit services

A listing of nonaudit services performed for RIO should be included along with documentation of the Firm's consideration of the independence implications of the nonaudit services as discussed in Government Auditing Standards.

If the Firm is granted the audit contract for RIO, during the duration of the contract the Firm will obtain written approval from the Auditor before entering into additional nonaudit services.

J. Additional Data

Since the preceding sections contain only data that is specifically requested, any additional information considered essential to the proposal should be included in this section.

K. Cost Proposal

The price proposal must include a separate fee quotation for each fiscal year. The total price includes the Firm's expenses for labor, travel, printing costs and all other expenses. The labor portion of the price must itemize the estimated number of hours and billing rate for each level of person working on the audit.

The cost of accounting work such as preparation of schedules, financial statements, notes to the financial statements, etc., should be included in the above price proposal. It is the Firm's responsibility to determine what work will be performed by RIO, and what work the Firm will be expected to perform.

The offeror's cost proposal must be prepared using the following format (customized as necessary to reflect Firm's personnel levels):

2015:

Professionals	Rate	Hours	Total
Partner	$XXX	XX	$XXX
Manager	$XXX	XX	$XXX
Consultants Specialists	$XXX	XX	$XXX
Staff	$XXX	XX	$XXX
Clerical	$XXX	XX	$XXX
Travel			$XXX
Other			$XXX
	Total	XXX	$XX,XXX

2016:

Professionals	Rate	Hours	Total
Partner	$XXX	XX	$XXX
Manager	$XXX	XX	$XXX
Consultants Specialists	$XXX	XX	$XXX
Staff	$XXX	XX	$XXX
Clerical	$XXX	XX	$XXX
Travel			$XXX
Other			$XXX
	Total	XXX	$XX,XXX

2017:

Professionals	Rate	Hours	Total
Partner	$XXX	XX	$XXX
Manager	$XXX	XX	$XXX
Consultants Specialists	$XXX	XX	$XXX
Staff	$XXX	XX	$XXX
Clerical	$XXX	XX	$XXX
Travel			$XXX
Other			$XXX
	Total	XXX	$XX,XXX

Three Year Total:

Professionals	Rate	Hours	Total
Partner	$XXX	XX	$XXX
Manager	$XXX	XX	$XXX
Consultants Specialists	$XXX	XX	$XXX
Staff	$XXX	XX	$XXX
Clerical	$XXX	XX	$XXX
Travel			$XXX
Other			$XXX
	Total	XXX	$XX,XXX

Section Seven - Standard Proposal Information

A. Authorized Signature

An individual authorized to bind the offeror to the provisions of the RFP must sign all proposals.

B. State Not Responsible for Preparation Costs

The State will not pay any cost associated with the preparation, submittal, presentation, or evaluation of any proposal.

C. Conflict of Interest

Offerors must disclose any instances where the firm or any individuals working on the contract has a possible conflict of interest and, if so, the nature of that conflict (e.g. employed by the State of North Dakota). The State reserves the right to cancel the award if any interest disclosed from any source could either give the appearance of a conflict or cause speculation as to the objectivity of the offeror's proposal. The State's determination regarding any questions of conflict of interest is final.

D. Offeror's Certification

By signature on the proposal, an offeror certifies that it complies with:

a) the laws of the State of North Dakota;
b) North Dakota Administrative Code;
c) all applicable local, state, and federal laws, code, and regulations;
d) the applicable portion of the Federal Civil Rights Act of 1964;
e) the Equal Employment Opportunity Act and the regulations issued by the federal government;
f) the Americans with Disabilities Act of 1990 and the regulations issued by the federal government;
g) all terms, conditions, and requirements set forth in this RFP;
h) a condition that the proposal submitted was independently arrived at, without collusion;
i) a condition that the offer will remain open and valid for the period indicated in this solicitation; and
j) a condition that the Contractor and any individuals working on the contract do not have a possible conflict of interest (e.g. employed by the State of North Dakota).

If any offeror fails to comply with the provisions stated in this paragraph, the State reserves the right to reject the proposal, terminate the contract, or consider the Contractor in default.

E. Offer Held firm

Proposals must remain open and valid for at least 90 days from the deadline specified for submission of proposals. In the event award is not made within 90 days, the State will send a written request to all offerors deemed susceptible for award asking offerors to hold their price firm for a longer specified period of time.

F. Amendments to Proposals and Withdrawals of Proposals

Offerors may amend or withdraw proposals prior to the deadline set for receipt of proposals. No amendments will be accepted after the deadline unless they are in response to the State's request. After the deadline, offerors may make a written request to withdraw proposals and provide evidence that a substantial mistake has been made. The procurement officer may permit withdrawal of the proposal upon verifying that a substantial mistake has been made, and the State may retain the offeror's bid bond or other bid type of bid security, if one was required.

G. Alternate Proposals

Offerors may submit only one proposal for evaluation.

Alternate proposals (proposals that offer something different than what is requested) will be rejected.

H. Subcontractors and Consultants

Subcontractors or consultants may be used to perform work under this contract. If an offeror intends to use subcontractors or consultants, the offeror must identify in the proposal the names of the subcontractors or consultants and the portions of the work the subcontractors or consultants will perform.

If subcontractors or consultants will be used, the offeror must provide the following information concerning each prospective subcontractor or consultant:

a) complete name of the subcontractor or consultant;
b) complete address of the subcontractor or consultant;
c) type of work the subcontractor or consultant will be performing;
d) percentage of work the subcontractor or consultant will be providing;
e) evidence, as set out in the relevant section of this RFP, that the subcontractor or consultant is registered and, if applicable, holds a valid North Dakota business license; and
f) a written statement that clearly verifies that the subcontractor or consultant is committed to render the services required by the contract.

An offeror's failure to provide this information may cause the State to consider its proposal non-responsive and reject it. The substitution of one subcontractor or consultant for another may be made only at the discretion and prior written approval of the procurement officer designated by the State.

I. Joint Ventures

Joint ventures will not be allowed.

J. Disclosure of Proposal Contents and Compliance with Open Records Laws

All proposals and other material submitted become the property of the State and may be returned only at the State's option. All proposals and related information, including detailed cost information, are exempt records and will be held in confidence until an award is made, in accordance with N.D.C.C. § 54-44.4-10(2).

Offerors may make a written request that trade secrets and other proprietary data contained in proposals be held confidential. Material considered confidential by the offeror must be clearly identified, and the offeror must include a brief statement that sets out the reasons for confidentiality. See the North Dakota Office of the Attorney General website for additional information.

http://www.ag.nd.gov/OpenRecords/ORM.htm

After award, proposals will be subject to the North Dakota open records law. Records are closed or confidential only if specifically stated in law. If a request for public information is received, the procurement officer, in consultation with the Office of the Attorney General, will determine whether the information is an exception to the North Dakota open records law, and the information will be processed appropriately.

K. Evaluation of Proposals

All proposals will be reviewed to determine if they are responsive to the requirements of this solicitation. The procurement officer or an evaluation committee will evaluate responsive proposals. The evaluation will be based solely on the evaluation factors set forth in this RFP. The evaluation will consider information obtained subsequent to any discussions with offerors determined to be reasonable for award and any demonstrations, oral presentations, or site inspections, if required in this RFP.

L. Right of Rejection

The State reserves the right to reject any proposals, in whole or in part. Proposals received from debarred or suspended vendors will be rejected. The procurement officer may reject any proposal that is not responsive to all of the material and substantial terms, conditions, and performance requirements of the RFP.

Offerors may not qualify the proposal nor restrict the rights of the State. If an offeror does so, the procurement officer may determine the proposal to be a non-responsive counter-offer and the proposal may be rejected.

The procurement officer may waive minor informalities that:

- do not affect responsiveness;
- are merely a matter of form or format;
- do not change the relative standing or otherwise prejudice other offers;
- do not change the meaning or scope of the RFP;
- are insignificant, negligible, or immaterial in nature;
- do not reflect a material change in the work; or
- do not constitute a substantial reservation against a requirement or provision,

The State reserves the right to reject any proposal determined to be not responsive, and to reject the proposal of an offeror determined to be not responsive. The State also reserves the right to refrain from making an award if it determines it to be in its best interest.

M. Clarification of Offers

In order to determine if a proposal is reasonably susceptible for award, communications by the procurement officer or the proposal evaluation committee are permitted with an offeror to clarify uncertainties or eliminate confusion concerning the contents of a proposal and determine responsiveness to the RFP requirements. Clarifications may not result in a material or substantive change to the proposal. The initial evaluation may be adjusted because of a clarification under this section.

After receipt of proposals, if there is a need for any substantial clarification or material change in the RFP, an amendment will be issued. The amendment will incorporate the clarification or change, and a new date and time established for new or amended proposals. Evaluations may be adjusted as a result of receiving new or amended proposals.

N. Discussions and Best and Final Offers

The State may conduct discussions or request best and final offers with offerors that have submitted proposals determined to be reasonably susceptible for award. The State is not obligated to do so, therefore, vendors should submit their best terms (cost and technical). The purpose of these discussions is to ensure full understanding of the requirements of the RFP and the offeror's proposal. Discussions will be limited to specific sections of the RFP or proposal identified by the procurement officer. Discussions, if held, will be after initial evaluation of proposals by the proposal evaluation committee. If modifications to the proposal are made as a result of these discussions, the modifications must be put in writing.

Offerors with a disability needing accommodation should contact the procurement officer prior to the date set for discussions so that reasonable accommodation can be made.

O. Preference Laws

The preference given to a resident North Dakota offeror will be equal to the preference given or required by the state of the nonresident bidder. A "resident" North Dakota bidder, offeror, seller, or Contractor is one that has maintained a bona fide place of business within this State for at least one year prior to the date on which a contract was awarded. For a listing of state preference laws, visit the following website: http://www.nd.gov/spo/legal/resources/ or contact the North Dakota State Procurement Office at 701-328-2740.

P. Contract Negotiation

After final evaluation, the procurement officer may negotiate with the offeror of the highest-ranked proposal. Negotiations, if held, will be within the scope of the request for proposals and limited to those items that would not have an effect on the ranking of proposals. If the highest-ranked offeror fails to provide necessary information for negotiations in a timely manner, or fails to negotiate in good faith, the State may terminate negotiations and negotiate with the offeror of the next highest-ranked proposal.

If contract negotiations are commenced, they will be held:

Office of the State Auditor
3rd Floor State Capitol
600 East Boulevard Avenue
Bismarck, North Dakota

If contract negotiations are held, the offeror will be responsible for all costs including its travel and per diem expenses.

Q. Failure to Negotiate

If the selected offeror:

- fails to provide the information required to begin negotiations in a timely manner;
- fails to negotiate in good faith;
- indicates it cannot perform the contract within the budgeted funds available for the audit; or
- if the offeror and the State, after a good faith effort, cannot come to terms,

the State may terminate negotiations with the offeror initially selected and commence negotiations with the next highest ranked offeror.

R. Notice of Intent to Award - Offeror Notification of Selection

After the completion of contract negotiation the Audit Coordinator will issue a written Notice of Intent to Award and send copies to all offerors. The Notice of Intent Award will set out the names and addresses of all offerors and identify the proposal selected for award. The scores and placement of other offerors will not be part of the Notice of Intent to Award.

The successful offeror named in the Notice of Intent to Award is advised not to begin work, purchase materials, or enter into subcontracts relating to the audit until both the successful offeror and the State sign the contract.

S. Protest and Appeal

North Dakota law provides that an interested party may protest a solicitation.
If an interested party wishes to protest the content of this RFP, the protest must be received, in writing, by the Audit Coordinator at least seven calendar days before the deadline for receipt of proposals.

An interested party may protest the award or proposed award of a contract.
If an offeror wishes to protest the award of a contract or proposed award of a contract, the protest must be received, in writing, by the Audit Coordinator within seven calendar days after the date the Notice of Intent to Award was issued.

Section Eight - Attachments

A. Proposal Evaluation Form

All proposals will be reviewed for responsiveness and then evaluated using the criteria set out herein.

INSTRUCTIONS FOR EVALUATORS
Each evaluation criterion has been assigned a specific number of points. The questions under each evaluated area help you measure the quality of the offeror's response. Do not assign points to individual questions; instead, award a total score for each evaluation criterion.

RATING SCALE FOR ASSESSING VENDOR RESPONSES
This rating scale is intended to establish guidelines within that range to ensure members of the RFP evaluation committee perform their evaluation with consistency. You may assign any value for a given criteria from 0 to the maximum number of points. A zero value typically constitutes no response or an inability of the vendor to meet the criterion. In contrast, the maximum value should constitute a high standard of meeting the criterion. If a specific criterion would only yield a yes or no response (e.g., offeror can submit an electronic report in required format by noon Friday), the evaluator should award either the maximum points or a zero.

For Example: "Management Plan for the Audit" is an evaluation criteria receiving a weighting of 15% of the total possible points. Using a 100 Point Scale, a maximum of 15 points can be awarded. The rating scale would be:

Rating Scale (15 POINT Maximum)	
Point Value	Explanation
0	None. Not addressed or response of no value
1-3	Fair. Limited applicability
4-5	Good. Some applicability
6-10	Very Good. Substantial applicability
11-15	Excellent. Total applicability

COST PROPOSAL
Not all members of the evaluation team need to evaluate the cost proposal. The cost proposals may be evaluated by selected members of the evaluation committee, reviewed by group, and recorded on the evaluation summary sheets.

Any prompt payment discounts terms offered by the vendor are not taken into consideration in evaluating cost. However, the cost proposals of nonresident offerors may be adjusted by the application of preference laws, if applicable. Contact the State Procurement Office at 701-328-2740 for assistance in applying preference laws.

EVALUATION CRITERIA AND SCORING

Contractor Name ______________________________

Name of Proposal Evaluation Committee (PEC) Member ______________________________

Date of Review ______________________________

RFP Title/Number ______________________________

I hereby certify that I do not have a conflict of interest with this offeror. I further certify that I have reviewed the Request for Proposal Evaluators Guide and that neither I nor my immediate family members have a conflict of interest with regard to this offeror who submitted a proposal in response to this Request for Proposal, in accordance with N.D.A.C. § 4-12-04-04.

Signature______________________________**Date**________________

THE TOTAL NUMBER OF POINTS USED TO SCORE THIS CONTRACT IS 100

MANDATORY CRITERIA

Proposal should not be considered for further evaluation unless it meets all of the following mandatory criteria:	Yes	No
1. The Firm is required to acknowledge that RIO is a component of the State of North Dakota as a group audit and the Firm understands and agrees to comply with the ethical requirements that are relevant to the group audit of the State of North Dakota. (AU-C Section 600.22 a.)		
2. The Firm agrees to help provide any information affecting the State of North Dakota group audit consolidation process. (AU-C Section 600.22 d.)		
3. The Firm and auditors must be licensed to public practice in North Dakota.		
4. The auditors must be independent in accordance with: a) Government Auditing Standards, issued by the Comptroller General of the United States, and; b) AICPA standards.		
5. Auditors meet the continuing professional education requirements of the GAO "Yellow Book" (20 yr, 24 hours directly related & 80 hours every 2 yr).		
6. The Firm's most recent peer review, or quality review report, must have been unqualified or unmodified.		

METHODOLOGY

Weight 30 Percent. Maximum Point Value for this Section
100 Points x 30 Percent = 30 Points

Rating Scale (30 POINT Maximum)	
Point Value	Explanation
0	None. Not addressed or response of no value
1-5	Fair. Limited applicability
6-12	Good. Some applicability
13-21	Very Good. Substantial applicability
22-30	Excellent. Total applicability

Proposals will be evaluated against the questions set out below. Do not assign points to individual questions, instead, award a total score for each evaluation criterion.

[a] How well has the offeror identified pertinent issues and risks related to the audit?

EVALUATOR'S NOTES

____

____

[b] Has the offeror demonstrated an understanding of the deliverables (including timing) the State expects it to provide?

EVALUATOR'S NOTES

____

____

[c] How well does the methodology depict a logical approach to fulfilling the requirements of the RFP?

EVALUATOR'S NOTES

____

____

[d] Is the audit work plan comprehensive and adequate to meet the requirements of this audit? Including the planned audit approach (reliance and testing of internal control and substantive testing – including the extent of reliance on analytical procedures and census audit plans).

EVALUATOR'S NOTES

____

[e] Are materiality and tolerable error (performance materiality) levels appropriate in relation to the group audit of the State of North Dakota? (Including related methodology - how levels will be used to determine the extent of testing).

EVALUATOR'S NOTES

EVALUATOR'S POINT TOTAL __________

MANAGEMENT PLAN FOR THE AUDIT

Weight 15 Percent. Maximum Point Value for this Section
100 Points x 15 Percent = 15 Points

Rating Scale (15 POINT Maximum)	
Point Value	Explanation
0	None. Not addressed or response of no value
1-3	Fair. Limited applicability
4-5	Good. Some applicability
6-10	Very Good. Substantial applicability
11-15	Excellent. Total applicability

Proposals will be evaluated against the questions set out below. Do not assign points to individual questions, instead, award a total score for each evaluation criterion.

[a] How well does the management plan support all of the audit requirements and logically lead to the deliverables required in the RFP?

EVALUATOR'S NOTES

[b] How well is the organization of the audit team defined?

EVALUATOR'S NOTES

[c] Does the proposed schedule meet the State's time requirements set out in the RFP?

EVALUATOR'S NOTES

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[d] Is the proposal practical, feasible, and within budget?

EVALUATOR'S NOTES

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[e] Are there realistic time estimates of each major segment (including census data) of the audit plan and the estimated number of hours for each staff level assigned?

EVALUATOR'S NOTES

EVALUATOR'S POINT TOTAL ____________

EXPERIENCE AND QUALIFICATIONS

Weight 15 Percent. Maximum Point Value for this Section
100 Points x 15 Percent = 15 Points

Rating Scale (15 POINT Maximum)	
Point Value	Explanation
0	None. Not addressed or response of no value
1-3	Fair. Limited applicability
4-5	Good. Some applicability
6-10	Very Good. Substantial applicability
11-15	Excellent. Total applicability

Proposals will be evaluated against the questions set out below. Do not assign points to individual questions, instead, award a total score for each evaluation criterion.

Questions regarding the personnel.

[a] Are the qualifications of supervisory personnel, consultants and of the audit team doing field work adequate?

EVALUATOR'S NOTES

[b] Is the amount and the applicability of directly related continuing professional education appropriate?

EVALUATOR'S NOTES

[c] Is quality control adequately addressed specifically relating to the general direction and supervision to be exercised over the audit team by the firm's management personnel?

EVALUATOR'S NOTES

[d] Considering the State Auditor's policy to rotate audit firms, how well does the firm's proposal address the goals of adequate professional skepticism and having new auditors (especially AIC and above) participate on the audit?

EVALUATOR'S NOTES

Questions regarding the firm.

[a] How much experience does the firm have auditing similar entities?

EVALUATOR'S NOTES

[b] How much governmental audit experience does the firm have?

EVALUATOR'S NOTES

[c] Does the firm have positive references (or prior experience with the State Auditor)?

EVALUATOR'S NOTES

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[e] Do the firm size, structure and resources available appear to be adequate?

EVALUATOR'S NOTES

EVALUATOR'S POINT TOTAL ________

CONTRACT COST

Weight 40 Percent. Maximum Point Value for this Section
100 Points x 40 Percent = 40 Points

Applying Preference Laws

Any prompt payment discounts terms proposed by the offeror will not be considered in evaluating cost. The cost amount used for evaluation may be affected by the application of North Dakota preference laws (N.D.C.C. § 44-08-01). The preference given to a resident offeror will be equal to the preference given or required by the state of the nonresident offeror (i.e. reciprocal preference).

When evaluating cost proposals from nonresident (out-of-state) offerors, determine whether the offeror's state of residence has a preference law for vendors resident in that state. The cost proposal of the nonresident offeror will be increased by the same percentage of preference given to vendors resident in that state.

For example, if the state law of the nonresident offeror requires a 5% preference for vendors resident in that state, the Audit Coordinator will increase that offeror's cost proposal by 5% before evaluation.

See http://www.oregon.gov/DAS/SSD/SPO/reciprocal_detail.shtml for a list of States Preference Laws or contact the North Dakota State Procurement Office at 701-328-2683.

Converting Cost to Points

After applying any reciprocal preference, the lowest cost proposal will receive the maximum number of points allocated to cost. The point allocations for cost on the other proposals will be determined as follows:

Price of Lowest Cost Proposal
Price of Proposal Being Rated X Total Points for Cost Available = Awarded Points

COST PROPOSAL EVALUATION

EVALUATOR'S POINT TOTAL ____________

Request for Proposal
Evaluation Summary

Name of RFP:		
RFP Number		
Vendor Being Evaluated:		
Evaluator Name:		
Date:		
Technical Evaluation *(Maximum **60 Points**)*	Maximum Points by Category	Score
2. Methodology:	***30***	
3. Management Plan for the Audit:	***15***	
4. Experience and Qualifications:	***15***	
Cost Evaluation (Maximum 40 Points) Make adjustments for reciprocal preference, if necessary. See list of States Preference Laws: http://www.oregon.gov/DAS/SSD/SPO/reciprocal_detail.shtml Calculated points awarded for price. Price of Lowest Cost Proposal Price of Proposal Being Rated X 40 points = Awarded Points		
5. Cost	***40***	
Total		

Request for Proposal
Evaluation Totals

Name of RFP:						
Name of Offeror:						
Date:						
Technical Evaluation Criteria	***65 POINTS*** Maximum	Evaluator		Evaluator		Evaluator
1. Methodology:	***30***					
2. Management Plan for the Audit:	***15***					
3. Experience and Qualifications:	***15***					
Evaluator Totals						
Grand Total		Note: Sum of all individual scores.				
Technical Proposal Score		Note: Total of individual points divided by the number of evaluators (***60 POINT MAXIMUM***)				
Cost Propose Score		Note: (***40 POINT MAXIMUM***)				
TOTAL						

Request for Proposal
Summary of Evaluation Committee Totals

Name of RFP:						
Date:						
Technical Evaluation Criteria	***60 POINTS*** Maximum	Vendor 1		Vendor 2		Vendor 3
1. Methodology:	***30***					
2. Management Plan for the Audit:	***15***					
3. Experience and Qualifications:	***15***					
Technical Proposal Score						
Cost Proposals Score						
Grand Total						

B. Contract Template

The parties to this contract are the State of North Dakota, acting through the State Auditor (STATE) the Retirement and Investment Office and [contractor's legal name] (CONTRACTOR);

1. SCOPE OF SERVICE

CONTRACTOR, in exchange for the compensation paid by the Retirement and Investment Office under this contract, hereby agrees to provide the following services:

CONTRACTOR agrees to provide financial statement audits of the Retirement and Investment Office for the fiscal years ending June 30, 2015, 2016 and 2017.

The required audit function is to express opinions on the fairness of the Retirement and Investment Office's financial statements, and to determine the Retirement and Investment Office's compliance with applicable state and federal laws and regulations. The request for proposal (RFP 117-14-2) and the actual proposal from CONTRACTOR are incorporated into this contract by reference. In the event of conflict between this contract and the actual proposal from CONTRACTOR, this contract governs the matter. The Retirement and Investment Office retains primary responsibility for properly recording transactions in the records, and for preparing reliable financial statements.

2. TERM OF CONTRACT

The period of performance of this contract begins June 1, 2014 and continues until the performance promised by CONTRACTOR is completed.

3. COMPENSATION

In full consideration of CONTRACTOR's service under this contract, the Retirement and Investment Office shall, pursuant to N.D.C.C. § 54-10-01(5), make payment to CONTRACTOR in accordance with the RFP and proposal submitted by CONTRACTOR. The maximum audit fee for fiscal years 2015, 2016 and 2017 must not exceed $xx,xxx, $xx,xxx and $xx,xxx, respectively.

4. TERMINATION OF CONTRACT

a. Termination without cause. This contract may be terminated by mutual consent of all parties.

b. Termination for lack of funding or authority. STATE by written notice of default to CONTRACTOR, may terminate the whole or any part of this contract, under any of the following conditions:

    1) If funding from federal, state, or other sources is not obtained and continued at levels sufficient to allow for purchase of the services or supplies in the indicated quantities or term.

    2) If federal or state laws or rules are modified or interpreted in such a way that the services are no longer allowable or appropriate for purchase under this contract or are no longer eligible for the funding proposed for payments authorized by this contract.

3) If any license, permit or certificate required by law or rule, or by the terms of this contract, is for any reason denied, revoked, suspended or not renewed.

Termination of this contract under this subsection will be without prejudice to any obligations or liabilities of either party already accrued prior to termination.

c. Termination for cause. The STATE by written notice of default to CONTRACTOR may terminate the whole or any part of this contract:

1) If the CONTRACTOR fails to provide services called for by this contract within the time specified or any extension agreed to by the STATE; or

2) If CONTRACTOR fails to perform any of the other provisions of this contract, or so fails to pursue the work as to endanger performance of this contract in accordance with its terms.

The rights and remedies of STATE provided in this subsection are not exclusive and are in addition to any other rights and remedies provided by law or under this contract.

5. FORCE MAJEURE

CONTRACTOR shall not be held responsible for delay or default caused by fire, riot, acts of God or war if the event is beyond the CONTRACTOR's reasonable control and the CONTRACTOR gives notice to the STATE immediately upon occurrence of the event causing the delay or default or which is reasonably expected to cause a delay or default.

6. RENEWAL

This contract will not renew.

7. MERGER AND MODIFICATION

This contract constitutes the entire agreement between the parties. There are no understandings, agreements, or representations, oral or written, not specified within this contract. This contract may not be modified, supplemented, or amended, in any manner, except by written agreement signed by both parties.

8. SEVERABILITY

If any term of this contract is declared by a court having jurisdiction to be illegal or unenforceable, the validity of the remaining terms will not be affected and, if possible, the rights and obligations of the parties are to be construed and enforced as if the contract did not contain that term.

9. ASSIGNMENT AND SUBCONTRACTS

CONTRACTOR may not assign or otherwise transfer or delegate any right or duty without the express written consent of the STATE. However, the CONTRACTOR may enter into subcontracts provided that any such subcontract acknowledges the binding nature of this contract and incorporates this contract, including any attachments. CONTRACTOR agrees to be solely responsible for the performance of any subcontractor. CONTRACTOR does not have authority to contract for or incur obligations on behalf of STATE.

10. NOTICE

All notices or other communications which are required under this contract must be given by registered or certified mail and are complete on the date mailed when addressed to the parties at the following addresses:

xxx xxxxxx, CPA Title Firm name Firm address Firm City, State zip code	Ron Tolstad Jr., CPA Audit Manager Office of the State Auditor 600 E. Blvd. Ave. – Dept. 117 Bismarck, ND 58505-0060

11. APPLICABLE LAW AND VENUE

This contract is governed by and construed in accordance with the laws of the State of North Dakota. Any action commenced to enforce this contract must be brought and solely litigated in the District Court of Burleigh County, North Dakota.

12. SPOLIATION – NOTICE OF POTENTIAL CLAIMS

CONTRACTOR shall promptly notify STATE of all potential claims which arise from or result from this contract. CONTRACTOR shall also take all reasonable steps to preserve all physical evidence and information which may be relevant to the circumstances surrounding a potential claim, while maintaining public safety, and grants to the STATE the opportunity to review and inspect the evidence, including the scene of an accident.

13. INDEMNIFICATION

The STATE and CONTRACTOR each agrees to assume its own liability for any claims of any nature including all costs, expenses and attorneys' fees which may in any manner result from or arise out of this agreement.

14. INSURANCE

CONTRACTOR shall secure and keep in force during the term of this agreement, from insurance companies authorized to do business in North Dakota, the following insurance coverages:

1) Commercial general liability, including premises or operations, contractual, and products or completed operations coverages (if applicable), with minimum liability limits of $250,000 per person and $1,000,000 per occurrence.
2) Professional errors and omissions with minimum limits of $1,000,000 per occurrence and in the aggregate, CONTRACTOR shall continuously maintain such coverage during the contract period and for three years thereafter. In the event of a change or cancellation of coverage, CONTRACTOR shall purchase an extended reporting period to meet the time periods required in this section.
3) Automobile liability, including Owned (if any), Hired, and Non-Owned automobiles, with

minimum liability limits of $250,000 per person and $500,000 per occurrence.

4) Workers compensation coverage meeting all statutory requirements.

The insurance coverages listed in this section must meet the following additional requirements:

1) Any deductible or self-insured retention amount or other similar obligation under the policies will be the sole responsibility of the CONTRACTOR.
2) This insurance may be in policy or policies of insurance, primary and excess, including the so-called umbrella or catastrophe form and must be placed with insurers rated "A-" or better by A.M. Best Company, Inc., provided any excess policy follows form for coverage. Less than an "A-" rating must be approved by the STATE. The policies must be in form and terms approved by the STATE.
3) The CONTRACTOR shall furnish a certificate of insurance to the undersigned State representative prior to commencement of this agreement.
4) Failure to provide insurance as required in this agreement is a material breach of contract entitling STATE to terminate this agreement immediately.
5) Contractor shall provide at least 30 day notice of any cancellation or material change to the policies or endorsements

15. ATTORNEY FEES

In the event a lawsuit is instituted by the STATE to obtain performance due of any kind under this contract, and the STATE is the prevailing party, CONTRACTOR shall, except when prohibited by N.D.C.C. § 28-26-04, pay the STATE's reasonable attorney fees and costs in connection with the lawsuit.

16. ALTERNATIVE DISPUTE RESOLUTION – JURY TRIAL

STATE does not agree to any form of binding arbitration, mediation, or other forms of mandatory alternative dispute resolution. The parties have the right to enforce their rights and remedies in judicial proceedings. STATE does not waive any right to a jury trial.

17. ACCESS TO RECORDS

The parties agree that all participation by Teachers' Fund for Retirement members and their beneficiaries in programs administered by the Teachers' Fund for Retirement is confidential under North Dakota law. Contractor may request and Teachers' Fund for Retirement shall provide directly to CONTRACTOR upon such request, confidential information necessary for CONTRACTOR to provide the services described in the Scope of Service section. CONTRACTOR shall keep confidential all Teachers' Fund for Retirement information obtained in the course of delivering services. Failure of Contractor to maintain the confidentiality of such information may be considered a material breach of the contract and may constitute the basis for additional civil and criminal penalties under North Dakota law. CONTRACTOR has exclusive control over the direction and guidance of the persons rendering services under this Agreement. Upon termination of this Agreement, for any reason, CONTRACTOR shall return or destroy all confidential information received from Teachers' Fund for Retirement, or created or received by CONTRACTOR on behalf of Teachers' Fund for Retirement. This provision applies to confidential information that may be in the possession of subcontractors or agents of CONTRACTOR. CONTRACTOR shall retain no copies of the confidential information. In the event that CONTRACTOR asserts that returning or destroying the confidential information is not feasible, CONTRACTOR shall provide to Teachers' Fund for Retirement notification of the conditions that make return or destruction infeasible. Upon explicit written agreement of Teachers' Fund for Retirement that return or destruction of confidential information is not feasible, CONTRACTOR shall extend the protections of this Agreement to that confidential information and limit further uses and disclosures of any such confidential information to those purposes that make the return or destruction infeasible, for so long as CONTRACTOR maintains the confidential information.

18. CONFIDENTIALITY

CONTRACTOR agrees not to use or disclose any information it receives from the STATE under this contract which the STATE has previously identified as confidential or exempt from mandatory public disclosure except as necessary to carry out the purposes of this contract or as authorized in advance by the STATE. The STATE agrees not to disclose any information it receives from CONTRACTOR which the CONTRACTOR has previously identified as confidential and which the STATE determines in its sole discretion is protected from mandatory public disclosure under a specific exception to the North Dakota open records law, North Dakota Century Code § 44-04-18. The duty of STATE and CONTRACTOR to maintain confidentiality of information under this section continues beyond the term of this contract.

19. COMPLIANCE WITH PUBLIC RECORDS LAW

CONTRACTOR understands that, except for disclosures prohibited in this contract, the STATE must disclose to the public upon request any records it receives from CONTRACTOR under this contract. CONTRACTOR further understands that any records which are obtained or generated by the CONTRACTOR under this contract, except for records that are confidential under that section herein addressing confidentiality, may be open to the public upon request under the North Dakota open records law. CONTRACTOR agrees to contact the STATE immediately upon receiving a request for information under the open records law and to comply with the STATE's instructions on how to respond to the request.

20. INDEPENDENT ENTITY

CONTRACTOR shall perform as an independent entity under this contract and not as an employee of the STATE for any purpose, including but not limited to the application of the Social Security Act, the Fair Labor Standards Act, the Federal Insurance Contribution Act, the North Dakota Unemployment Compensation Law and the North Dakota Workers' Compensation Act. CONTRACTOR will retain sole and absolute discretion in the manner and means of carrying out the CONTRACTOR's activities and responsibilities under this contract, except to the extent specified in this contract.

21. NONDISCRIMINATION AND COMPLIANCE WITH LAWS

CONTRACTOR agrees to comply with all applicable laws, rules, regulations and policies, including but not limited to those relating to nondiscrimination, accessibility and civil rights. CONTRACTOR agrees to timely file all required reports, make required payroll deductions, and timely pay all taxes and premiums owed, including sales and use taxes and unemployment compensation and workers' compensation premiums. CONTRACTOR shall have and keep current at all times during the term of this contract all licenses and permits required by law.

22. STATE AUDIT

All records, regardless of physical form, and the accounting practices and procedures of CONTRACTOR relevant to this contract are subject to examination by the North Dakota State Auditor or the Auditor's designee. CONTRACTOR will maintain all such records for at least three years following completion of this contract.

23. PREPAYMENT

The STATE will not make any advance payments before performance by the CONTRACTOR under this contract.

24. TAXPAYER ID

CONTRACTOR's federal ID number is: ______________________.

25. PAYMENT OF TAXES BY STATE

STATE is not responsible for and will not pay local, state, or federal taxes. State sales tax exemption number is E-2001, and certificates will be furnished upon request.

26. EFFECTIVENESS OF CONTRACT

This contract is not effective until fully executed by all parties.

CONTRACTOR

____

BY: xxxxx xxxxxxxxxxxxxxx

ITS: Lead Engagement Partner

DATE: ______________________________

STATE OF NORTH DAKOTA

____

BY: Robert R. Peterson

ITS: State Auditor

DATE: ______________________________

STATE OF NORTH DAKOTA

____

BY: xxxx xxxxxxxxxxxxxx

ITS: xxxx xxxxxxxxxxxxxx title

DATE: ______________________________

C. Guidelines to Independent Certified Public Accountants Performing Financial Statement Audits of State Agencies

February 10, 2006

Most auditing standards that certified public accountants are guided by in the private sector are also standards that must be followed in governmental auditing. The Office of the State Auditor and the Legislative Audit and Fiscal Review Committee require that in addition to generally accepted auditing standards, further responsibilities and reporting requirements are required for audits of state agencies.

The Office of the State Auditor recognizes a need for a clear delineation of these additional areas of responsibility for CPAs to use as guidelines in conducting audits of state agencies, and institutions. It is the intent of the Office of the State Auditor that by developing these guidelines to aid CPAs in developing their audit programs and reports, the completed reports will be of maximum value to the appropriate oversight bodies and taxpayers of the State of North Dakota.

To achieve uniformity for audits of state agencies, all such audits should be conducted in accordance with Government Auditing Standards as issued by the Comptroller General of the United States. When state agencies expend $500,000 or more of Federal awards in a fiscal year, audits should be performed in accordance with OMB Circular A-133.

To enhance uniformity of audit reports, each report should be organized as follows:

Table of Contents

Independent Auditor's Report

Management Discussion and Analysis

Financial Statements

Notes to the Financial Statements

Statement of Appropriations

Special Comments Requested by the Legislative Audit and Fiscal Review Committee

Independent Auditor's Report on Compliance and on Internal Control

Audit Findings, Recommendations, and Agency's Responses

Supplementary Data

Information to be included in these sections is further described in the following paragraphs.

TABLE OF CONTENTS

The report should contain a table of contents listing the page location of each section of the audit report.

INDEPENDENT AUDITOR'S REPORT

Each audit report should include at a minimum, the independent auditor's report on the financial statements and supplementary data. Audits done in accordance with OMB Circular A-133 will need to include additional auditor's reports, as applicable.

FINANCIAL STATEMENTS

The financial statements should be prepared in accordance with generally accepted accounting principles (GAAP). In the unusual situation where RIO finds that it is not feasible to present the statements in conformity with GAAP, the basis on which the statements have been prepared should be disclosed in accordance with generally accepted auditing standards. Financial statements should be comparative, with the two most current years being presented.

A statement of appropriations and notes to the financial statements should be included in the audit report.

SPECIAL COMMENTS REQUESTED BY THE LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

The scope of the auditor's examination requires implementation of audit procedures from which the auditor can make specific responses addressing each of the following items: (Note: Where exceptions to these points are found, they should be explained and quantified whenever possible. A summary of the recommendation to correct the deficiency should also be presented as part of the commentary presented after each of the following points.)

The six audit questions:

1. What type of opinion was issued on the financial statements?
2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?
3. Was internal control adequate and functioning effectively?
4. Were there any indications of lack of efficiency in financial operations and management of the agency?
5. Has action been taken on findings and recommendations included in prior audit reports?
6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

The eight issues to be communicated to the audit committee:

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

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.

3. Identify any significant audit adjustments.

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

5. Identify any serious difficulties encountered in performing the audit.

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

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

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 to be addressed by auditors are directly related to the operations of an information technology system.

Comments relative to the above shall be in clear, concise, and understandable terminology. Unnecessary and irrelevant details should be avoided. Commentary should be specific in all areas and generalizations should be avoided.

REPORT ON COMPLIANCE AND INTERNAL CONTROL

Each audit report should include an auditor's report on compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards.

AUDIT FINDINGS, RECOMMENDATIONS, AND AGENCY'S RESPONSES

Audit findings should be organized by subject matter and consist of a clear description of the weakness or deficiency observed and followed by the auditor's recommendation(s) for corrective action.

Each audit recommendation should be accompanied by RIO's response to the recommendation. The response should be placed immediately after the finding and recommendation(s).

SUPPLEMENTARY DATA

This section of the report would include supplementary data prepared either by RIO or the auditor. Examples of supplementary data usually found in audit reports could include:

- Comparative schedule of revenue;
- Comparative schedule of expenditures, and;
- Schedule of expenditures of Federal awards

REVIEW OF PRELIMINARY DRAFT OF REPORT

Proper arrangements should be made for a preliminary review of the report with the entity being audited. If the entity being audited is a college/university, arrangements should be made for reviewing the preliminary draft report with the ND University System Office in addition to college officials.

These guidelines are intentionally broad and are not intended to be all inclusive. Additional information, as well as examples of audit reports can be obtained by contacting the Office of the State Auditor.

RETIREMENT AND INVESTMENT OFFICE
AUDIT SERVICES UNIT

AUDIT ACTIVITIES REPORT FOR THE FIRST QUARTER
JULY 1, 2014 – SEPTEMBER 30, 2014

The audit objective of the Audit Services Unit (Audit Unit) is twofold: first, to provide comprehensive, practical audit coverage of the Retirement and Investment Office (RIO) programs; second, to assist RIO management and the State Investment Board (SIB) by conducting special reviews or audits.

The SIB Audit Committee opted to postpone development of a detailed audit work program for Fiscal Year July 1, 2014 through June 30, 2015. The SIB Audit Committee did provide guidance related to audit activities and planning for Fiscal Year July 1, 2014 through June 30, 2015. The audit activities undertaken are consistent with the Audit Unit charter and goals, and the goals of RIO. To the extent possible, our audits are being carried out in accordance with the International Standards for the Professional Practice of Internal Auditing. Audit effort is being directed to the needs of RIO and the concerns of management and the SIB Audit Committee.

REGULAR AUDIT COVERAGE

Retirement Program

- **School District Reporting**

We examine school district reporting to the Teachers' Fund for Retirement (TFFR) to determine whether retirement salaries and contributions reported for members of TFFR are in compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). Other reporting procedures reviewed during the audit process are calculation of service hours and eligibility for TFFR membership. A written report is issued after each audit examination is completed.

As of September 30, 2014, three audits have been completed, two school district audits were in progress, and one not in compliance follow-up review was in progress. The attached report details the current status of these audits. As of the beginning of the second quarter, two additional school district audits were in progress and additional audit notifications had been mailed to selected school districts.

This is an area that requires special emphasis due to the level of risk identified through previous audit results. Our long-range plans include auditing each district over a five year period.

- **External Audit Support (GASB 68)**

Two planned school district audits will be delayed due to the GASB 68 scheduled TFFR Employer Census Data Audit. The Audit Unit had previously notified the school districts of intent to examine their school district reporting prior to receiving information from the external auditors that these same school districts would be included in the TFFR Employer Census Data Audit. The Audit Unit does plan to coordinate activities with the external auditors to avoid duplication of effort moving forward. The Audit Unit will be notifying school districts of impending TFFR Employer Census Data Audits on behalf of the external auditors.

- **TFFR File Maintenance**

We periodically test changes made to TFFR member account data by RIO employees. Journals are generated daily and monthly indicating any file maintenance changes made. The quarterly TFFR File Maintenance audit is currently underway with the final report being presented to the SIB Audit Committee on November 20, 2014.

SUMMARY

Audit effort will continue to be on those activities which are of greatest concern to the SIB Audit Committee, RIO management, and the external auditors. In addition to the slated school district audits, attention will also be directed towards the review of executive limitations and the completion of the second quarter TFFR File Maintenance audit. It is also anticipated that the Audit Unit will continue to provide support for external audit activities related to the implementation of GASB 68.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE AGENDA ITEM V

SCHOOL DISTRICT AUDIT PROGRESS AND STATUS REPORT

FISCAL YEAR JULY 1, 2014 - JUNE 30, 2015

	Size	Auditor	School District	Anticipated Notification Timeframe	100% or On-site	Info Request	Info Received	Audit Started	Report Date	Status	Members	Days b/w Info Request and Received	Days b/w Info Received and Report	Days b/w Info Received and Start Date	Days b/w Start and Report		Hours to Complete
1		DT	Grand Forks - fiscal agent for the			6/18/2013	7/22/2013	3/10/2014	9/10/2014	complete	802	34	415	231	184	Generally in compliance	157
			Red River Valley Ed. Cooperative														
2		DT	Flasher			2/18/2014	3/17/2014	5/29/2014	9/10/2014	complete	22	27	177	73	104	Generally in compliance	61
3		DT	South Heart School (New Admin 08/14)			5/28/2014	6/9/2014	6/19/2014	8/6/2014	complete	31	12	58	10	48	Generally in compliance	54
4		DT	Lake Region Spec Ed (New Admin 06/14)			5/28/2014	6/12/2014	9/16/2014	10/10/2014	complete	29	15	120	96	24	In compliance	27
5		DT	Oliver-Mercer Spec Ed			5/28/2014	6/26/2014	9/23/2014		in progress	19	29		89			
6		DT	Mohall/Lansford/Sherwood (New Bus Mgr)			4/23/2014	5/27/2014				42	34					
7		TMB	Nesson (New Admin 06/14)			5/28/2014	6/13/2014	10/20/2014		in progress	25	16					
8		DT	Hazelton-Moffit School (New Bus Mgr/Admin 06/14)			5/28/2014	6/18/2014	GASB			18	21					
9		DT	Glen Ullin			5/28/2014	7/10/2014	GASB			24	43					
10		TMB	Billings Co. Sch. District			9/16/2014	10/23/2014				18						
11		DT	Devil's Lake			9/16/2014	10/13/2014				173						
12		TMB	Edmore			9/16/2014	11/3/2014				16						
13		TMB	Mayville-Portland C-G			9/16/2014	10/17/2014				49						
14		TMB	Wolford			9/16/2014	10/16/2014				12						
15	S		Munich	November 2014		11/13/2014											
16	M		North Border School District	November 2014		11/13/2014											
17	S		Page	November 2014		11/13/2014											
18	S		Selfridge	November 2014		11/13/2014											
19	S		South Praire Elementary	November 2014		11/13/2014											
20	L		West Fargo	November 2014		11/13/2014											
21	L		Fargo	January 2015													
22	S		Ft. Totten	January 2015													
23	S		Kensal	January 2015													
24	M		Lewis & Clark School	January 2015													
25	S		Montpelior	January 2015													
26	S		Sheyenne Valley Area Vocation	January 2015													
27	L		Dickinson	March 2015													
28	M		Wilmac Special Education (Temp Bus Mgr 08/14)	March 2015													
29	S		Emerado														
30	S		Fordville-Lankin														
31	S		James River Multidistrict														
32	S		Kulm														
33	S		Litchville-Marion														
34	S		Maple Valley (New Bus Mgr 06/14 & Admin 09/14)														
35	S		New Public School (Williston) (New Admin 06/14)														
36	S		North Valley Area Careers														
37	S		Parshall														
38	S		Solen-Cannonball														
39	S		Southeast Region Career and Tech														
40	M		St John														
41	S		Starkweather														
42	S		Warwick														
43	S		White Shield (Roseglen) (New Admin 09/14)														
44	S		Wing (New Admin 10/14)					GASB									
									Average		221	22	193	103	90		75

Assigned			Total Audit Days			Average Audit Days	Audits Completed	Total Hours	Average Hrs	Actual Audit Days
20-24		DT	90			23	4	75	19	2.3
		TMB								

NOT IN COMPLIANCE FOLLOW-UP REVIEWS

	Size	Auditor	School District		100% or On-site	Info Request	Info Received	Review Started	Report Date	Status	Members	Days b/w Info Request and Received	Days b/w Info Received and Report	Days b/w Info Received & Start Date	Days b/w Start and Report		Hours to Complete
1	S	DT	Halliday								19						
2	S	DT	McClusky								18						
3	S	DT	Ft. Yates								35						
4	S	DT	Minnewaukan								36						
5	L	DT	Williston-carry over for 2014			1/7/2014	1/29/2014	4/14/2014		In progress	217	22		75			
											65						

Assigned		
4		DT
		TMB

MEMORANDUM

FROM: Dottie Thorsen, Auditor

TO: Fay Kopp, Deputy Executive Director-Retirement Officer
Shelly Schumacher, Retirement Program Manager

DATE: November 14, 2014

SUBJECT: TFFR File Maintenance Audit
First Quarter 2014-15
(July, August, and September 2014)

Conclusion: No exceptions noted.

These are the audit procedures for the quarterly audit.

1) I ran and reviewed the table reports for all RIO staff members.

2) I reviewed all of the transactions on the IT Supervisor and Data Processing Coordinator's table reports.

3) I receive monthly reports of the refunds paid to members from IT. I randomly selected one of the refunded accounts to review.

4) I compared the information on six member action forms with the information posted on CPAS.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE AUDIT DIVISION
AUDIT SERVICES DIVISION
BUDGETED HOURS FOR THE FISCAL YEAR JULY 1, 2014 TO JUNE 30, 2015

AGENDA ITEM V

		2014-15 BUDGET HOURS (2 FTE'S)	**2014-15** BUDGET HOURS (1 FTE'S)	YTD HOURS 7/1/2014 - 6/30/2015	UNDER/ (OVER) BUDGET	1ST QTR HOURS 7/1/2014 - 9/30/2014	2ND QTR HOURS 10/1/2014 - 12/31/2014	3RD QTR HOURS 1/1/15 3/31/15	4TH QTR HOURS 4/1/15 - 6/30/2015
1. Audit									
Employer Audits: TFFR									
School District Audits				175.00		175.00			
Follow-up On "Not-In-Compliance" Previous Audits				29.50		29.50			
Audit Planning and Notifications				39.50		39.50			
Agency Audits: TFFR									
Benefit Payments (Deaths, Long-Term Annuitants, Outstanding Checks, Purchases, and Refunds)				68.25		68.25			
TFFR File Maintenance				19.50		19.50			
Agency Administrative/Investment Audits:									
Executive Limitations				0.00					
Investment Audits				0.00					
RIO External Audit (GASB 67 and 68)				7.75		7.75			
Special Projects(Including Policy & Procedure Manual)				0.00					
Total Audit Hours	0%	0		339.50		339.50	0	0	0
2. Administrative (meetings & prep, CEU's, etc.)	0%			84.50		84.50			
3. Audit Training - Supervisor of Audit Services				0.00					
4. Annual/Sick Leave, Breaks, and Holidays	0%			104.50		104.50			
Total Budget Hours	-1%	4,160	3,555	528.50		528.50	0	0	0

Note: Audit Supervisor Started 10/13/2014 - Additional hours have been added to the 2014-2015 Budget Hours to reflect additional staff member.

Total Budget Hours for 2014/15	4,160
Budget Hours for D. Thorsen	2,080
Budget Hours for T. Miller Bowley	1,475

AGENDA ITEM VI

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee

FROM: Terra Miller Bowley, Supervisor of Audit Services

DATE: November 20, 2014

SUBJECT: Executive Limitations Activity Report

Audit Services has completed a preliminary review of the Executive Director/CIO's level of compliance with State Investment Board (SIB) Governance Manual Executive Limitation policies per the request of the SIB Audit Committee. The full audit is scheduled to begin in January 2015.

To complete the preliminary review Audit Services conducted examinations of documentation and interviews with staff. The policies which were included as a part of the preliminary review were:

- General Executive Constraint (A-1)
- Staff Relations (A-2)
- Relating to Public and Government (A-3)
- Budgeting (A-4)
- Financial Condition (A-5)
- Communication and Counsel to the Board (A-6)
- Asset Protection (A-7)
- Compensation and Benefits (A-8)
- Conflict of Interest (A-9)
- Code of Conduct (A-10)
- Unrelated Business Interests (A-11)

Findings and Recommendations:

After a preliminary review Audit Services is sufficiently satisfied that the Executive Director/CIO is in compliance with the SIB Governance Manual Executive Limitation polices A-1 through A-11.

Audit Services also agrees with the SIB that Executive Limitation A-4 (Budgeting), A-5 (Financial Condition), and A-6 (Communication and Counsel to the Board) are currently being reviewed by multiple outside parties. Audit Services agrees that A-4 through A-6 could be excluded in future audits which would align with the Governance Policy Monitoring Summary approved by the SIB on October 24, 2014.

RETIREMENT AND INVESTMENT OFFICE
AUDIT SERVICES UNIT

EXECUTIVE LIMITATIONS ACTIVITIES REVIEW

- Executive Limitations – *General Executive Constraint (A-1)*

A-1 is a general summation of the executive limitation policies detailed in A-2 through A-10, all of which are individually addressed below. A-1 also addresses loss of executive services in item 8 which reads as follows:

In order to protect the board from sudden loss of executive services, the executive director may not have fewer than three other executives familiar with board and chief executive issues and processes. The executive director shall not fail to inform the Deputy Executive Director, the Deputy Chief Investment Officer, and the Fiscal and Investment Operations Manager of executive and board issues and processes.

Independent interviews were conducted with executive staff members. Executive staff members include the Executive Director/CIO, Deputy Chief Investment Officer, Deputy Executive Director/Chief Retirement Officer, and Fiscal and Investment Operations Manager. The purpose of the independent interviews was to identify communication frequency, methods, and content between the Executive Director/CIO and other executive staff members. Opinions were also solicited regarding the continuation of operations in the event of loss of executive services.

Interview was conducted with Deputy Executive Director/Chief Retirement Officer, Fay Kopp, on Friday November 14, 2014 at 10:00 AM. Ms. Kopp and the Supervisor of Audit Services, Terra Miller Bowley, were in attendance. Although at this time no formally scheduled executive staff meeting occurs with regular cadence, Ms. Kopp confirmed that weekly face-to-face meetings with the Executive Director do occur. These impromptu face-to-face meetings cover a wide range of topics including but not limited to agency operations, budgeting, salary/compensation, legislative activities, retirement services, board issues, and media and open records requests. The frequency of communication between the Executive Director and Ms. Kopp increases as the need arises. As it relates to retirement program issues daily discussions occur with the Retirement Program Manager who also attends Teachers' Fund for Retirement (TFFR) board meetings. Ms. Kopp feels attendance at SIB meetings provides significant information related to investments, board issues, and agency operations. Email communication also occurs with regularity between the Executive Director and Ms. Kopp. Ms. Kopp believes that the Executive Director is very open and freely communicates with staff. At this time Ms. Kopp does not believe that communication gaps or knowledge gaps exist regarding executive and board issues and processes. Ms. Kopp is confident that operations would continue uninterrupted in the event of loss of executive services given the knowledgeable and experienced staff at the Retirement and Investment Office (RIO).

Interview was conducted with the Executive Director/CIO, Dave Hunter, on Friday November 14, 2014 at 3:00 PM. Mr. Hunter and the Supervisor of Audit Services, Terra Miller Bowley, were in attendance. Although at this time no formally scheduled executive staff meeting occurs with regular cadence, Mr. Hunter believes that a regular monthly meeting which would include the Deputy Chief Investment Officer, the Deputy Executive Director/Chief Retirement Officer, and the Fiscal and Investment Operations Manager would be beneficial in facilitating communication amongst the executive staff. Mr. Hunter expects these regularly scheduled meetings to begin occurring in December of 2014. Mr. Hunter confirms that face-to-face ad hoc meetings occur with the Deputy Chief Investment Officer on a daily basis, with the Deputy Executive Director/Chief Retirement Officer on a weekly basis and the Fiscal and Investment Operations Manager approximately every other day. These ad hoc meetings cover a wide range of topics including but not limited to agency issues, retirement services, investment activities, and budgeting/financial matters. Mr. Hunter regularly communicates with executive staff via email on specific topics. Mr. Hunter feels the proximity of executive staff offices to each other also facilitates ad hoc communication, knowledge sharing, and interaction. Mr. Hunter is closely involved in agency operations and investment activities and indicated that he believes his attendance at Teachers' Fund for Retirement (TFFR) board meetings is very beneficial with regards to staying abreast of ongoing activities within retirement services. Mr. Hunter believes that sufficient two-way communication currently exists between him and the executive staff as a whole. Mr. Hunter has no concerns regarding continuation of operations in the event that executive services were lost. Mr. Hunter advised that RIO has a very knowledgeable long tenured staff which has proven itself during periods of adversity. Mr. Hunter also believes that additional structure has been developed around processes and workflow in the last year which continues to facilitate transparency and knowledge sharing.

Interview was conducted with the Fiscal and Investment Operations Manager, Connie Flanagan, on Monday November 17, 2014 at 3:00 PM. Ms. Flanagan and the Supervisor of Audit Services, Terra Miller Bowley, were in attendance. Ms. Flanagan indicated that no regular senior leadership meetings occur at this time. Ms. Flanagan did confirm that communication does occur amongst the executive staff daily. Ms. Flanagan confirms that she communicates with various members of the executive staff including the Executive Director/CIO, Deputy Chief Investment Officer, and Deputy Executive Director/Chief Retirement Officer. Discussions related to agency operations such as performance and compensation generally occur with the Executive Director/CIO, while discussions related to day-to-day investment operations occur with the Deputy Chief Investment Officer. Ms. Flanagan acknowledged that she is very involved with the financials related to retirement services and often communicates with the Deputy Executive Director/Chief Retirement Officer regarding such matters. Monthly investment services meetings are held to discuss State Investment Board agendas and individual agenda items. These meetings cover additional topics including but not limited to investment issues, recommendations being provided to the board, and money managers. Ms. Flanagan is also a regular attendee of the State Investment Board (SIB) meetings. Ms. Flanagan attends the

TFFR board meetings as needed. Ms. Flanagan confirms that regular email communication also occurs amongst the executive staff. Ms. Flanagan emphasized that the size of RIO (currently 19 employees) lends itself to open, honest, and frequent communication. Ms. Flanagan believes that no disruption to operations would occur in the event of loss of executive services. RIO staff has proven their ability to operate under less than ideal circumstances. Ms. Flanagan is very comfortable with the information available and does not believe that any communication gaps exist at this time.

Interview was conducted with the Deputy Chief Investment Officer, Darren Schulz, on Tuesday November 18, 2014 at 9:00 AM. Mr. Schulz and the Supervisor of Audit Services, Terra Miller Bowley, were in attendance. Mr. Schulz confirmed that very frequent in person verbal communication occurs between himself and the Executive Director/CIO. Mr. Schulz confirmed that this occurs on a daily basis and covers a wide range of investment related topics including but not limited to SIB agendas and ongoing issues, manager relations, and asset allocation and rebalancing. In addition to verbal communication, written email communication also occurs on a daily basis and is generally topic specific. Mr. Schulz is actively involved in the day-to-day investment activities and less involved in the retirement services side of the organization. However, Mr. Schulz did confirm that he has regular conversations with both the Deputy Executive Director/Chief Retirement Officer and the Fiscal and Investment Operations Manager regarding topics related to retirement services. The Fiscal and Investment Operations Manager reports directly to Mr. Schulz which helps to facilitate the sharing of retirement services related information. Mr. Schulz indicated that he has a good understanding of any ongoing issues or initiatives related to retirement services, such as GASB 67 & 68. Mr. Schulz is involved in ongoing general agency operations as they relate to investment services such as staffing, budgeting, etc. Mr. Schulz indicates that the Executive Director/CIO is very pro-active with regards to communication with executive staff, solicits opinions as needed, and generally does an excellent job of keeping executive staff apprised of ongoing situations. Mr. Schulz has no concerns regarding the continuation of operations in the event of loss of executive services. Mr. Schulz indicated that RIOs small size and close knit working relationships provide a point of stability. Mr. Schulz indicates that RIO has struggled through adversity in the past and has come out those struggles stronger and more equipped to deal with periods of stress. Mr. Schulz does not believe that communication or knowledge gaps exist at this time.

A review of available SIB meeting minutes and TFFR board meeting minutes for the calendar year beginning January 1, 2014 was undertaken. The purpose for reviewing the available meeting minutes for both SIB and TFFR was to verify staff attendance as well as review topics discussed. SIB and TFFR board meetings are cited as a source of considerable information on board and chief executive issues and processes related to investment and retirement activities.

A total of ten SIB meetings have been held on a monthly basis since January 1, 2014. The Executive Director/CIO, Deputy Executive Director/Chief Retirement Officer, Deputy Chief Investment Officer, and Fiscal and Investment Operations Manager are regular attendees at these meetings. Agenda topics include but are not limited to asset performance, client advisory board recommendations, quarterly monitoring, legislative and legal updates, RIO staffing, RIO budget review, board education, money manager selection and interviews, and governance policy review. Published meeting minutes confirm significant information is shared related to board and chief executive issues and processes.

A total of seven TFFR board meetings have been held since January 1, 2014. The Executive Director, Deputy Executive Director/Chief Retirement Officer, and Retirement Program Manager are regular attendees at these meetings. The Deputy Chief Investment Officer and the Fiscal and Investment Operations Manager attend less frequently. Agenda topics include but are not limited to valuation and funding projections, legislative updates, board education, RIO budget and expense reporting, TFFR policy changes, legal updates, TFFR employer updates, and RIO staffing. Published meeting minutes confirm significant information is shared related to board and chief executive issues and processes.

A review of the RIO Outlook calendar for the calendar year beginning January 1, 2014 was undertaken. The RIO Outlook calendar is accessible to all staff and provides information regarding activities occurring within the RIO offices.   The purpose for reviewing the RIO Outlook calendar was to confirm information provided in independent interviews regarding executive staff communication and interaction.

An entry in the RIO Outlook calendar confirms a monthly reoccurring executive staff meeting has been scheduled. Participants include the Executive Director/CIO, Deputy Chief Investment Officer, Deputy Executive Director/Chief Retirement Officer, and Fiscal and Investment Operations Manager. Entries in the RIO Outlook calendar also confirm that two or more executive staff members attended meetings related to but not limited to manager due diligence, legislative employee benefit committee, RIO budgeting creation and monitoring, RIO technology initiatives, pension plan accounting initiatives, and staff interviews and new hire orientation.

- Executive Limitations – *Staff Relations (A-2)*

With respect to treatment of staff, the executive director shall not cause or allow any condition or any communication which is unfair, undignified, or disrespectful.

Accordingly, the executive director may not:

1. Operate without personnel procedures which clarify personnel rules for staff, provide for effective handling of grievances, and protect against wrongful conditions or violate any state or federal law.

2. Fail to provide staff with the opportunity to complete an employment termination questionnaire and an exit interview with the Supervisor of Audit Services.

A review of the types of policies contained within the Retirement and Investment Office (RIO) Administrative Manual and a review of the RIO agency records was undertaken. The purpose of this review was to confirm the Executive Director is operating the agency with personnel procedures which clarify personnel rules for staff, provide for the effective handling of grievances and protect against wrongful conditions or violate any state or federal law. Secondary purpose was to ensure staff is aware of the policies in place.

The RIO Administrative Manual sets forth staff responsibilities and administration polices of RIO. Each staff member is responsible for supporting and following administrative policies. The RIO Administrative Manual contains a wide range of polices addressing but not limited to code of conduct, grievance complaints, office computer systems, public records, and leave requests.

The policies contained within the Administrative Manual must be reviewed and acknowledged annually. Supervisor of Administrative Services and Office Manager, Bonnie Heit, is responsible for and facilitates the yearly certification of all staff as required by the RIO Administrative Manual. Yearly certification occurs in the second quarter of each fiscal year, generally in October. RIO agency file was accessed to confirm that all staff employed from January 1, 2013 to December 31, 2013 reviewed and acknowledged understanding of the policies contained within the RIO Administrative Manual. A review of the prior year was done since recertification for 2014 is still underway and has not yet been completed. All staff employed from January 1, 2013 to December 31, 2013 reviewed and acknowledged understanding of the policies contained within the RIO Administrative Manual via their signature.

Upon employment termination (retirement, voluntary separation, or involuntary separation) staff must be provided the opportunity to complete an employment termination questionnaire and an exit interview with the Supervisor of Audit Services. Fiscal and Investment Operations Manager, Connie Flanagan, provided copies of the RIO Termination Checklist and RIO Exit Interview forms to be used upon employment termination of staff. During the period of January 1, 2014 to November 20, 2014 the retirement of one staff member was confirmed, Supervisor of Information Systems, Gary Vetter. Mr. Vetter's retirement date was March 31, 2014. A review of Mr. Vetter's personnel file was undertaken to determine if the opportunity to complete an employment termination questionnaire and exit interview was provided.

Mr. Vetter's personnel file confirmed that a RIO Termination Checklist was completed by the Investment Accountant, Susan Walcker, on March 31, 2014. The RIO Termination Checklist confirms that Mr. Vetter was offered the opportunity for an exit interview with the Supervisor of Audit Services or other appropriate personnel. The Deputy Executive Director/Chief Retirement Officer confirms Mr. Vetter was provided the opportunity for an exit interview with an individual of his choosing as well as provided the opportunity to complete an employment termination questionnaire.

- Executive Limitations – *Relating to Public and Government (A-3)*

In relating to the public and other governmental entities, the executive director may not cause or allow any action which is unfair, undignified, or disrespectful. In addition, the executive director may not allow any communications from the staff which is inaccurate or fails to distinguish between fact and personal opinion.

In July and August of 2014 a State Investment Board (SIB) customer satisfaction survey was conducted. This survey occurs annually and is facilitated by the Audit Services Unit with assistance from the Supervisor of Administrative Services and Office Manager, Bonnie Heit. The purpose of the customer satisfaction survey is to ensure that the SIB through the Retirement and Investment Office (RIO) staff is meeting client expectations and requirements. The survey is sent to all SIB clients which include – City of Bismarck, Grand Forks Parks, ND Insurance Department, Workforce Safety and Insurance, ND PERS, ND Teachers Fund for Retirement, ND Risk Management, NDACO, Fargodome, ND Council of the Arts, Legacy and Budget Stabilization Fund, City of Grand Forks Pension Fund, and ND Board of Medical Examiners. The purpose for reviewing the SIB customer satisfaction survey was to determine how RIO and the Executive Director/CIO relate to governmental entities.

SIB clients were asked to rate performance in the areas of verbal communication, clarity and effectiveness of written communication, detail provided on reports, service delivery, accessibility, responsiveness, efficiency, and knowledge of investments. SIB clients were asked to rate performance as excellent, above average, average, and poor. A review of the RIO agency file confirms that thirteen surveys were administered via mail and twelve were returned. Of the twelve surveys returned, one client declined to take the survey due to limited tenure of current staff. All returned surveys were available for review. A weighted average was then calculated based on the responses received with excellent weighted 4, above average weighted 3, average weighted 2, and poor weighted 1. Overall performance was rated at a 3.7. Comments received from all clients were positive in nature and no concerns were indicated.

A review of the RIO Administrative Manual Media Policy and the Teachers' Fund for Retirement media policy was undertaken. The purpose of this review was to determine how public and media inquiries are handled within RIO and if the information provided to the public is accurate and factual.

Per the RIO Administrative Manual all media requests are to be routed to the Executive Director/CIO or Deputy Executive Director/Chief Retirement Officer who will then determine topic of inquiry and facilitate interviews and access to staff and other documentation as needed.

On or around September 23, 2014 the Executive Director/CIO was contacted by a reporter, Tu-Uyen Tran, of the Fargo-Moorhead Forum. Mr. Tran intended to write an article discussing the management of the Legacy Fund and the fund associated with the Department of Trust Lands. The Executive Director/CIO, Deputy Executive Director/Chief Retirement Officer, and Supervisor of Administrative Service and Office Manager produced email communication detailing information provided by RIO to Mr. Tran regarding the management of the Legacy Fund. Written documentation provided included but was not limited to investment performance summaries, balance sheets, top ten holding information, public pension plan comparisons, staff and manager biographical information, and general operating procedures related to the SIB, RIO, and TFFR board. The Executive Director/CIO as well as the Deputy Executive Director/Chief Retirement Officer also conducted several phone interviews with Mr. Tran during the course of his research. The Executive Director/CIO confirmed that the SIB chairman was kept informed regarding the media inquiry. Written documentation provided via email is factual in nature and any interpretation or opinion provided was clearly designated as such. An article titled *Who Manages ND's Wealth?* was published by the Fargo-Moorhead Forum on October 4, 2014. A review of the article confirms that factual information cited is based on the documentation provided by RIO staff and is represented fairly and accurately. Quotes provided by the Executive Director/CIO were appropriate. Interviews conducted with staff involved confirmed that the article presented was fair and balanced and presented RIO, the SIB, and management of the Legacy Fund is a good light.

- Executive Limitations – *Budgeting (A-4)*

Budgeting for any fiscal year or the remaining part of any fiscal year shall not deviate materially from board Ends priorities, or create fiscal jeopardy.

Accordingly, the executive director may not cause or allow budgeting which:

1. *Contains too little information to enable credible projection of expenses, cash flow, and disclosure of planning assumptions.*

2. Plans the expenditure in any fiscal year of more funds than are authorized by legislative appropriation.

3. Reduces the level of service, or anticipates a reduction in the level of service, of any Retirement and Investment Office program without the prior approval of the State Investment Board.

- Executive Limitations – *Financial Condition (A-5)*

With respect to the actual, ongoing condition of the organization's financial health, the executive director may not cause or allow the development of fiscal jeopardy or a material deviation of actual expenditures from board priorities established in Ends policies.

Accordingly, the executive director may not:

1. Make any expenditure that exceeds the appropriation authority authorized by the North Dakota legislature.

2. Create policies for payment of administrative obligations that are in conflict with the policies of the Office of Management and Budget.

3. Initiate a transfer of appropriation authority between budget line items without board and Emergency Commission approval.

4. Allow appropriation expenditures to be made unless reported on PeopleSoft.

A review of the 2013 – 2015 Retirement and Investment Office (RIO) Biennium Approved Budget was undertaken along with a general review of the budgeting process for the 2015 – 2017 RIO Biennium Budget. In addition an examination of actual vs. budgeted expenses to date was also done. The purpose of these activities was to confirm that the budgeting process and ultimately the resulting budget provided enough information to enable credible predictions and that expenditures did not exceed funds authorized by the legislature.

The biennium budgets include both appropriations which are requested and ultimately must be approved by the legislature and estimated continuing appropriations which are not included in any formal budgeting request. Appropriations include staff salary and benefit expenditures as well as overhead and day-to-day operating expenses (travel, postage, insurance, etc.).

Continuing appropriations include but are not limited to Teachers' Fund for Retirement benefit and refund payments, consulting expenses, investment management expenses, and due diligence. The creation of the biennium budget results from an executive staff review of past expenses, current expenses, anticipated changes in expenses, as well as future initiatives and plans. The agency proposed biennium budget is then entered into iBARS for review by the Office of Management and Budget (OMB). OMB offers a meeting with staff for the purposes of discussing the proposed agency budget. OMB will then assist the governor with compilation of the final budget submitted to the legislature for approval. RIO staff will testify before the Appropriation Committees of both the House and Senate in defense of proposed budget. Upon approval by the legislature and the governor the biennium budget cannot be adjusted except through an Emergency Commission.

The Fiscal and Investment Operations Manager provided biennium budgets for 2011-2013, 2013-2015, and 2015-2017 along with supporting documentation for the most recently proposed biennium budget. A review of the RIO Outlook calendar confirms budget related meetings with executive staff occurred on May 20, May 29, June 11, June 19, September 10, and September 24 in 2014. The Fiscal and Investment Operations Manager provided access to the OMB iBARS system which confirms that the agency proposed 2015-2017 biennium budget has been submitted and is currently under OMB review. A review of the RIO Outlook calendar also confirms a budget review meeting with OMB occurred on Tuesday October 7, 2014 with executive staff in attendance. A review of the supporting documentation provided including the Budget Changes Narrative, Continuing Appropriations Narrative, and the Technology/Ergonomic Initiative provide insight into the budget planning process and provide sufficient support related to the credibleness of proposed budgeted expenses.

Biennium budget appropriations and continuing appropriations are monitored throughout the fiscal year. A quarterly monitoring report is submitted to the State Investment Board (SIB) by RIO staff relating to actual expense paid and comparisons with the approved appropriation amounts. The quarterly monitoring report is included in published SIB meeting materials. The most recent quarterly monitoring report provided at the October 24, 2014 SIB meeting confirms that the RIO is operating well within budget and has no plans to make nor made any expenditure which exceeds the appropriation authorized by the legislature. At this time continuing appropriations are periodically reviewed by third parties, such as Callan Associates Inc., with those third parties providing information to the SIB. On October 24, 2014 a report regarding the review of the trust and custody services provided by Northern Trust Company was provided to the SIB. Callan Associates Inc. determined that the services provided by Northern Trust Company are sufficient and that the fee structure is competitive. On November 21, 2014 a report regarding the review of fees assessed by investment management firms will be presented to the SIB. The results of the study conducted by Callan Associates Inc. were favorable and overall reduction of management fees as a percent of assets under management has been achieved.

For the calendar year beginning January 1, 2014 a reduction in the level of service related to any RIO program has not been initiated nor has RIO requested the use of available contingency funds or Emergency Commission approval.

- Executive Limitations – *Communication and Counsel to the Board (A-6)*

With respect to providing information and counsel to the board, the executive director may not permit the board to be uninformed.

Accordingly, the executive director may not:

1. Neglect to submit monitoring data required by the board (see policy on Monitoring Executive Performance) in a timely, accurate, and understandable fashion, directly addressing provisions of the board policies being monitored.

2. Let the board be unaware of relevant trends, anticipated adverse media coverage, material external and internal changes, and particularly changes in the assumptions upon which any board policy has previously been established.

3. Fail to advise the board if, in the executive director's opinion, the board is not in compliance with its own policies on Governance Process and Board-Staff Relationship, particularly in the case of board behavior which is detrimental to the work relationship between the board and the executive director.

4. Fail to marshal for the board as many staff and external points of view, issues, and options as needed for fully informed board choices.

5. Present information in unnecessarily complex or lengthy form.

6. Fail to provide a mechanism for official board, officer, or committee communications.

7. Fail to deal with the board as a whole except when (a) fulfilling individual requests for information or (b) responding to officers or committees duly charged by the board.

8. Fail to report in a timely manner an actual or anticipated noncompliance with any policy of the board, particularly Ends and Executive Limitations.

9. Fail to inform the board in a timely manner of any intention to hire or dismiss the Deputy Executive Director, the Deputy Chief Investment Officer, or the Fiscal and Investment Operations Manager.

10. Fail to keep the board informed concerning the delegation of fiduciary authority to any staff member. Every person to whom such fiduciary responsibility is delegated

A review of the meeting minutes from the Executive Review Subcommittee was undertaken as well as an examination of the Executive Review Survey approved by the State Investment Board (SIB) on August 22, 2014. The Executive Review Subcommittee was created for the purpose of recommending/creating an evaluation system of/for the Executive Director/CIO. As part of their activities a survey to be administered to the members of the SIB was created to assess the Executive Director/CIO's adherence to the *Ends* policies set forth in the SIB

Governance Manual as well as compliance with the Executive Limitations policies set forth in the SIB Governance Manual. The Executive Review Survey is to be administered early in 2015. The responses provided by the members of the SIB will provide substantial support for the full audit of executive limitations to be conducted by the Retirement and Investment Office (RIO) Supervisor of Audit Services in January and February of 2015. This mechanism will provide an opportunity for SIB members to provide open and honest assessment of the communication and counsel which is provided to the board by the Executive Director/CIO.

An annual review of the SIB Governance Manual was initiated on September 26, 2014 by the Executive Director and the Deputy Chief Investment Officer. A first reading of proposed policy amendments was completed on this date as well. A second reading occurred on October 24, 2014. All activities are documented in available SIB meeting minutes for the dates noted. Additional governance manual review sessions will be conducted throughout 2015 culminating in a Governance Day Offsite in July or August of 2015. Overall understanding of the SIB Governance model is crucial to the board-staff relationship.

The Executive Director/CIO is responsible for providing the board with the necessary information required to facilitate informed decision making. A review of available SIB meeting minutes confirms that the board is provided with an abundance of information and access to industry experts and consultants (Callan Associates Inc., Callan College, Epoch Global Equity, JP Morgan, Blackrock, etc.) which provide in depth information on various topics. Board education has been provided on but not limited to return definitions, securities lending, performance monitoring, fund sponsor trends, asset allocation, and role of the fiduciary.   Staff is also in regular attendance at SIB meetings to provide insight, opinions, and general information on a variety of topics. Attendees generally include but are not limited to the Executive Director/CIO, Fiscal and Investment Operations Manager, Deputy Executive Director/Chief Retirement Officer, Deputy Investment Officer, and Compliance Officer.

- Executive Limitations – *Asset Protection (A-7)*

The executive director may not allow assets to be unprotected, inadequately maintained, nor unnecessarily risked.

Accordingly, the executive director may not:

1. Fail to insure against theft and casualty losses to at least 80 percent replacement value and against liability losses to board members, staff, or the organization itself in an amount greater than the average for comparable organizations.

2. Allow non-bonded personnel access to funds.

3. Subject plant and equipment to improper wear and tear or insufficient maintenance.

4. Unnecessarily expose the organization, its board, or staff to claims of liability.

5. Fail to protect intellectual property, information, and files from loss or significant damage.

6. Receive, process, or disburse funds under controls which are insufficient to meet the state auditor's standards.

7. Invest or hold operating capital in a manner that is inconsistent with state law or board policy.

8. Acquire, encumber, or dispose of real property.

9. Endanger the organization's public image or credibility, particularly in ways that would hinder its accomplishment of mission.

10. Deviate from the investment process set by the State Investment Board (SIB) as contained in the board's policy on investments.

A review of the Commercial Building and Personal Property Declarations page issued by the State Fire and Tornado Fund was completed. The policy is currently in force for fiscal year 2014 – 2015 with a limit of liability of $225 million with a $1000 deductible and a 90% co-insurance requirement. The Retirement and Investment Office (RIO) is sufficiently insured with regards to property losses. In the mid 90’s the state loss of sovereign immunity facilitated the creation of the Risk Management Division to address exposure to tort liability claims that may now arise. Liability coverage for the state of North Dakota agencies and employees is provided by the Risk Management Fund. Details regarding covered damages, limits, and legal defenses provided can be found on the Risk Management Fund website (http://www.nd.gov/risk/risk-management-fund).

An examination of the Commercial Blanket Bond Public Employees and/or Public Officials was conducted. The purpose of this activity was to ensure that only bonded personnel have access to funds. At this time three individuals within RIO have the ability to move funds. Those individuals are the Fiscal and Investment Operations Manager, Connie Flanagan, the Investment Accountant, Susan Walcker, and the Compliance Officer, Cody Schmidt. A blanket bond was issued to the RIO on January 1, 2014 by the North Dakota Insurance Department State Bonding Fund. The bond remains in effect until terminated with a limit of liability of $2,000,000.00.

Every three years the State Auditor's Office initiates a Request for Proposal (RFP) for the purpose of hiring an external auditor to facilitate a yearly financial audit of the RIO on behalf of the State Auditor's Office. The current external auditor is CliftonLarsonAllen, LLP. CliftonLarsonAllen, LLP issued the results of their most recent financial audit of financial statements issued June 30, 2014 and 2013 on November 11, 2014. CliftonLarsonAllen, LLP will present the results of this audit to the State Investment Board (SIB) Audit Committee on November 20, 2014. The SIB Audit Committee holds the responsibility of reporting to the SIB. Review of published agendas for the SIB Audit Committee Meeting on November 20, 2014 and the SIB meeting on November 21, 2014 confirm that this will occur. The final report provided to the RIO by CliftonLarsonAllen, LLP is available for review and has been distributed to the members of the respective committees. The external auditing firm has confirmed that funds are received, processed, and disbursed according to state auditor's standards.

Callan Associates Inc. has been retained as a consultant for the investment services division. Callan Associates Inc.'s primary responsibility is to provide performance measurement services (recalculating all the investment performance on the investment manager accounts) on a monthly basis. Callan Associates Inc. also provides additional services as requested including manager searches, general investment education, fee reviews, custodial reviews, and due diligence. Callan Associates Inc. is required to provide a quarterly monitoring report to the SIB for the consolidated pension trust, the consolidated insurance trust, and the five major clients of the RIO which include Workforce Safety and Insurance, Legacy Fund, Budget Stabilization Fund, Public Employees Retirement System, and Teachers' Fund for Retirement. This report includes investment performance along with peer group comparisons and comparisons to benchmarks. Callan Associates Inc.'s most recent quarterly monitoring report was issued for September 30, 2014. A review of Callan Associates Inc.'s most recent quarterly monitoring report along with Investment Performance Summary Reports was undertaken to determine actual versus target asset allocation, excess return generation for 1, 3, and 5 year time periods, and current level of risk assumed. It is believed that these three factors are strong indicators that the investment process undertaken by the RIO is in compliance with the SIB policy on investments. Actual versus target asset allocation data indicates that current asset allocations for the consolidated funds along with the five major clients are within established thresholds. Investment performance data indicates excess returns have been generated for the Pension and Insurance Trust Funds for 1, 3, and 5 year periods. Risk as measured by standard deviation has continued to decline and is currently within acceptable parameters for both the Pension and Insurance Trust Funds.

- Executive Limitations – *Compensation and Benefits (A-8)*

Compensation and benefits for staff shall not deviate from applicable state and federal law, including N.D. Administrative Code, Chapter 4-07-02.

Accordingly, the executive director may not:

1. Change the compensation and benefits of any program officer reporting directly to the SIB.

2. Promise or imply permanent or guaranteed employment.

A copy of the ND Salary Ranges for July 1, 2014 – June 30, 3015 was obtained from Human Resource Management Services website (http://www.nd.gov/hrms/). A copy of the current State of North Dakota Agency Position Number Listing for Business Unit 19000 (Retirement and Investment Services - RIO) was obtained from the Investment Accountant, Susan Walcker. A review of current employee salaries was undertaken to ensure compensation and benefits for staff does not deviate from applicable state and federal law including ND Administrative Code. One employee from each unit was selected – Employer Services Coordinator (Retirement Services), Supervisor of Information Systems (Information Systems), Office Assistant (Administrative Services), Fiscal and Investment Operations Manager (Fiscal Management), and Auditor (Audit Services). Staff compensation and benefits are within required parameters. State Investment Board (SIB) meeting minutes from October 25, 2013 confirm salary and benefit offer made to Executive Director/CIO at time of hire. A review of the State of North Dakota Agency Position Number Listing for Business Unit 19000 confirms that Executive Director/CIO compensation and benefits are being administered per SIB directive.

Salary increases effective July 1, 2014 were also reviewed for two employees – Retirement Programs Specialist and Compliance Officer. RIO personnel files were accessed for the two positions to ensure that salary increases were documented appropriately. Individual payroll files in PeopleSoft were accessed with the assistance of Investment Accountant, Susan Walcker, to ensure that salary increases were entered correctly. A review of the State of North Dakota Agency Position Number Listing for Business unit 19000 was then referenced to ensure ending salary is being correctly reported. All salary increases reviewed were properly documented and correctly entered in PeopleSoft.

- Executive Limitations – *Conflict of Interest (A-9)*

Conflicts of interest and the appearance of impropriety shall be avoided by the executive director. The executive director must not allow family, social, professional, or other relationships to influence their judgment in discharging their responsibilities. The executive director must refrain from financial and business dealings that tend to reflect adversely on their duties. If a conflict of interest unavoidably arises, the executive director shall immediately disclose the conflict to the SIB. Conflicts of interest to be avoided include, but are not limited to: receiving consideration for advice given to a person concerning any matter over which the executive director has any direct or indirect control, acting as an agent or attorney for a person in a transaction involving the board, and participation in any transaction for which the executive director has acquired information unavailable to the general public, through their position.

"Conflict of Interest" means a situation in which a board member or staff member has a direct and substantial personal or financial interest in a matter which also involves the member's fiduciary responsibility.

The executive director will be required to affirm their understanding of this policy annually, in writing, and must disclose any conflicts of interest that may arise (See Exhibit A-I).

- Executive Limitations – *Code of Conduct (A-10)*

The executive director will not operate the office without a code of conduct for all RIO employees. This code of conduct shall be a part of the office Administrative Policy Manual.

- Executive Limitations – *Unrelated Business Interests (A-11)*

In the pursuit of personal business interests, the Executive Director will not allow a situation to exist that presents a conflict of interest to the SIB investment program, nor shall such activity be in violation of RIO Administrative Policy 3.47, Use of Office Facilities and Equipment.

The Executive Limitation Conflict of Interest policy located within the State Investment Board (SIB) Governance Manual (A-9) requires the Executive Director to affirm understanding of the policy on an annual basis in writing as well as disclose any conflict of interest which may exist.

The Governance Process Board Members Code of Conduct located within the SIB Governance Manual (B-8) requires Board Members of the SIB to affirm their understanding of the policy on an annual basis in writing as well as disclose any conflict of interest which may exist.

The Teachers' Fund for Retirement (TFFR) Board Members' Code of Conduct policy located within the TFFR Board Program Manual (C-3) requires the Deputy Executive Director/Chief Retirement Officer to affirm their understanding of the policy on an annual basis in writing as well as disclose any conflict of interest which may exist.

The Administrative Manual of the North Dakota Retirement and Investment Office (RIO) requires all staff including the Executive Director, Deputy Executive Director/Chief Retirement Officer, Deputy Chief Investment Officer and Fiscal and Investment Operations Manager, to affirm their understanding of all policies contained within. The RIO Administrative Manual includes a Code of Conduct policy (2.3) which requires disclosure of any conflict of interest. The Administrative Manual includes an Office and Equipment policy (2.24) which provides procedures for office and equipment use.

Compliance Officer, Cody Schmidt, is responsible for and facilitates the yearly certification of the Executive Director, SIB Board Members, and Deputy Executive Director/Chief Retirement Officer as required by the SIB Governance Manual and the TFFR Board Program Manual. Yearly certification occurs at the beginning of each fiscal year, generally in July. Supervisor of Administrative Services and Office Manager, Bonnie Heit, is responsible for and facilitates the yearly certification of all staff including the Executive Director, Deputy Executive Director/Chief Retirement Officer, Deputy Chief Investment Officer and Fiscal and Investment Operations Manager as required by the RIO Administrative Manual. Yearly certification occurs in the second quarter of each fiscal year, generally in October.

SIB Meeting Minutes from July 25, 2014 confirm that the Executive Director and SIB Members were provided with a copy of the applicable Code of Conduct policy from the SIB Governance Manual. An acknowledgement form was also provided.

A review of the SIB Board Meeting records from the July 25, 2014 SIB meeting retained by RIO confirms the Executive Director and all SIB members have signed and returned to RIO the provided acknowledgment. Original signature documents were available for review. Available documents indicate understanding of the applicable policy and no existence of any conflict of interest.

The Deputy Executive Director/Chief Retirement Officer received a memorandum from the Compliance Officer on July 7, 2014 requiring affirmation of the applicable Conflict of Interest Policy from the TFFR Board Program Manual. A review of the electronic records available in Tamale confirms the Deputy Executive Director/Chief Retirement Officer signed and returned the memorandum. Available document indicates understanding of the applicable policy and no existence of any conflict of interest.

A review of the RIO agency records confirms the Executive Director, Deputy Executive Director/Chief Retirement Officer, and Deputy Chief Investment Officer acknowledged reading and understanding the policies contained in the RIO Administrative Manual as well as agreed to adhere to the laws, rules, and policies as they pertain to employment in April of 2014 and October of 2013. In October of 2013 the position of Fiscal and Investment Operations Manager was vacant. All RIO employees will be required to recertify their understanding of the policies contained in the RIO Administrative Manual prior to December 31, 2014.

A review of the Business Records available from the Secretary of State of North Dakota (https://apps.nd.gov/sc/busnsrch/busnSearch.htm) confirms that at this time the Executive Director, Deputy Chief Investment Officer, Deputy Executive Director/Chief Retirement Officer, and Fiscal and Investment Operations Manager have not registered a business in the state of North Dakota under their legal name nor do they appear to be pursuing personal business interests which would present a conflict of interest with regards to their employment with RIO.

The Deputy Executive Director/Chief Retirement Officer currently holds two professional designations – Certified Retirement Counselor and Certified Retirement Administrator. All professionals receiving the designations must adhere to a code of ethics and receive two hours of ethics education every two years.

Briefly

Employer Newsletter

ND Teachers' Fund for Retirement
1930 Burnt Boat Drive, PO Box 7100
Bismarck, ND 58507-7100
701-328-9885 or 1-800-952-2970
www.nd.gov/rio

October 2014

NEW MEMBER REPORTING REQUIREMENTS

A Member Action form must be completed when a TFFR employer hires a new employee who is eligible for TFFR coverage. The form is also required if you rehire a teacher after a break in employment with your school district of one year or more. This form provides TFFR with important information including the employee's legal name, social security number, birth date, current mailing address, and beneficiary information. Designating a beneficiary(ies) directs payment of any TFFR survivor benefits in the event of the member's death.

This form should also be used to notify TFFR of the following:

- A change in name or address
- An update to the beneficiary designation
- Taking or returning from a leave of absence

If we don't receive the Member Action form within thirty days from the date the member is first reported to TFFR, the employer may be assessed a $250 penalty for late reporting.

ATTENTION: PAPER REPORTERS

If you currently submit your monthly TFFR report by paper and use a software vendor, such as Software Unlimited or RDA, we encourage you to make the time saving switch to **TFFR Employer Online Services**. This application allows you to electronically submit your monthly TFFR contribution report directly to TFFR. You can also use this site to update your TFFR employer contact information.

Please contact us at rio@nd.gov to help you make the switch today! Reporting TFFR information using TFFR Employer Online Services is secure, fast, and easy!

YOUR VESTED INTEREST NEWSLETTER

Please take a few minutes to read the October 2014 edition of the Your Vested Interest Newsletter on TFFR's website.

Business managers: Please mark your calendar for the upcoming training and forward the training invitation to your auditor.

GASB Statement 68 Employer and Auditor Training
Thursday, December 11, 2014
8:30 am – 12 noon
Prairie Rose Rooms (upstairs exhibit hall)
Bismarck Events Center
Click here for further details.

RETIREMENT ELIGIBILITY REPORT

Upon request, TFFR can provide school districts with a Retirement Eligibility report. This report gives the district a 30 year projection regarding TFFR member retirement eligibility. The report also contains the names of individuals for workforce planning purposes. The personal information must be kept confidential. If you are interested in receiving a profile for your district, please contact our office. Due to enrollment and retirement timing issues, the retirement eligibility report is not available from July through October of each year.

TEACHER/LEGISLATOR INFORMATION

The 2015 legislative session is quickly approaching. If any of your TFFR employees are serving in the 2015 Legislative Assembly, please submit a member action form indicating the legislative leave of absence. The options for reporting these members to TFFR are summarized below.

- The teacher/legislator and employer may enter into an agreement by which payment for any lost service and salary is made as though the teacher was not on a legislative leave of absence. Under such an agreement, member and employer contributions are calculated using the teacher's annual salary without reduction for the leave of absence. One important benefit in selecting this option is that the teacher's entire salary is reported to TFFR. This is beneficial if the member retires, becomes disabled, or passes away in the next few years following the legislative service.

- If an agreement is not made, do not report the teacher to TFFR for the unpaid days. If a teacher is compensated for 700 hours or more, they still earn a full year of service credit. If an active member who serves in the ND Legislature earns less than 700 hours, the teacher is allowed to purchase the service credit lost while in attendance at legislative sessions and/or legislative committee meetings.

EMPLOYING A RETIRED TEACHER – FAQ

Q. Can a TFFR employer hire a TFFR retiree to perform part-time teaching, supervisory, or administrative duties?

A. Yes. However, 30 days must elapse from the retiree's TFFR retirement date before any re-employment is documented in writing. After the 30 days, the retiree may return to TFFR covered employment for a maximum number of hours in a fiscal year (July 1 – June 30). The annual hour limit is based on the length of employment.

9 month contract =	700 hours
10 month contract =	800 hours
11 month contract =	900 hours
12 month contract =	1,000 hours

Q. Can a TFFR employer hire a TFFR retiree to substitute teach?

A. Yes. A TFFR retiree can perform unlimited non-contracted substitute teaching and the hours do not count towards the annual hour limits noted above and no contributions are paid to TFFR. However, in-staff substitute teaching, while already under an existing agreement to teach, will count towards the annual hour limit and contributions need to be paid to TFFR.

For more information, see the

Working After Retirement Brochure

and the

Retired Member Employment Notification

Q. Can a TFFR employer hire a TFFR retiree to perform extracurricular duties?

A. Yes. Extracurricular duties can be performed by a TFFR retiree and do not count towards the annual hour limit. However, the employer must complete a TFFR Retired Member Employment Notification form for a retiree doing only extracurricular duties and must report employee and employer contributions on the extracurricular earnings.

Q. Can a TFFR employer hire a TFFR retiree full time in a critical shortage area?

A. Yes. However, if the member retired after July 1, 2001, a one-year waiting period is required. Please have the retiree contact our office to determine if they are eligible for this option.

Q. Can a retiree be re-employed by more than one school district?

A. Yes. However, the hours worked from both employers will be combined to determine the total hours under the annual hour limit. Each employer is only responsible for reporting their hours. To make sure that the retiree does not exceed the annual hour limit, communication between the employers and the retiree is needed.

Q. Who should keep track of the hours worked by a re-employed retiree?

A. The employer must include the hours worked (exclude extracurricular and professional development) by a re-employed retiree on the final year end TFFR employer report.

Q. Are employee and employer contributions due on all salary paid to a re-employed retiree?

A. Yes. The employer is required to report employee and employer contributions on all *retirement salary* paid to a re-employed retiree, including in-staff substitute teaching, extracurricular, and professional development pay.

HOPE YOU HAD TIME TO ENJOY THE BEAUTY OF THE FALL SEASON!