

**ND STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING**

Thursday, November 19, 2015 – 3:00 PM
State Capitol – Peace Garden Room
600 East Blvd Ave, Bismarck, ND 58505-0130

AGENDA

1. Call to Order and Approval of Agenda – Chair (committee action) (5 minutes)
2. Approval of September 25, 2015 Minutes – Chair (committee action) (5 minutes)
3. Presentation of June 30, 2015 Financial Audit Report of RIO + Update on GASB 68 Schedule Audit – CliftonLarsonAllen, LLP (to follow) (committee action) (60 minutes)
4. 2015 – 2016 First Quarter Audit Activities Report – Terra Miller Bowley (committee action) (10 minutes)
5. Audit Committee Charter – Terra Miller Bowley (committee information/action) (20 minutes)
6. Other – Next SIB Audit Committee Meeting

North Dakota State Capitol Building
February 25, 2016 at 3:00 PM
Peace Garden Room

7. 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
SEPTEMBER 25, 2015, MEETING**

COMMITTEE MEMBERS PRESENT: Rebecca Dorwart, Chair
Mike Gessner, TFFR Board
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, September 25, 2015, at the State Capitol, Ft. Union Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO APPROVE THE AGENDA FOR THE SEPTEMBER 25, 2015, MEETING AS DISTRIBUTED.

AYES: MR. SANDAL, MS. TERNES, MR. GESSNER, AND MS. DORWART

NAYS: NONE

MOTION CARRIED

ABSENT: MS. RIEDMAN

MINUTES:

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO APPROVE THE MAY 21, 2015, MINUTES AS DISTRIBUTED.

AYES: MR. GESSNER, MR. SANDAL, MS. TERNES, AND MS. DORWART

NAYS: NONE

MOTION CARRIED

ABSENT: MS. RIEDMAN

ELECTION OF OFFICERS:

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO CONTINUE WITH THE CURRENT SLATE OF OFFICERS FOR THE PERIOD OF JULY 1, 2015 - JUNE 30, 2016; MS. DORWART, CHAIR, AND MR. GESSNER, VICE CHAIR/LIAISON TO THE SIB.

AYES: MS. TERNES, MR. SANDAL, MR. GESSNER, AND MS. DORWART

NAYS: NONE

MOTION CARRIED

ABSENT: MS. RIEDMAN

AUDIT SERVICES YEAR END REPORT:

Ms. Miller Bowley reviewed Audit Service activities for the period of July 1, 2014 - June 30, 2015.

Employer Compliance Audit Reports - A total of thirty-one employers had been notified either of an upcoming TFFR compliance audit or not in compliance review. Twenty-two TFFR Compliance audits and two not in compliance reviews were completed. As of June 30, 2015, twenty-two employers had yet to be audited in the third audit cycle.

Discussion followed on employers who are not in compliance with the reporting of assessments/contributions to the TFFR Fund. Staff will continue to explore options to assist employers with reporting issues.

File Maintenance Audit Report - Four TFFR file maintenance audits were completed and no exceptions were noted.

Benefits Payment Audit - The Benefits Payment Audit was started in August 2015 and the results are noted in the 2015-16 first quarter activities report.

Annual Salary Verification Project - The annual salary verification project was completed in January 2015 and five member accounts were corrected.

TFFR Benefit Payment Cost Efficiency Review - A benefit payment cost efficiency review was completed in June 2015 and results indicated that retirement benefits are being paid at TFFR on a cost effective basis.

Administrative and Investment

Annual Audit Planning - The audit plan for fiscal year 2015-16 was completed in April 2015 and accepted by the Audit Committee at their May 21, 2015, meeting

External Audit Support - Audit Services provided support to CliftonLarsonAllen prior to, during, and after the annual financial audit of RIO. Preparation for the upcoming annual financial audit of RIO was completed in May 2015. Audit Services also provided support to CliftonLarsonAllen during the GASB 68 Census Data Audits.

Executive Limitations - Audit Services completed the Executive Limitations audit for the period of January 1, 2014 - December 31, 2014. Results indicate the Executive Director/CIO complies with SIB Governance Manual Executive Limitation policies A-1 through A-11. Audit Services also facilitated two organization wide surveys of employees in December 2014 and January 2015.

Executive Limitation - Staff Relations - Two employees voluntarily terminated their employment with RIO for the fiscal year ended June 30, 2015. Exit interviews were conducted with both employees and a questionnaire was completed during the course of the interviews.

Professional Development - Audit Services reinstated its membership with the Institute of Internal Auditors (IIA) and have been attending the local IIA chapter meetings since October 2014. Supervisor of Audit Services continues to pursue a CIA designation.

IT WAS MOVED BY MS. RIEDMAN AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE 2014-15 FISCAL YEAR END ACTIVITIES REPORT.

AYES: MR. GESSNER, MS. RIEDMAN, MR. SANDAL, MS. TERNES, AND MS. DORWART

NAYS: NONE

MOTION CARRIED

ANNUAL REPORT TO SIB:

Ms. Miller Bowley reviewed a draft of the Audit Committee's annual report of activities to the SIB for the period of July 1, 2014 through June 30, 2015. Ms. Miller Bowley will present the report to the SIB at its October 23, 2015, meeting.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO ACCEPT THE AUDIT COMMITTEES ANNUAL REPORT TO THE SIB.

AYES: MR. SANDAL, MS. TERNES, MS. RIEDMAN, MR. GESSNER, AND MS. DORWART

NAYS: NONE

MOTION CARRIED

AUDIT SERVICES FIRST QUARTER REPORT:

Ms. Miller Bowley reviewed the activity of Audit Services for the period of July 1, 2015 through September 4, 2015.

Employer Compliance Audit Reports - Five TFFR compliance audits and one not in compliance review had been completed as of September 4, 2015. Seven TFFR compliance audits were in progress and three were pending but not yet started. Six employers were recently notified of an upcoming audit. Seventeen employer compliance audits have yet to be audited in the third cycle.

File Maintenance Audit Report - The TFFR File Maintenance Audit was completed for the fourth quarter of fiscal year 2015 and no exceptions were noted.

Benefits Payment Audit - The Benefits Payment Audit for the period of July 1, 2014, through June 30, 2015, was completed and one exception was noted.

Administrative and Investment

Executive Limitations - The SIB's customer satisfaction survey was facilitated in July of 2015. The results will be presented to the SIB at their October 23, 2015, meeting.

External Audit Support - Audit Services continues to provide support to CliftonLarsonAllen during the annual financial audit of RIO including assisting with the GASB 68 Census Data Audits. The report will be presented to the Audit Committee at their November 19, 2015, meeting.

Professional Development Activities - Staff continues to attend IIA's local chapter meetings for networking and professional development opportunities.

AUDIT COMMITTEE CHARTER:

Ms. Miller Bowley presented a draft of the Audit Committee charter for their consideration and acceptance.

After review and discussion, Ms. Miller Bowley will forward a soft copy of the charter to the Audit Committee for further review and input. The revised charter will then be addressed at the November 19, 2015, meeting.

ENHANCED TRANSPARENCY:

Ms. Miller Bowley reviewed the Retirement and Investment Office's (RIO) plan to enhance the agencies overall level of transparency in order to expand public awareness and understanding. RIO hopes to have more materials available on its website by year-end.

OTHER:

The next Audit Committee meeting is scheduled for November 19, 2015, at 3:00 p.m. at the State Capitol, Peace Garden Room, Bismarck ND.

ADJOURNMENT:

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 2:03 p.m.

Respectfully Submitted:

Ms. Rebecca Dorwart, Chair
SIB Audit Committee

Bonnie Heit
Assistant to the Audit Committee

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee

FROM: Terra Miller Bowley, Supervisor of Audit Services

DATE: November 19, 2015

**SUBJECT: June 30, 2015 Financial Audit Report of RIO
GASB 68 Schedule Audit**

Representative(s) of the Retirement and Investment Office's (RIO) external auditor, CliftonLarsonAllen, will be onsite to discuss the results of the most recent financial audit for the fiscal year ended June 30, 2015. A copy of the final audit report will be provided to members of the SIB Audit Committee as soon as it is available. It is anticipated that the final audit report will be issued on or around November 12, 2015. CliftonLarsonAllen will also provide an update regarding the GASB 68 Schedule Audit which is currently underway.

CliftonLarsonAllen will be available following the presentation to address any questions and/or concerns the Committee may have.



November 19, 2015

Audit Results Presentation to:

**North Dakota Retirement and Investment Office –
Audit Committee**



CliftonLarsonAllen

www.cliftonlarsonallen.com

Agenda

- Introductions
- 2015 Audit Results
- Financial Highlights
- Required Communications
- GASB 68 Schedule Audit Update

2015 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).
- 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)

	<u>2015</u>	<u>2014</u>	<u>Total % Change</u>
Assets			
Investments	10,668.6	9,373.5	13.8%
Receivables	61.1	48.2	26.9%
Cash & Other	19.0	17.1	11.1%
Total Assets	<u>10,748.7</u>	<u>9,438.8</u>	13.9%
Deferred Outflows of Resources			
Deferred outflows related to pensions	<u>0.1</u>	<u>-</u>	100.0%
Liabilities			
Total Liabilities	<u>13.2</u>	<u>10.7</u>	23.4%
Deferred Inflows of Resources			
Deferred inflows related to pensions	<u>0.2</u>	<u>-</u>	100.0%
Total Net Position	<u>\$ 10,735.5</u>	<u>\$ 9,428.1</u>	13.9%

Financial Highlights, cont'd.

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

	<u>2015</u>	<u>2014</u>	<u>Total % Change</u>
Additions:			
Contributions	\$ 152.5	\$ 121.0	26.0%
Investment Income	340.0	987.5	-65.6%
Purchase of Units	1,239.9	1,360.5	-8.9%
Total Additions	<u>1,732.4</u>	<u>2,469.0</u>	-29.8%
Deductions:			
Payments to TFFR members	172.2	162.2	6.2%
Administrative Expenses	2.9	2.3	25.6%
Redemption of Units	249.1	350.9	-29.0%
Total Deductions	<u>424.2</u>	<u>515.4</u>	-17.7%
Total change in net position	<u>\$ 1,308.2</u>	<u>\$ 1,953.6</u>	-33.0%

Financial Highlights, cont'd.

Net Pension Liability

The components of the net pension liability of TFFR at June 30, 2015 and 2014, were as follows:

	June 30, 2015	June 30, 2014	
Total pension liability	3,449,775,982	3,138,799,773	
Plan fiduciary net position	<u>(2,141,920,800)</u>	<u>(2,090,977,056)</u>	
Net pension liability (NPL)	<u>1,307,855,182</u>	<u>1,047,822,717</u>	
 Plan fiduciary net position as a percentage of the total pension liability	 62.1%	 66.6%	
 2015			
	1% Decrease <u>(6.75%)</u>	Current Discount Rate (7.75%)	1% Increase <u>(8.75%)</u>
Employers' net pension liability	\$ 1,728,392,470	\$ 1,307,855,182	\$ 957,135,967
 2014			
	1% Decrease <u>(7%)</u>	Current Discount Rate (8%)	1% Increase <u>(9%)</u>
Employers' net pension liability	\$ 1,414,755,083	\$ 1,047,822,717	\$ 739,221,908

Financial Highlights, cont'd.

	2015	2014
Total pension liability		
Service cost	\$ 60,618	\$ 56,752
Interest	249,064	237,821
Changes of benefit terms	-	-
Differences between expected and actual experience	2,209	9,347
Changes of assumptions	171,325	-
Benefit payments, including refunds of member contributions	(172,239)	(162,259)
Net change in total pension liability	310,977	141,661
Total pension liability - beginning	3,138,800	2,997,139
Total pension liability - ending (a)	\$ 3,449,777	\$ 3,138,800
Plan fiduciary net position		
Contributions - employer	\$ 78,422	\$ 62,355
Contributions - member	72,268	56,555
Contributions - purchased service credit	1,601	2,034
Contributions - other	172	48
Net investment income	73,205	294,246
Benefit payments, including refunds of member contributions	(172,239)	(162,259)
Administrative expenses	(1,923)	(1,586)
Net change in plan fiduciary net position	51,506	251,393
Plan fiduciary net position - beginning **	2,090,415	1,839,584
Plan fiduciary net position - ending (b)	\$ 2,141,921	\$ 2,090,977
Plan's net pension liability - ending (a) - (b)	\$ 1,307,856	\$ 1,047,823
Plan fiduciary net position as a percentage of the total pension liability	62.1%	66.6%

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

GASB 68 Schedule Audit Update

- Employer Census Testing is Complete
 - Tested 17 Employers and 204 active members
 - No errors noted
- Beginning work on the GASB 68 Schedules this week
- Expect to issue our final report on the schedules by the end of 2015



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CliftonLarsonAllen

CliftonLarsonAllen LLP
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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, 2015, and have issued our report thereon dated November 9, 2015. 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

Accounting policies

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, 2015, the financial statements include the impact of adoption of Governmental Accounting Standards Board Statements (GASB) numbers 68 and 71.

GASB 68, *Accounting and Financial Reporting for Pensions*, is effective to fiscal years beginning after June 15, 2014. This Statement revises and replaces Statement nos. 27, *Accounting for Pensions by State and Local Government Employers*, as well as 50, *Pension Disclosures* as they relate to governmental employers that account for pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The objective of this Statement is to establish standards for governmental employer recognition, measurement, and presentation of information about their governmental defined benefit pension plans.

GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, is also effective for fiscal years beginning after June 15, 2014. This Statement requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

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.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. 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, 2015. 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 sampled 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 7.75%, which was reduced from 8.0% during 2015, 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, 2015. 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 9, 2015 .

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 9, 2015.

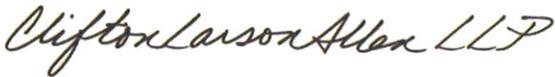
Other information is being included in documents containing the audited financial statements and the auditors' report thereon. Our responsibility for such other information does not extend beyond the financial information identified in our auditors' report. We have no responsibility for determining whether 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Baltimore, Maryland
November 9, 2015

ND Retirement and Investment Office



*State Investment Board
Teachers' Fund for Retirement*

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November 9, 2015

CliftonLarsonAllen LLP
1966 Greenspring Drive, Suite 300
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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, 2015, 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 9, 2015, 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 March 30, 2015, 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 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: Exec Dir / CIO

Signature:  Title: Fiscal & Investment
Operations Mgr

**NORTH DAKOTA RETIREMENT
AND INVESTMENT OFFICE
Bismarck, ND**

**FINANCIAL STATEMENTS
June 30, 2015 and 2014**

North Dakota Retirement and Investment Office

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June 30, 2015 and 2014

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Independent Auditors' Report

Governor Jack Dalrymple
The Legislative Assembly
David Hunter, Executive Director/CIO
State Investment Board
Teachers' 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 as of June 30, 2015 and 2014, and the related statements of changes in net position 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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014, 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 NPL and related ratios - ND Teachers' Fund for Retirement and employer contributions - ND Teachers' Fund for Retirement, investment returns - ND Teachers' Fund for Retirement, employer's share of NPL – ND Public Employees Retirement System and employer contributions – ND Public Employees Retirement System 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 9, 2015, 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 9, 2015

**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
Teachers' 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 basic financial statements of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements, as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated November 9, 2015.

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 audit, we considered RIO's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 audit 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Baltimore, Maryland
November 9, 2015

We did not identify any findings that are required to be reported in accordance with *Government Auditing Standards*.

North Dakota Retirement and Investment Office

Management's Discussion and Analysis

June 30, 2015 and 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, 2015. 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 23 investment clients in two investment pools and two individual investment accounts.

Financial Highlights

Total net position increased in the fiduciary funds by \$1.31 billion or 13.9% from the prior year. Approximately 85% 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 \$1.01 billion during the fiscal year.

Additions in the fiduciary funds for the year decreased \$736.6 million or 29.8% from the previous year. Net investment income decreased by \$647.5 million and total contributions increased \$31.5 million.

Deductions in the fiduciary funds decreased over the prior year by \$91.2 million or 17.7%. Payments to TFFR members in the form of benefits and refunds increased by \$9.9 million or 6.2%. 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 redemption of units from the investment trust decreased by \$101.8 million or 29.0%.

As of June 30, 2015, the TFFR pension plan had a Net Pension Liability (NPL) of \$1.3 billion and Plan Fiduciary Net Position as a percent of Total Pension Liability (TPL) of 62.1%.

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 additional supplementary information 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 additional supplementary information, including 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, 2015, were \$10.7 billion and were comprised mainly of investments. Total assets increased by \$1.3 billion or 13.9% from the prior year primarily due to the growth of the Legacy Fund.

Total liabilities as of June 30, 2015, were \$13.2 million. The majority of the liabilities was comprised of investment expenses payable of \$11.4 million and accrued expenses of \$1.5 million. The accrued expenses include the net pension liability (NPL) of \$773,000 that is required to be reported under GASB statement 68. This amount represents RIO's proportionate share of the ND Public Employees Retirement System (NDPERS) Main Plan's NPL measured as of June 30, 2014. Total liabilities increased by \$2.5 million or 23.4% from the prior year due mainly to an increase in investment expenses payable at June 30, 2015, caused by the timing of the payment of those expenses.

RIO's fiduciary fund total net position was \$10.7 billion at the close of fiscal year 2015.

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

	<u>2015</u>	<u>2014</u>	Total % Change
Assets			
Investments	10,668.6	9,373.5	13.8%
Receivables	61.1	48.2	26.9%
Cash & Other	<u>19.0</u>	<u>17.1</u>	11.1%
Total Assets	<u>10,748.7</u>	<u>9,438.8</u>	13.9%
Deferred Outflows of Resources			
Deferred outflows related to pensions	<u>0.1</u>	<u>-</u>	100.0%
Liabilities			
Total Liabilities	<u>13.2</u>	<u>10.7</u>	23.4%
Deferred Inflows of Resources			
Deferred inflows related to pensions	<u>0.2</u>	<u>-</u>	100.0%
Total Net Position	<u>\$ 10,735.5</u>	<u>\$ 9,428.1</u>	13.9%

Note: RIO posted prior period adjustments in fiscal year 2015 in order to comply with Governmental Accounting Standards Board (GASB) Statements 68 and 71 related to certain defined benefit pension plan participation. The adjustment amounts, totaling just under \$822,000, recognize the initial balances of net pension liability and deferred outflows of resources associated with RIO's participation in the ND Public Employees Retirement System (NDPERS) Main Plan. The adjustments were made to the beginning net position for fiscal year 2015.

North Dakota Retirement and Investment Office
Management's Discussion and Analysis
June 30, 2015 and 2014

	<u>2014</u>	<u>2013</u>	<u>Total % Change</u>
Assets			
Investments	\$ 9,373.5	\$ 7,421.8	26.3%
Receivables	48.2	44.1	9.2%
Cash & Other	<u>17.1</u>	<u>16.2</u>	5.5%
Total Assets	<u>9,438.9</u>	<u>7,482.1</u>	26.2%
Liabilities			
Total Liabilities	<u>10.7</u>	<u>7.5</u>	42.4%
Total Net Position	<u>\$ 9,428.2</u>	<u>\$ 7,474.6</u>	26.1%

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

	<u>2015</u>	<u>2014</u>	<u>Total % Change</u>
Additions:			
Contributions	\$ 152.5	\$ 121.0	26.0%
Investment Income	340.0	987.5	-65.6%
Purchase of Units	<u>1,239.9</u>	<u>1,360.5</u>	-8.9%
Total Additions	<u>1,732.4</u>	<u>2,469.0</u>	-29.8%
Deductions:			
Payments to TFFR members	172.2	162.2	6.2%
Administrative Expenses	2.9	2.3	25.6%
Redemption of Units	<u>249.1</u>	<u>350.9</u>	-29.0%
Total Deductions	<u>424.2</u>	<u>515.4</u>	-17.7%
Total change in net position	<u>\$ 1,308.2</u>	<u>\$ 1,953.6</u>	-33.0%

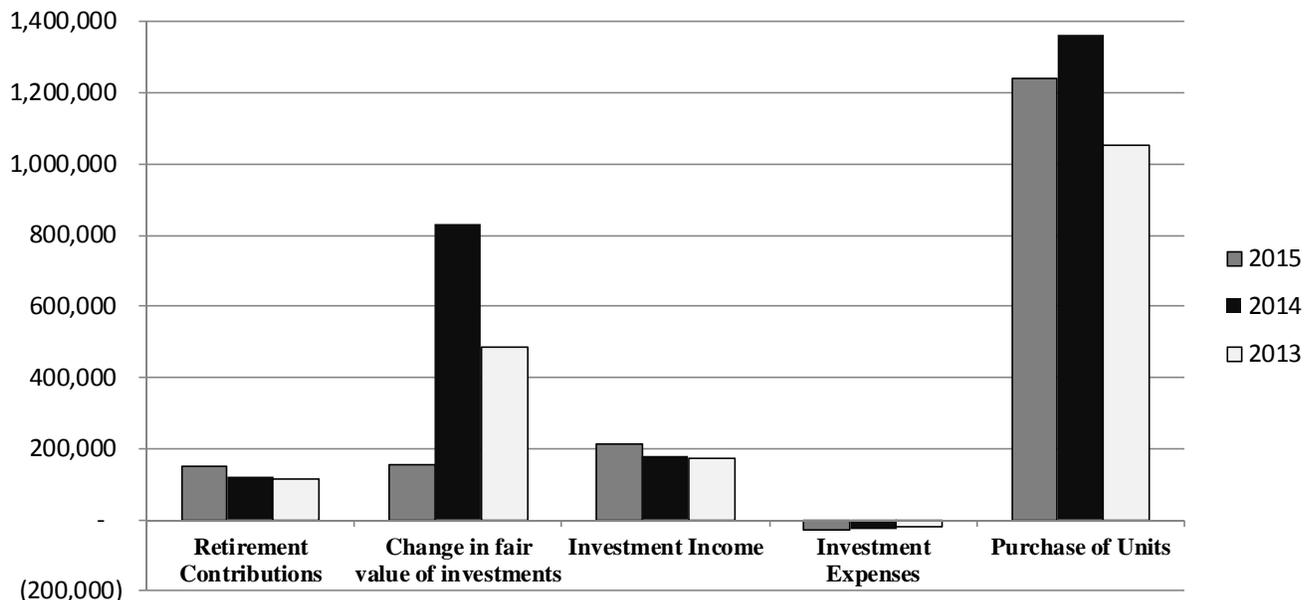
North Dakota Retirement and Investment Office
Management's Discussion and Analysis
June 30, 2015 and 2014

	<u>2014</u>	<u>2013</u>	<u>Total % Change</u>
Additions:			
Contributions	\$ 121.0	\$ 115.8	4.4%
Investment Income	987.5	637.8	54.8%
Purchase of Units	<u>1,360.5</u>	<u>1,053.3</u>	29.2%
Total Additions	<u>2,469.0</u>	<u>1,806.9</u>	36.6%
Deductions:			
Payments to TFFR members	162.2	149.0	8.9%
Administrative Expenses	2.3	2.2	4.4%
Redemption of Units	<u>350.9</u>	<u>234.8</u>	49.4%
Total Deductions	<u>515.4</u>	<u>386.0</u>	33.5%
Total change in net position	<u>\$ 1,953.6</u>	<u>\$ 1,420.9</u>	37.5%

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 \$31.5 million or 26.0% over the previous fiscal year due to a 2% contribution rate increase for both the employers and members that took effect 7/1/2014. Net investment income (net of investment expenses) decreased by \$647.5 million or 65.6% from last year. This was the result of weakening financial markets during the fiscal year.

**Additions to Net Position
(in thousands)**

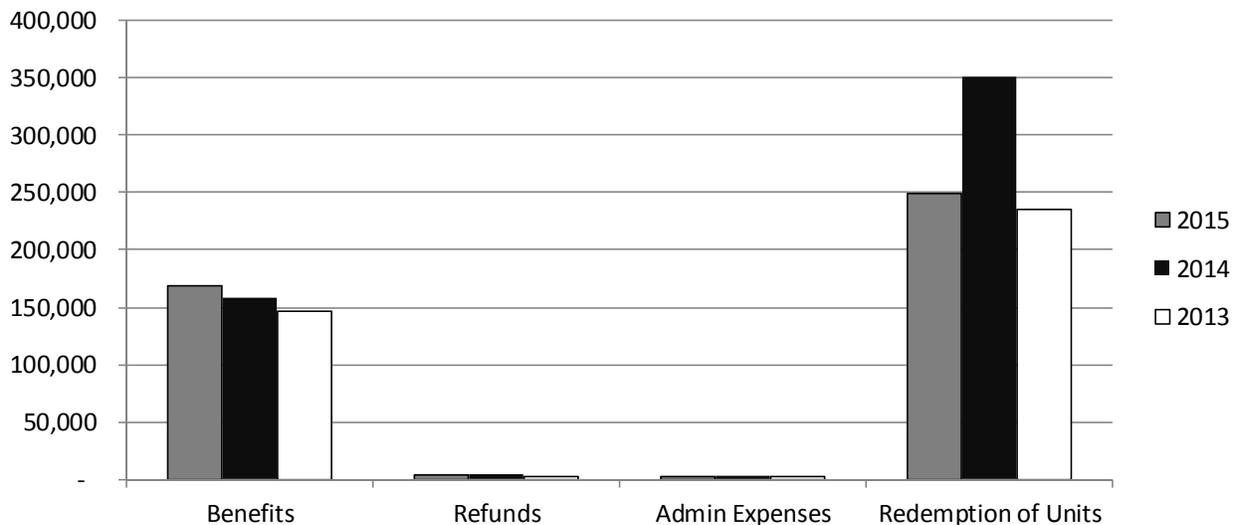


Statement of Changes in Net Position – Deductions

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by \$9.9 million or 6.2% during the fiscal year ended June 30, 2015. 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 decreased slightly in fiscal year 2015, by \$19,000 or 0.5%.

Administrative expenses increased by \$583,000 or 25.6%. This increase is mainly due to an increase in salary expense due to being fully staffed, including the addition of an investment analyst position, and an increase in audit and actuary fees due to the implementation of GASB Statements 67 and 68.

**Deductions from Net Position
(in thousands)**



Conclusion

Improving U.S. labor markets and generally favorable economic policy were responsible for generating positive investment returns in the U.S. On the other hand, returns on foreign assets were hampered by a stronger dollar, economic uncertainty in the Eurozone, and slower growth prospects in the emerging markets. For the fiscal year ended June 30, 2015, the TFFR pension plan generated net investment returns of over 3.5% which exceeded the investment policy benchmark of 2.2% by over 1.3%. Strong returns in U.S. equities (up 8.5%) and U.S. fixed income (up 3.2%) were partially offset by disappointing results in international equities (down 2.7%) and international fixed income (down 10%). Impressive real asset returns including real estate (up 15%) were partially offset by disappointing results in our private equity portfolio (down 5%) and timber investments (up 4%).

While cumulative returns in the post-credit crisis era have been robust, investors today face numerous challenges in the future that may limit the potential for high market returns and amplify market risk. First, one could argue that many asset classes and strategies no longer offer compelling valuations for investors. Second, the ever-growing debt burden from unprecedented monetary policy and muted economic growth in a range of economies makes it less and less likely that authorities will be in a position to provide a cushion in a downturn when it occurs. Finally, the specter of the Federal Reserve raising short-term interest rates in the near future does pose a challenge to certain asset classes and strategies to varying degrees. To meet this challenge, the State Investment Board will continue to research strategies and investment options that mitigate and diversify the sources of risk accepted to address funding issues in the challenging years ahead.

TFFR's funding objective is to meet long-term pension benefit obligations through contributions and investment income. To address TFFR's funding shortfall, the ND State Legislature took action in 2011 and approved legislation to increase contributions (4% member and 4% employer) and modify certain benefits for non-grandfathered members. 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, 2015, TFFR's funding level was 61.6% on an actuarial basis. TFFR's funding level reflects modified actuarial assumptions which were approved by the Board in 2015 after an Actuarial Experience Study was conducted. Although TFFR's unfunded liability increased from the previous year, the plan is projected to become nearly fully funded in approximately 30 years, if all actuarial assumptions are met. 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.

North Dakota Retirement and Investment Office
Statement of Net Position – Fiduciary Funds
June 30, 2015 and 2014

	Pension Trust		Investment Trust	
	2015	2014	2015	2014
Assets:				
Investments, at fair value				
Equities	\$ -	\$ -	\$ 1,708,243,680	\$ 55,112,752
Equity pool	1,114,412,547	1,089,067,377	1,899,373,890	2,787,747,097
Fixed income	-	-	1,186,979,426	533,078,401
Fixed income pool	480,175,754	478,677,486	2,202,727,271	3,083,559,151
Real assets	-	-	509,958,485	-
Real assets pool	389,351,436	369,078,739	843,179,560	645,467,366
Private equity pool	81,662,078	97,357,862	95,675,581	114,064,794
Cash pool	29,631,182	20,045,640	127,180,135	100,251,550
Total investments	<u>2,095,232,997</u>	<u>2,054,227,104</u>	<u>8,573,318,028</u>	<u>7,319,281,111</u>
Receivables:				
Investment income	8,574,358	7,457,808	28,925,179	24,467,745
Contributions	23,591,127	16,233,852	-	-
Miscellaneous	20,646	4,362	13,084	11,316
Total receivables	<u>32,186,131</u>	<u>23,696,022</u>	<u>28,938,263</u>	<u>24,479,061</u>
Due from other state agency	142	-	57	-
Cash and cash equivalents	18,964,646	17,012,740	90,692	145,652
Total assets	<u>2,146,383,916</u>	<u>2,094,935,866</u>	<u>8,602,347,040</u>	<u>7,343,905,824</u>
Deferred outflows of resources				
Deferred outflows related to pensions	<u>76,002</u>	<u>-</u>	<u>47,146</u>	<u>-</u>
Liabilities:				
Accounts payable	142,372	58,356	49,697	39,232
Investment expenses payable	3,101,713	3,262,454	8,326,400	6,599,159
Accrued expenses	1,193,136	631,740	342,998	70,572
Miscellaneous payable	-	-	16,497	14,804
Due to other state agencies	8,722	6,260	2,314	1,169
Total liabilities	<u>4,445,943</u>	<u>3,958,810</u>	<u>8,737,906</u>	<u>6,724,936</u>
Deferred inflows of resources				
Deferred inflows related to pensions	<u>93,175</u>	<u>-</u>	<u>57,796</u>	<u>-</u>
Net position:				
Retricted for pensions	2,141,920,800	2,090,977,056	-	-
Held in trust for external investment pool participants:				
Pension pool	-	-	2,697,830,841	2,603,764,672
Insurance pool	-	-	2,472,333,924	4,643,121,726
Held in trust for individual investment accounts	-	-	3,423,433,719	90,294,490
Total net position	<u>\$ 2,141,920,800</u>	<u>\$ 2,090,977,056</u>	<u>\$ 8,593,598,484</u>	<u>\$ 7,337,180,888</u>
Each participant unit is valued at \$1.00				
Participant units outstanding			8,593,598,484	7,337,180,888

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

North Dakota Retirement and Investment Office
Statement of Changes in Net Position – Fiduciary Funds
June 30, 2015 and 2014

	Pension Trust		Investment Trust	
	2015	2014	2015	2014
Additions:				
Contributions:				
Employer contributions	\$ 78,422,098	\$ 62,355,146	\$ -	\$ -
Member contributions	72,268,451	56,554,767	-	-
Purchased service credit	1,600,739	2,034,289	-	-
Interest, penalties and other	172,474	47,766	-	-
Total contributions	<u>152,463,762</u>	<u>120,991,968</u>	<u>-</u>	<u>-</u>
Investment income:				
Net change in fair				
value of investments	39,635,140	264,759,565	115,453,148	567,151,376
Interest, dividends and other income	40,486,496	36,744,024	173,270,874	144,142,458
	80,121,636	301,503,589	288,724,022	711,293,834
Less investment expenses	6,916,830	7,257,140	21,929,066	18,023,588
Net investment income	<u>73,204,806</u>	<u>294,246,449</u>	<u>266,794,956</u>	<u>693,270,246</u>
Purchase of units (\$1 per unit)	-	-	1,239,909,653	1,360,499,546
Total additions	<u>225,668,568</u>	<u>415,238,417</u>	<u>1,506,704,609</u>	<u>2,053,769,792</u>
Deductions:				
Benefits paid to participants	167,792,430	157,529,892	-	-
Partial lump-sum distributions	557,332	820,463	-	-
Refunds	3,889,671	3,908,921	-	-
Administrative expenses	1,923,392	1,586,045	939,798	693,895
Redemption of units (\$1 per unit)	-	-	249,087,335	350,900,674
Total deductions	<u>174,162,825</u>	<u>163,845,321</u>	<u>250,027,133</u>	<u>351,594,569</u>
Change in net position	51,505,743	251,393,096	1,256,677,476	1,702,175,223
Net position:				
Beginning of year	2,090,977,056	\$ 1,839,583,960	\$ 7,337,180,888	\$ 5,635,005,665
Restatement due to implementation of GASB 68	(561,999)	-	(259,880)	-
Beginning of year, as restated	<u>2,090,415,057</u>	<u>1,839,583,960</u>	<u>7,336,921,008</u>	<u>5,635,005,665</u>
End of Year	<u>\$ 2,141,920,800</u>	<u>\$ 2,090,977,056</u>	<u>\$ 8,593,598,484</u>	<u>\$ 7,337,180,888</u>

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.

Restatement

The June 30, 2014, ending net position of the Pension and Investment Trusts was restated by (\$561,999) and (\$259,880), respectively. RIO posted prior period adjustments in fiscal year 2015 in order to comply with Governmental Accounting Standards Board (GASB) Statements 68 and 71 related to certain defined benefit pension plan participation. The adjustment amounts recognize the initial balances of net pension liability and deferred outflows of resources associated with RIO’s participation in the ND Public Employees Retirement System (NDPERS) Main Plan.

	<u>Pension Trust</u>	<u>Investment Trust</u>
Net Position – June 30, 2014, as previously reported	\$2,090,977,056	\$7,337,180,888
Restatement due to implementation of GASB 68, effect on net position	<u>(561,999)</u>	<u>(259,880)</u>
Net Position – June 30, 2014, as restated	<u>\$2,090,415,057</u>	<u>\$7,336,921,008</u>

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 two individual investment accounts. 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 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, and Budget Stabilization Fund are managed in the insurance pool. The Legacy Fund and PERS Retiree Health investments are managed by SIB in individual investment accounts; except for a small portion of the Legacy Fund fixed income assets that will remain pooled until they are liquidated at a future date and their cash allocation that will remain pooled for operational efficiency.

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. The funds 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:

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

Investments

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

The pension fund belonging to TFFR and investment trust funds attributable to the City of Bismarck Employee Pension Plan, the City of Bismarck Police Pension Plan, 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 funds 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 change 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 gains and losses are 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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the ND Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2015 and 2014 were deposited in the Bank of North Dakota. At June 30, 2015 and 2014, the carrying amount of TFFR’s deposits was \$18,964,646 and \$17,012,740, respectively, and the bank balance was \$18,795,430 and \$17,015,906 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 are recorded as investments and have a cost and carrying value of \$93,980,286 and \$106,948,787 at June 30, 2015 and 2014, respectively. In addition these funds carry cash and cash equivalents totaling \$90,692 and \$145,652 at June 30, 2015 and 2014, respectively. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits held at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

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.

North Dakota Retirement and Investment Office

Notes to Combined Financial Statements

June 30, 2015 and 2014

At June 30, 2015 and 2014, the following tables show the investments by investment type and maturity (expressed in thousands).

2015	Total Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years
Asset Backed Securities	\$ 174,485	\$ 165	\$ 48,233	\$ 21,321	\$ 104,766
Bank Loans	5,376	-	4,579	797	-
Collateralized Bonds	-	-	-	-	-
Commercial Mortgage-Backed	146,924	-	811	676	145,437
Commercial Paper	9,999	9,999	-	-	-
Corporate Bonds	1,189,871	64,297	441,078	342,993	341,503
Corporate Convertible Bonds	18,154	4,215	8,777	3,355	1,807
Government Agencies	100,126	11,858	76,856	542	10,870
Government Bonds	512,353	17,649	261,191	135,057	98,456
Gov't Mortgage Backed and CMB	634,153	-	18,174	38,542	577,437
Repurchase Agreements	138,070	138,070	-	-	-
Index Linked Government Bonds	29,232	8,109	-	14,323	6,800
Municipal/Provincial Bonds	22,950	66	3,165	6,463	13,256
Non-Government Backed CMOs	61,920	-	5,621	4,331	51,968
Other Fixed Income	11,710	3,286	8,424	-	-
Short Term Bills and Notes	7,045	7,045	-	-	-
Funds/Pooled Investments	1,658,568	40,199	284,027	875,517	458,825
Total Debt Securities	\$ 4,720,936	\$ 304,958	\$ 1,160,936	\$ 1,443,917	\$ 1,811,125

North Dakota Retirement and Investment Office
Notes to Combined Financial Statements
June 30, 2015 and 2014

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

In the tables 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 \$10.2 million and \$6.6 million, and POs valued at \$4.1 million and \$3.3 million at June 30, 2015 and 2014, 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 below investment grade categories. The following tables present the SIB's ratings as of June 30, 2015 and 2014 (expressed in thousands).

North Dakota Retirement and Investment Office
Notes to Combined Financial Statements
June 30, 2015 and 2014

2015	Total Fair Value	Credit Rating*												
		A-1	A-2	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset Backed Securities	\$ 173,747	\$ 625	\$ -	\$ 91,848	\$ 17,692	\$ 21,744	\$ 12,112	\$ 3,591	\$ 4,161	\$11,097	\$ 2,057	\$ -	\$ 592	\$ 8,228
Bank Loans	5,376	-	-	-	-	-	801	2,947	1,203	-	-	-	-	425
Commercial Mortgage Backed	120,818	-	-	65,357	14,429	9,834	6,127	6,611	12,310	817	-	-	1,772	3,561
Commercial Paper	9,999	-	-	-	-	-	-	-	-	-	-	-	-	9,999
Corporate Bonds	1,189,871	-	-	2,013	38,678	227,129	683,105	164,638	61,167	11,739	197	-	91	1,114
Corporate Convertible Bonds	18,154	-	-	-	-	1,238	2,789	5,884	1,340	-	-	-	-	6,903
Gov't Agencies	94,358	-	-	8,016	72,342	7,084	6,916	-	-	-	-	-	-	-
Gov't Bonds	112,497	-	-	-	9,908	28,722	55,193	13,433	-	283	-	-	-	4,958
Gov't Issued Commercial & Gov't Mortgage Backed	439,981	-	-	-	439,981	-	-	-	-	-	-	-	-	-
Index Linked Bonds	61	-	-	-	-	-	-	-	-	-	-	-	-	61
Municipal/Provincial Bonds	22,950	-	-	4,757	9,711	4,613	3,574	295	-	-	-	-	-	-
Non-Gov't Backed CMOs	59,964	-	-	5,368	9,764	7,606	5,069	456	2,612	4,454	2,258	-	3,691	18,686
Other Fixed Income	11,710	-	-	-	-	748	-	-	-	-	-	-	-	10,962
Repurchase Agreements	138,070	-	-	-	-	-	-	-	-	-	-	-	-	138,070
Short Term Bills & Notes	5,500	-	-	-	5,500	-	-	-	-	-	-	-	-	-
Funds/Pooled Investments	1,658,568	-	-	88,438	557,304	456,964	258,847	37,639	188,607	70,769	-	-	-	-
Total Credit Risk of Debt Securities	4,061,624	\$ 625	\$ -	\$265,797	\$ 1,175,309	\$765,682	\$1,034,533	\$235,494	\$271,400	\$99,159	\$ 4,512	\$ -	\$ 6,146	\$202,967
US Gov't & Agencies **	659,312													
Total Debt Securities	<u>\$ 4,720,936</u>													

2014	Total Fair Value	Credit Rating*												
		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	<u>\$ 4,189,430</u>													

- * 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 Issued Commercial & Gov't Mortgage Backed*, *Gov't Agencies*, *Non-Gov't Backed CMOs*, and *Short Term Bills and Notes* categories are issued by FNMA, FDIC, FHLB, FHLMC, FICO, FAMC 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, 2015 and 2014, 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, 2015 and 2014 (expressed in thousands).

North Dakota Retirement and Investment Office

Notes to Combined Financial Statements

June 30, 2015 and 2014

2015

Currency	Short-Term	Debt	Equity	Total
Australian dollar	\$ 78	\$ 10,616	\$ 33,382	\$ 44,076
Brazilian real	(392)	8,744	5,569	13,921
British pound sterling	(530)	741	184,992	185,203
Canadian dollar	(132)	-	30,690	30,558
Chilean peso	9,468	907	195	10,570
Chinese yuan renminbi	1	-	-	1
Czech koruna	9	-	1,015	1,024
Israeli shekel	33	-	6,357	6,390
Danish krone	-	-	17,527	17,527
Euro	(21,035)	18,006	338,061	335,032
Hong Kong dollar	443	-	51,796	52,239
Hungarian forint	16	5,005	1,036	6,057
Indian rupee	-	7,516	-	7,516
Indonesian Rupiah	-	5,935	-	5,935
Japanese yen	(1,707)	307	202,657	201,257
Malaysian Ringgit	63	3,658	-	3,721
Mexican peso	1,694	25,152	-	26,846
New Zealand dollar	(4,036)	4,276	1,270	1,510
Norwegian krone	4,373	-	15,197	19,570
Peruvian nuevo sol	(7)	-	-	(7)
Philippine peso	-	2,087	-	2,087
Polish zloty	15	2,790	1,967	4,772
Singapore dollar	(463)	-	8,291	7,828
South African rand	(44)	5,457	4,067	9,480
South Korean won	(1,269)	5,633	9,471	13,835
Swedish krona	4,223	-	28,593	32,816
Swiss franc	24	-	88,206	88,230
Taiwan dollar	-	-	679	679
Thai baht	239	-	3,952	4,191
Turkish lira	-	-	1,789	1,789
International commingled funds (various currencies)	-	99,367	739,304	838,671
Total international investment securities	<u>\$ (8,936)</u>	<u>\$ 206,197</u>	<u>\$ 1,776,063</u>	<u>\$ 1,973,324</u>

Negative amounts represent short positions.

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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.

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, 2015 and 2014, 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 \$43.1 million for fiscal year 2015 and \$101.2 million for fiscal year 2014. At June 30, 2015 and 2014, the SIB investment portfolio had the notional futures balances shown below (expressed in thousands).

<u>Futures</u>	Notional Value	
	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Cash & Cash Equivalent Derivative Futures		
Long	\$ -	\$ 35,663
Short	(1,035,636)	(511,036)
Equity Derivative Futures		
Long	604,691	486,293
Short	-	-
Fixed Income Derivative Futures		
Long	246,728	27,888
Short	(95,736)	(61,524)
	<u> </u>	<u> </u>
Total Futures	<u>\$ (279,953)</u>	<u>\$ (22,716)</u>

Options

Options represent or give buyers the right, but not the obligation, to buy (call) or sell (put) an asset at a preset price over a specified period. Options are traded on organized exchanges (exchange traded) thereby minimizing the SIB’s 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 \$2.5 million for fiscal year 2015 and \$801,500 for fiscal year 2014. At June 30, 2015 and 2014, the SIB investment portfolio had the following option balances (expressed in thousands).

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<u>Options</u>	Fair Value	
	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Cash & Other Options		
Call	\$ (36)	\$ 988
Put	(84)	(39)
Fixed Income Options		
Call	(223)	(170)
Put	(27)	(11)
Total Options	<u>\$ (370)</u>	<u>\$ 768</u>

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, inflation, credit and currency 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.

Inflation risk represents the exposure to fair value losses arising from future changes in prevailing market inflation. In an inflation swap, one party pays a fixed rate on a notional principal amount, while the other party pays a floating rate linked to an inflation index, such as the Consumer Price Index (CPI).

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 \$(1.3) million for fiscal year 2015 and \$17 thousand for fiscal year 2014. The maximum loss that would be recognized at June 30, 2015 and 2014, if all counterparties failed to perform as contracted is \$3.25 million and \$3.25 million respectively. Swap fair values are determined by a third party pricing source. At June 30, 2015 and 2014, the SIB's investment portfolio had the swap fair value balances as shown below (expressed in thousands).

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Credit Default Swaps

Counterparty/Moody's Rating	Notional Amount		Expiration Date Range	Fair Value	
	June 30, 2015	June 30, 2014		June 30, 2015	June 30, 2014
Bank of America/A2 (4 contracts)	\$ (3,700)	\$ -	9/2015 - 9/2019	\$ 32	\$ -
Bank of America/A2		(500)	6/2019		(7)
Barclays/A2 (5 contracts)	(3,350)		6/2019 - 9/2019	48	
Barclays/A2 (6 contracts)		(1,400)	6/2019		35
BNP Paribas/A2	(400)		6/2019	(43)	
BNP Paribas/A2 (2 contracts)		(800)	6/2019		(25)
Citibank/A3 (5 contracts)	(13,300)		12/2018 - 12/2019	311	
Citibank/A3 (4 contracts)		(6,300)	6/2016 - 6/2019		64
Citigroup Global Markets/A1	(6,500)		12/2018	105	
Citigroup Global Markets/A1		(6,500)	12/2018		142
Credit Suisse First Boston/A1 (8 contracts)	(13,200)		6/2020	463	
Credit Suisse First Boston/A1 (9 contracts)		(13,993)	12/2017 - 6/2019		347
Credit Suisse International/A1	(800)		9/2016	-	
Credit Suisse International/A1 (3 contracts)		(560)	12/2016 - 6/2019		(4)
Deutsche Bank/A2 (4 contracts)	3,600		12/2016 - 6/2017	(100)	
Deutsche Bank/A2 (7 contracts)		3,860	12/2016 - 6/2019		(211)
Goldman Sachs/A3 (9 contracts)	(7,342)		9/2015 - 10/2052	(208)	
Goldman Sachs/A3 (5 contracts)		(4,900)	6/2019		30
HSBC Bank/A1 (3 contracts)	(4,200)		6/2019 - 9/2019	(26)	
HSBC Bank/A1 (4 contracts)		(4,450)	6/2019 - 9/2019		32
JP Morgan Chase/Aa3 (12 contracts)	25,726		11/2016 - 11/2024	(292)	
JP Morgan Chase/Aa3 (12 contracts)		4,212	3/2017 - 10/2052		78
Total Credit Default Swaps	\$ (23,466)	\$ (31,331)		\$ 290	\$ 481

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

Currency Swaps

Counterparty/Moody's Rating	Notional Amount		Expiration Date Range	Fair Value	
	June 30, 2015	June 30, 2014		June 30, 2015	June 30, 2014
Barclays/A2 (2 contracts)	\$ -	\$ 640	7/2018	\$ -	\$ (15)
Citibank N.A. NY/A3		49	5/2015		2
Deutsche Bank London/A2	281		5/2017	46	
Deutsche Bank London/A2		281	5/2017		(2)
Goldman Sachs/A3	150		1/2017	3	
HSBC Bank USA/A1	500		9/2015	(45)	
HSBC Bank USA/A1		500	9/2015		11
JP Morgan Chase/Aa3 (5 contracts)	177,287		11/2016 - 11/2024	27	
Total Currency Swaps	178,218	\$ 1,470		\$ 31	\$ (4)

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

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Interest Rate Swaps

Counterparty/Moody's Rating	Notional Amount		Expiration Date Range	Fair Value	
	June 30, 2015	June 30, 2014		June 30, 2015	June 30, 2014
Bank of America/A2 (3 contracts)	\$ 10,529	\$ -	1/2018 - 1/2021	\$ (64)	
Bank of Nova Scotia/Aa2		(315)	10/19		8
Barclays/A2 (3 contracts)	3,325		7/2015 - 12/2032	6	
Barclays/A2 (26 contracts)		2,029,119	7/2014 - 12/2032		(62)
BNP Paribas/A2 (3 contracts)	2,869		1/2021	(12)	
BNP Paribas/A2		5,957	1/2017		103
Citibank/A3 (9 contracts)	5,826		7/2015 - 12/2032	188	
Citibank/A3 (18 contracts)		3,626	11/2014 - 5/2023		317
Citigroup Global Markets/A1 (4 contracts)	(5,455)		9/2015 - 8/2020	(90)	
Citigroup Global Markets/A1 (4 contracts)		(7,855)	9/2015 - 8/2020		(97)
Credit Suisse First Boston/A1 (28 contracts)	162,650		6/2016 - 12/2045	(222)	
Credit Suisse First Boston/A1 (26 contracts)		280,000	9/2014 - 9/2044		9
Credit Suisse International/A1 (6 contracts)	(16,944)		6/2018 - 5/2023	(18)	
Deutsche Bank/A2 (8 contracts)	163,610		11/2018 - 1/2021	(16)	
Deutsche Bank/A2 (5 contracts)		268,701	11/2018 - 10/2023		37
Goldman Sachs/A3 (3 contracts)	10,671		1/2018 - 4/2024	(8)	
Goldman Sachs/A3 (4 contracts)		(48,140)	8/2018 - 4/2024		(186)
HSBC Bank/A1 (9 contracts)	178,144		7/2015 - 9/2033	(22)	
HSBC Bank/A1 (6 contracts)		15,807	6/2015 - 9/2033		(218)
JP Morgan Chase/Aa3 (50 contracts)	160,790		9/2015 - 7/2034	771	
JP Morgan Chase/Aa3 (22 contracts)		113,840	9/2015 - 3/2044		205
Morgan Stanley/Baa1 (2 contracts)	7,400		12/2015 - 5/2022	9	
Morgan Stanley/Baa1 (2 contracts)		7,400	1/2015 - 5/2022		18
Total Interest Rate Swaps	\$ 683,415	\$ 2,668,140		\$ 522	\$ 135

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

Inflation Swaps

Counterparty/Moody's Rating	Notional Amount		Expiration Date Range	Fair Value	
	June 30, 2015	June 30, 2014		June 30, 2015	June 30, 2014
Bank of America/A2 (9 contracts)	\$ 740	\$ -	1/2020 - 12/2044	\$ 31	
BNP Paribas/A2 (4 contracts)	620		1/2020 - 12/2044	26	
Citibank/A3 (4 contracts)	520		3/2020 - 6/2030	4	
Credit Suisse International/A1 (3 contracts)	42		11/2044 - 12/2044	3	
Goldman Sachs/A3 (11 contracts)	4,430		1/2020 - 1/2030	99	
Total Inflation Swaps	\$ 6,352	\$ -		\$ 163	\$ -

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

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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 \$6.3 million for fiscal year 2015 and \$(2.2) million for fiscal year 2014. At June 30, 2015 and 2014, the SIB's investment portfolio included the currency forwards balances shown below (expressed in thousands).

Currency	Cost	Purchases	Sales	Fair Value	
				6/30/2015	6/30/2014
Australian dollar	\$ (977)	\$ -	\$ (977)	\$ (986)	\$ (6,290)
Brazilian real	(295)	651	(946)	(290)	293
British pound sterling	(724)	36	(760)	(751)	(181)
Canadian dollar	(136)	49	(185)	(136)	643
Chilean peso	9,614	9,614	-	9,468	9,451
Chinese yuan renminbi	-	-	-	-	379
Colombian peso	-	-	-	-	-
Czech koruna	-	-	-	-	-
Euro	(20,429)	6,293	(26,722)	(20,211)	(23,813)
Hungarian forint	(20)	42	(62)	(19)	(55)
Indian rupee	6,360	6,572	(212)	6,426	377
Israeli shekel	-	-	-	-	(23)
Japanese yen	(3,174)	3,737	(6,911)	(3,199)	(5,890)
South Korean won	(1,632)	170	(1,802)	(1,600)	240
Malaysian ringgit	-	-	-	-	236
Mexican peso	1,476	3,744	(2,268)	1,485	(2,820)
New Zealand dollar	(4,448)	-	(4,448)	(4,073)	(2,653)
Norwegian krone	4,064	4,064	-	4,027	135
Peruvian nuevo sol	(7)	-	(7)	(7)	(56)
Polish zloty	-	-	-	-	(4,219)
Russian ruble	-	-	-	-	379
Singapore dollar	(487)	-	(487)	(483)	291
South African rand	(391)	-	(391)	(390)	80
Swedish krona	4,052	4,052	-	4,220	(6)
Swiss franc	-	-	-	-	(58)
Turkish lira	(194)	-	(194)	(199)	(287)
United States dollar	7,349	45,949	(38,600)	7,349	33,700
Total forwards subject to currency risk				\$ 631	\$ (147)

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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, 2015 and 2014, the tables below show the SIB's derivative investments subject to interest rate risk (expressed in thousands).

2015

	Total Notional Value	3 months or less	3 to 6 months	6 to 12 months	1-5 years	Greater than 5 years
Futures-interest rate contracts	<u>\$ (884,643)</u>	<u>\$ (797,624)</u>	<u>\$ 144,609</u>	<u>\$ (165,051)</u>	<u>\$ (66,577)</u>	<u>\$ -</u>

	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	\$ (303)	\$ (257)	\$ (46)	\$ -	\$ -	\$ -
Options - interest rate contracts	8	-	-	-	8	-
Swaps - interest rate contracts	684	203	(4)	(140)	(468)	1,093
Total	<u>\$ 389</u>	<u>\$ (54)</u>	<u>\$ (50)</u>	<u>\$ (140)</u>	<u>\$ (460)</u>	<u>\$ 1,093</u>

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	<u>\$ (509,009)</u>	<u>\$ (454,788)</u>	<u>\$ (55,927)</u>	<u>\$ -</u>	<u>\$ 1,706</u>	<u>\$ -</u>

	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	<u>\$ (46)</u>	<u>\$ (39)</u>	<u>\$ (97)</u>	<u>\$ 10</u>	<u>\$ (43)</u>	<u>\$ 123</u>

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, through a limited partnership structure, 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,

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“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, 2013	Additions	Retirements	June 30, 2014	Additions	Retirements	June 30, 2015
Office equipment	\$19,321	\$ -	\$ -	\$19,321	\$ -	\$ -	\$19,321
Less accumulated depreciation on office equipment	(19,321)	-	-	(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)
	<u>\$0</u>			<u>\$0</u>			<u>\$0</u>

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, 2015 and 2014:

	2015	2014
Due To		
Information Technology Department	\$ 6,809	\$ 6,605
Office of Attorney General	2,966	468
Office of Management and Budget	1,261	281
University System	-	75
Total due to other state agencies	<u>\$ 11,036</u>	<u>\$ 7,429</u>
Due From		
Surplus Property	<u>\$ 200</u>	<u>\$ -</u>
Total due from other state agencies	<u>\$ 200</u>	<u>\$ -</u>

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

Note 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 \$81,130 for fiscal 2015 and \$79,667 for fiscal 2014. 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, 2015 and 2014 are summarized as follows:

	Beginning Balance <u>7/1/2014</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>6/30/2015</u>	Amounts Due Within <u>One Year</u>
Accrued Leave	<u>\$130,567</u>	<u>\$116,435</u>	<u>(\$91,559)</u>	<u>\$155,443</u>	<u>\$84,499</u>
	Beginning Balance <u>7/1/2013</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>6/30/2014</u>	Amounts Due Within <u>One Year</u>
Accrued Leave	<u>\$147,115</u>	<u>\$91,844</u>	<u>(\$108,392)</u>	<u>\$130,567</u>	<u>\$80,686</u>

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 information purposes only. Participants should refer to NDCC Chapter 15-39.1 for more complete information.

TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, 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.

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Membership

As of June 30, 2015 and 2014, the number of participating employer units was 216 and 219, respectively, consisting of the following:

	June 30, 2015	June 30, 2014
Public School Districts	177	178
County Superintendents	6	7
Special Education Units	19	19
Vocational Education Units	5	5
Other	9	10
Total	216	219

TFFR's membership consisted of the following:

	2015	2014
Retirees and beneficiaries currently receiving benefits	8,025	7,747
Terminated employees - vested	1,607	1,509
Terminated employees - nonvested	660	661
Total	10,292	9,917
Current employees		
Vested	7,369	7,406
Nonvested	3,145	2,899
Total	10,514	10,305

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 11.75% 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 12.75% of the teacher's salary. 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.

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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, 2015 and 2014.

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

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 3.56% and 16.35% for the years ended June 30, 2015 and 2014, 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, 2015 and 2014, TFFR had net realized gains of \$47,831,625 and \$129,815,358 respectively.

Net Pension Liability

The components of the net pension liability of TFFR at June 30, 2015 and 2014, were as follows:

	June 30, 2015	June 30, 2014
Total pension liability	3,449,775,982	3,138,799,773
Plan fiduciary net position	<u>(2,141,920,800)</u>	<u>(2,090,977,056)</u>
Net pension liability (NPL)	<u>1,307,855,182</u>	<u>1,047,822,717</u>
Plan fiduciary net position as a percentage of the total pension liability	62.1%	66.6%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2015 and 2014, using the following actuarial assumptions:

	July 1, 2015	July 1, 2014
Valuation date	July 1, 2015	July 1, 2014
Inflation	2.75%	3.00%
Salary increases	4.25% to 14.50%; varying by service, including inflation and productivity	4.50% to 14.75%; varying by service, including inflation and productivity
Cost of living adjustments	None	None
Investment rate of return	7.75% net of investment expenses	8% net of investment expenses

Mortality rates were based on the following:

For active and inactive members, mortality rates were based on the RP-2014 Employee Mortality Table, projected generationally using Scale MP-2014. For healthy retirees, mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table set back one year, multiplied by 50% for ages under 75 and grading up to 100% by age 80, projected generationally using Scale MP-2014. For disabled retirees, mortality rates were based on the RP-2014 Disabled Mortality Table set forward four years.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study dated April 30, 2015, for the period July 1, 2009 – June 30, 2014. The actuarial assumptions used in the July 1, 2014 valuation 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

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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, 2015 and 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	1.3%
Global Real Assets	5.4%
Cash Equivalents	0.0%

Discount Rate

The discount rate used to measure the total pension liability was 7.75% as of June 30, 2015 and 8.00% as of June 30, 2014. 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, 2015 and 2014 Actuarial Valuation Reports. 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, 2015 and 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, 2015 and 2014.

Sensitivity of Net Pension Liability

The following presents the net pension liability of the TFFR employers calculated using the discount rate of 7.75% as of June 30, 2015 and 8.00% as of June 30, 2014, 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 or 1-percentage-point higher than the current rate:

2015			
	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employers' net pension liability	\$ 1,728,392,470	\$ 1,307,855,182	\$ 957,135,967
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

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. The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions (Main System). NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor, one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees.

Pension Benefits

Benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the main system are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The Plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, life-time monthly payment in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's beneficiary.

Eligible members, who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the System in the North Dakota Administrative Code.

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Refunds of Member Contributions

Upon termination, if a member is not vested (is not 65 or does not have three years of service credited for the NDPERS) they will receive the accumulated member contributions plus interest, or may elect to receive this amount at a later date. If a member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contributions and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, RIO reported a liability of \$773,402 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. RIO's proportion of the net pension liability was based on RIO's share of covered payroll in the pension plan relative to the covered payroll of all participating NDPERS Main System employers. At June 30, 2014, RIO's proportion was 0.121849 percent.

For the year ended June 30, 2015, RIO recognized pension expense of \$77,420. At June 30, 2015, RIO reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 25,075	\$ -
Changes in assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	-	150,971
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
Employer contributions subsequent to the measurement date	98,071	-
Total	<u>\$ 123,146</u>	<u>\$ 150,971</u>

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Deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date in the amount of \$98,071 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and (deferred inflows of resources) related to pensions will be recognized in pension expense as follows:

Year Ended June 30		
2016	\$	(32,408)
2017		(32,408)
2018		(32,408)
2019		(32,408)
2020		3,736
	<u>\$</u>	<u>(125,896)</u>

Actuarial assumptions. The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increase (Payroll Growth)	3.85% per annum for four years, then 4.50% per annum
Investment Rate of Return	8.00%, net of investment expenses
Cost of Living Adjustment	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for NDPERS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan 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. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions for each major asset class are summarized in the following table:

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57%	7.5%
Global Fixed Income	22%	1.4%
Global Real Assets	20%	5.4%
Cash Equivalents	1%	0.0%

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes 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, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the 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:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employers' net pension liability	\$ 1,192,814	\$ 773,402	\$ 422,715

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

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, 2015, committed to fund certain alternative investment partnerships in the amount of \$1.14 billion. Funding of \$827.1 million has been provided leaving an unfunded commitment of approximately \$308.8 million.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in Net Pension Liability and Related Ratios
North Dakota Teachers' Fund for Retirement
Last 10 Fiscal Years*
(Dollars in thousands)

	2015	2014
Total pension liability		
Service cost	\$ 60,618	\$ 56,752
Interest	249,064	237,821
Changes of benefit terms	-	-
Differences between expected and actual experience	2,209	9,347
Changes of assumptions	171,325	-
Benefit payments, including refunds of member contributions	(172,239)	(162,259)
Net change in total pension liability	310,977	141,661
Total pension liability - beginning	3,138,800	2,997,139
Total pension liability - ending (a)	\$ 3,449,777	\$ 3,138,800
Plan fiduciary net position		
Contributions - employer	\$ 78,422	\$ 62,355
Contributions - member	72,268	56,555
Contributions - purchased service credit	1,601	2,034
Contributions - other	172	48
Net investment income	73,205	294,246
Benefit payments, including refunds of member contributions	(172,239)	(162,259)
Administrative expenses	(1,923)	(1,586)
Net change in plan fiduciary net position	51,506	251,393
Plan fiduciary net position - beginning **	2,090,415	1,839,584
Plan fiduciary net position - ending (b)	\$ 2,141,921	\$ 2,090,977
Plan's net pension liability - ending (a) - (b)	\$ 1,307,856	\$ 1,047,823
Plan fiduciary net position as a percentage of the total pension liability	62.1%	66.6%
Covered-employee payroll	\$ 615,105	\$ 580,053
Plan's net pension liability as a percentage of covered-employee payroll	212.6%	180.6%

Notes to Schedule:

- * Complete data for this schedule is not available prior to 2014.
- ** Restated in 2015 due to GASB 68 implementation.

Changes of assumptions: In 2015, amounts reported as changes of assumptions resulted primarily from a decrease in the investment return assumption from 8% to 7.75% and an updated mortality improvement scale.

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 Required Supplementary Information
 June 30, 2015 and 2014

**Schedule of Employer Contributions
 North Dakota Teachers' Fund for Retirement
 Last 10 Fiscal Years
 (Dollars in thousands)**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	71,168	59,513	52,396	69,374	65,113	52,053	41,986	44,115	50,532	48,747
Contributions in relation to the actuarially determined contribution	78,422	62,355	59,301	46,126	44,545	39,837	37,488	33,684	31,865	31,171
Contribution deficiency (excess)	(7,254)	(2,842)	(6,905)	23,248	20,568	12,216	4,498	10,431	18,667	17,576
Covered-employee payroll	615,105	580,053	551,656	527,156	509,091	482,868	454,396	434,626	411,167	402,204
Contributions as a percentage of covered-employee payroll	12.75%	10.75%	10.75%	8.75%	8.75%	8.25%	8.25%	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	28 years
Asset valuation method	5-year smoothed market
Inflation	2.75%; decreased from 3% prior to July 1, 2015.
Salary increases	4.25% - 14.5%, including inflation and productivity; 4.5% - 14.75% prior to July 1, 2015.
Investment rate of return	7.75%, net of investment expenses, including inflation. Rate was decreased from 8% beginning July 1, 2015.
Retirement age	In the 2015 valuation, rates of retirement were changed to better reflect anticipated future experience. In the 2010 valuation, expected retirement ages of plan members were adjusted to more closely reflect actual experience.
Mortality	In the 2015 valuation, assumed life expectancies were adjusted as a result of adopting the RP-2014 mortality tables with generational improvement. In prior years, those assumptions were based on percentages of GRS post termination non-disabled tables and RP-2000 disabled-life tables.

Schedule of Investment Returns
North Dakota Teachers' Fund for Retirement
Last 10 Fiscal Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual money-weighted rate of return, net of investment expense	3.56%	16.35%	13.60%

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

**Schedule of Employer's Share of Net Pension Liability
 ND Public Employees Retirement System
 Last 10 Fiscal Years*
 (Dollars in thousands)**

	2015
RIO's proportion of NDPERS net pension liability (asset)	0.121849%
RIO's proportionate share of NDPERS net pension liability (asset)	\$ 773
RIO's covered-employee payroll	1,026
RIO's proportionate share of NDPERS net pension liability (asset) as a percentage of its covered-employee payroll	75.34%
NDPERS Plan fiduciary net position as a percentage of the total pension liability	77.70%

**Schedule of Employer Contributions
 ND Public Employees Retirement System
 Last 10 Years*
 (Dollars in thousands)**

	2015
Statutorily required contributions	73
Contributions in relation to the actuarially determined contribution	73
Contribution deficiency (excess)	-
Covered-employee payroll	1,026
Contributions as a percentage of covered-employee payroll	7.12%

Notes to schedules:

*Complete data for these schedules is not available prior to 2015.

Amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

SUPPLEMENTARY INFORMATION

	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	1,298,809,977	35,107,459	16,932,388	37,726,351	-	33,298,041	3,681,731	437,941,803	8,180,274	-	-
Fixed income	-	-	-	-	-	-	-	-	-	-	-
Fixed income pool	559,522,906	28,309,930	10,707,806	57,998,983	-	14,712,997	1,560,950	916,923,750	12,769,339	1,721,507	3,517,111
Real assets											
Real assets pool	430,520,347	15,127,299	6,529,513	-	-	7,921,385	509,157	378,384,657	-	-	-
Private equity pool	88,967,769	2,536,851	1,409,443	-	-	2,521,538	239,980	-	-	-	-
Cash pool	40,173,709	570,139	260,328	560,562	2,744	746,038	42,401	19,820,493	2,331,702	1,433,907	3,592,334
Total investments	2,417,994,708	81,651,678	35,839,478	96,285,896	2,744	59,199,999	6,034,219	1,753,070,703	23,281,315	3,155,444	7,109,445
Investment income receivable	4,584,887	94,139	50,462	106,664	(1,283)	32,376	917	9,588,435	134,917	24,609	53,392
Operating Cash	27,735	-	-	-	-	-	-	32,096	637	952	899
Miscellaneous receivable	3,922	-	-	-	-	-	-	2,891	42	5	12
Due from other state agency	17	-	-	-	-	-	-	13	-	-	-
Total assets	2,422,611,269	81,745,817	35,889,940	96,392,560	1,461	59,232,375	6,035,136	1,762,694,138	23,416,911	3,180,980	7,163,748
Deferred outflows of resources											
Deferred outflows related to pensions	14,130	-	-	-	-	-	-	10,418	150	20	43
Liabilities:											
Investment expenses payable	3,539,182	123,954	54,687	118,664	-	83,144	7,417	1,218,630	14,592	634	1,304
Accounts payable	16,636	-	-	-	-	-	-	10,441	151	20	43
Accrued expenses	120,564	-	-	-	-	-	-	89,602	1,542	175	404
Miscellaneous payable	-	2,792	1,225	3,373	2	1,940	250	-	-	-	-
Due to other state agencies	694	-	-	-	-	-	-	511	7	1	2
Total liabilities	3,677,076	126,746	55,912	122,037	2	85,084	7,667	1,319,184	16,292	830	1,753
Deferred inflows of resources											
Deferred inflows related to pensions	17,323	-	-	-	-	-	-	12,772	183	24	52
Net position held in trust for external investment pool participants											
	<u>\$ 2,418,931,000</u>	<u>\$ 81,619,071</u>	<u>\$ 35,834,028</u>	<u>\$96,270,523</u>	<u>\$ 1,459</u>	<u>\$ 59,147,291</u>	<u>\$ 6,027,469</u>	<u>\$ 1,761,372,600</u>	<u>\$23,400,586</u>	<u>\$ 3,180,146</u>	<u>\$ 7,161,986</u>
Each participant unit is valued at \$100											
Participant units outstanding	2,418,931,000	81,619,071	35,834,028	96,270,523	1,459	59,147,291	6,027,469	1,761,372,600	23,400,586	3,180,146	7,161,986

North Dakota Retirement and Investment Office
Combining Statement of Net Position – Investment Trust Funds – Fiduciary Funds
June 30, 2015 (with Comparative Totals for 2014)

Insurance Pool Participants											Individual Investment Accounts		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	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	State Board of Medical Examiners	Legacy Fund	PERS Retiree Health Credit Fund	2015	2014	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,649,119,152	\$ 59,124,528	1,708,243,680	\$ 55,112,752	
792,427	210,268	2,058,630	2,304,331	1,151,266	-	-	262,718	20,463,235	452,991	-	-	1,899,373,890	2,787,747,097	
-	-	-	-	-	-	-	-	-	-	1,148,520,834	38,458,592	1,186,979,426	533,078,401	
912,577	140,764	4,405,922	3,731,715	2,185,100	-	565,388,029	565,799	15,978,096	1,673,990	-	-	2,202,727,271	3,083,559,151	
-	20,156	-	-	-	-	-	-	4,120,319	46,727	509,958,485	-	509,958,485	-	
-	-	-	-	-	-	-	-	-	-	-	-	843,179,560	645,467,366	
-	-	-	-	-	-	-	-	-	-	-	-	95,675,581	114,064,794	
922,483	11,517	339,364	185,331	496,307	39,653,336	5,823,919	42,368	409,902	1,820	9,759,431	-	127,180,135	100,251,550	
2,627,487	382,705	6,803,916	6,221,377	3,832,673	39,653,336	571,211,948	870,885	40,971,552	2,175,528	3,317,357,902	97,583,120	8,573,318,028	7,319,281,111	
9,175	344	45,298	3,165	827	350	2,799,203	1,292	35,494	(825)	11,273,401	87,940	28,925,179	24,467,745	
647	343	1,156	1,153	-	-	21,240	-	-	-	3,834	-	90,692	145,652	
1	1	11	10	-	-	972	-	-	-	5,217	-	13,084	11,316	
-	-	-	-	-	-	4	-	-	-	23	-	57	-	
2,637,310	383,393	6,850,381	6,225,705	3,833,500	39,653,686	574,033,367	872,177	41,007,046	2,174,703	3,328,640,377	97,671,060	8,602,347,040	7,343,905,824	
4	2	41	37	-	-	3,502	-	-	-	18,799	-	47,146	-	
1,272	347	4,265	4,332	2,161	92	363,164	522	36,802	1,761	2,679,736	69,738	8,326,400	6,599,159	
4	2	41	37	-	-	3,505	-	-	-	18,817	-	49,697	39,232	
58	19	352	305	-	-	29,034	-	-	-	100,943	-	342,998	70,572	
-	-	-	-	250	1,415	-	250	1,436	250	-	3,314	16,497	14,804	
-	-	2	2	-	-	172	-	-	-	923	-	2,314	1,169	
1,334	368	4,660	4,676	2,411	1,507	395,875	772	38,238	2,011	2,800,419	73,052	8,737,906	6,724,936	
5	3	50	45	-	-	4,293	-	-	-	23,046	-	57,796	-	
\$ 2,635,975	\$ 383,024	\$ 6,845,712	\$ 6,221,021	\$ 3,831,089	\$ 39,652,179	\$ 573,636,701	\$ 871,405	\$ 40,968,808	\$ 2,172,692	\$ 3,325,835,711	\$ 97,598,008	\$ 8,593,598,484	\$ 7,337,180,888	
2,635,975	383,024	6,845,712	6,221,021	3,831,089	39,652,179	573,636,701	871,405	40,968,808	2,172,692	3,325,835,711	97,598,008	8,593,598,484	7,337,180,888	

	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	\$ 46,174,788	\$ 1,640,168	\$ 683,609	\$ 1,818,431	\$ -	\$ 1,108,806	\$ 167,018	\$ 19,423,177	\$ 249,666	\$ (3,765)	\$ (10,166)
Interest, dividends and other income	45,848,042	1,580,510	686,314	1,721,361	12	1,076,573	100,269	40,772,394	513,284	43,443	86,302
Less investment expenses	7,859,071	277,192	121,765	279,285	50	187,677	17,396	4,227,205	42,304	2,562	5,171
Net investment income	84,163,759	2,943,486	1,248,158	3,260,507	(38)	1,997,702	249,891	55,968,366	720,646	37,116	70,965
Purchase of units (\$1 per unit)	6,600,000	-	-	-	-	4,075,989	289,276	25,500,000	-	-	-
Total Additions	90,763,759	2,943,486	1,248,158	3,260,507	(38)	6,073,691	539,167	81,468,366	720,646	37,116	70,965
Deductions:											
Administrative Expenses	317,959	-	-	-	-	-	-	208,895	3,187	1,013	1,027
Redemption of units (\$1 per unit)	500,000	-	-	4,672,143	8,156	4,731,927	442,354	23,000,000	6,525,000	125,000	-
Total Deductions	817,959	-	-	4,672,143	8,156	4,731,927	442,354	23,208,895	6,528,187	126,013	1,027
Change in net position	89,945,800	2,943,486	1,248,158	(1,411,636)	(8,194)	1,341,764	96,813	58,259,471	(5,807,541)	(88,897)	69,938
Net position:											
Beginning 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
Restatement due to implementation of GASB 68	(90,022)	-	-	-	-	-	-	(66,619)	(1,159)	(129)	(281)
Beginning of year, as restated	2,328,985,200	78,675,585	34,585,870	97,682,159	9,653	57,805,527	5,930,656	1,703,113,129	29,208,127	3,269,043	7,092,048
End of year	\$ 2,418,931,000	\$ 81,619,071	\$ 35,834,028	\$96,270,523	\$ 1,459	\$ 59,147,291	\$ 6,027,469	\$ 1,761,372,600	\$23,400,586	\$ 3,180,146	\$ 7,161,986

North Dakota Retirement and Investment Office
Combining Statement of Changes in Net Position – Investment Trust Funds – Fiduciary Funds
Year Ended June 30, 2015 (with Comparative Totals for 2014)

Insurance Pool Participants											Individual Investment Accounts		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	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	State Board of Medical Examiners	Legacy Fund	PERS Retiree Health Credit Fund	2015	2014	
\$ (21,102)	\$ 11,196	\$ 119,666	\$ 140,595	\$ 26,016	\$ -	\$ (3,424,930)	\$ 6,205	\$ 579,771	\$ 8,349	\$ 45,818,808	\$ 936,842	\$ 115,453,148	\$ 567,151,376	
13,845	8,147	142,740	129,379	68,564	4,993	15,215,741	18,591	840,686	50,585	62,243,945	2,105,154	173,270,874	144,142,458	
(7,257)	19,343	262,406	269,974	94,580	4,993	11,790,811	24,796	1,420,457	58,934	108,062,753	3,041,996	288,724,022	711,293,834	
1,946	901	11,119	10,841	7,015	5,336	727,325	2,540	98,953	5,047	7,756,887	281,478	21,929,066	18,023,588	
(9,203)	18,442	251,287	259,133	87,565	(343)	11,063,486	22,256	1,321,504	53,887	100,305,866	2,760,518	266,794,956	693,270,246	
2,000,000	-	-	-	300,000	185,028,348	-	-	-	230,000	1,011,343,040	4,543,000	1,239,909,653	1,360,499,546	
1,990,797	18,442	251,287	259,133	387,565	185,028,005	11,063,486	22,256	1,321,504	283,887	1,111,648,906	7,303,518	1,506,704,609	2,053,769,792	
1,001	558	1,026	1,024	-	-	71,340	-	-	-	332,768	-	939,798	693,895	
500,000	-	350,000	-	-	182,800,000	23,332,755	-	2,100,000	-	-	-	249,087,335	350,900,674	
501,001	558	351,026	1,024	-	182,800,000	23,404,095	-	2,100,000	-	332,768	-	250,027,133	351,594,569	
1,489,796	17,884	(99,739)	258,109	387,565	2,228,005	(12,340,609)	22,256	(778,496)	283,887	1,111,316,138	7,303,518	1,256,677,476	1,702,175,223	
1,146,224	365,155	6,945,721	5,963,144	3,443,524	37,424,174	586,000,970	849,149	41,747,304	1,888,805	2,214,597,021	90,294,490	7,337,180,888	5,635,005,665	
(45)	(15)	(270)	(232)	-	-	(23,660)	-	-	-	(77,448)	-	(259,880)	-	
1,146,179	365,140	6,945,451	5,962,912	3,443,524	37,424,174	585,977,310	849,149	41,747,304	1,888,805	2,214,519,573	90,294,490	7,336,921,008	-	
<u>\$ 2,635,975</u>	<u>\$ 383,024</u>	<u>\$ 6,845,712</u>	<u>\$ 6,221,021</u>	<u>\$ 3,831,089</u>	<u>\$ 39,652,179</u>	<u>\$ 573,636,701</u>	<u>\$ 871,405</u>	<u>\$40,968,808</u>	<u>\$ 2,172,692</u>	<u>\$ 3,325,835,711</u>	<u>\$ 97,598,008</u>	<u>\$ 8,593,598,484</u>	<u>\$ 7,337,180,888</u>	

North Dakota Retirement and Investment Office
Pension and Investment Trust Funds – Schedule of Administrative Expenses
Years Ended June 30, 2015 and 2014

	Pension Trust		Investment Trust	
	2015	2014	2015	2014
Salaries and wages:				
Salaries and wages	\$723,985	\$670,233	\$674,974	\$474,880
Fringe benefits	268,946	237,322	212,156	140,156
Total salaries and wages	<u>992,931</u>	<u>907,555</u>	<u>887,130</u>	<u>615,036</u>
Operating expenses:				
Information services	74,804	75,839	15,458	12,874
Intergovernmental services	6,821	5,374	3,921	2,529
Professional services	324,778	138,963	47,073	55,382
Rent of building space	51,986	53,314	29,144	26,353
Mailing services and postage	53,313	48,393	31,020	28,108
Travel and lodging	28,242	20,759	49,564	25,186
Printing	15,587	13,485	6,960	5,412
Supplies	8,338	2,879	4,630	1,671
Professional development	17,229	9,045	12,865	3,205
Outside services	4,491	10,832	3,240	64,927
Small office equipment expense	22,000	431	12,085	129
Miscellaneous fees	7,906	6,620	6,233	4,784
Resource and reference materials	345	601	667	342
IT contractual services	96,056	108,723	47,714	30,431
Repairs - office equipment	44	94	132	50
Insurance	306	417	176	196
Total operating expenses	<u>712,246</u>	<u>495,769</u>	<u>270,883</u>	<u>261,579</u>
Pension trust portion of investment program expenses	218,215	182,721	(218,215)	(182,721)
Total administrative expenses	<u>1,923,392</u>	<u>1,586,045</u>	<u>939,798</u>	<u>693,894</u>
Less - nonappropriated items:				
Professional fees	324,778	138,963	47,073	55,382
Other operating fees paid under continuing appropriation	31,695	28,224	93,921	73,573
Accrual adjustments to employee benefits	<u>(3,571)</u>	<u>(14,644)</u>	<u>7,794</u>	<u>(1,902)</u>
Total nonappropriated items	352,902	152,542	148,788	127,053
Total appropriated expenditures	<u>\$ 1,570,490</u>	<u>\$ 1,433,503</u>	<u>\$ 791,010</u>	<u>\$ 566,841</u>

North Dakota Retirement and Investment Office
Pension and Investment Trust Funds – Schedule of Consultant Expenses
Years Ended June 30, 2015 and 2014

	Pension Trust		Investment Trust	
	2015	2014	2015	2014
Actuary fees:				
Segal Company	\$ 123,556	\$ 71,264	\$ 722	\$ -
Auditing/Accounting fees:				
CliftonLarsonAllen LLC	154,932	45,942	26,568	28,423
Eide Bailly, P.C.	6,143	-	-	-
Total Auditing Fees	<u>161,075</u>	<u>45,942</u>	<u>26,568</u>	<u>28,423</u>
Disability consulting fees:				
Sanford Health	425	375	-	-
Legal fees:				
K&L Gates LLP	2,313	11,474	3,182	15,585
Ice Miller LLP	23,430	-	-	-
ND Attorney General	13,979	9,908	16,601	11,374
Total legal fees:	<u>39,722</u>	<u>21,381</u>	<u>19,783</u>	<u>26,959</u>
Total consultant expenses	<u>\$ 324,778</u>	<u>\$ 138,963</u>	<u>\$ 47,073</u>	<u>\$ 55,382</u>

North Dakota Retirement and Investment Office
Pension and Investment Trust Funds – Schedule of Investment Expenses
Years Ended June 30, 2015 and 2014

	Pension Trust		Investment Trust	
	2015	2014	2015	2014
Investment managers' fees:				
Global equity managers	\$ 2,485,008	\$ 2,605,453	\$ 3,182,464	\$ 3,315,966
Domestic large cap equity managers	522,029	1,018,026	2,366,812	2,189,555
Domestic small cap equity managers	460,633	551,815	2,025,154	1,244,211
International equity managers	825,671	822,849	4,129,461	2,303,178
Emerging markets equity managers	510,947	258,679	742,791	374,705
Domestic fixed income managers	994,837	1,585,083	7,285,624	6,614,783
Below investment grade fixed income managers	1,285,910	747,407	1,619,511	958,784
Diversified Real Assets		-	2,270,421	1,515,030
International fixed income managers	369,873	340,634	460,686	422,383
Real estate managers	2,391,855	1,899,944	4,738,886	3,468,358
Infrastructure managers	1,031,424	676,349	1,245,714	824,064
Timber managers	318,538	341,757	376,717	405,526
Private equity managers	1,449,758	2,433,316	1,698,539	2,850,600
Short term fixed income managers	-	-	852,554	1,562,163
Cash & equivalents managers	26,995	23,964	174,553	201,708
Balanced account managers	-	-	402,347	352,919
Total investment managers' fees	<u>\$ 12,673,478</u>	<u>\$ 13,305,276</u>	<u>\$ 33,572,234</u>	<u>\$ 28,603,933</u>
Custodian fees	210,361	293,776	770,742	850,504
Investment consultant fees	169,068	172,148	479,464	365,242
SIB Service Fees	-	-	55,192	48,498
Total investment expenses	<u>\$ 13,052,907</u>	<u>\$ 13,771,200</u>	<u>\$ 34,877,632</u>	<u>\$ 29,868,177</u>

Reconciliation of investment expenses to financial statements

	2015	2014	2015	2014
Investment expenses as reflected in the financial statements	\$ 6,916,830	\$ 7,257,140	\$ 21,929,066	\$ 18,023,588

Plus investment management fees included in investment income

Domestic large cap equity managers	-	260,958	-	481,686
Domestic small cap equity managers	268,875	363,661	364,448	470,141
International equity managers	220,872	225,470	1,012,043	568,360
Emerging markets equity managers	489,996	89,760	712,412	129,633
Domestic fixed income managers	646,789	1,322,680	4,178,115	4,388,520
Below investment grade fixed income managers	788,907	285,306	994,592	367,748
Inflation protected assets managers		-	1,030,017	488,078
Real estate managers	1,414,553	1,003,875	1,655,673	1,176,368
Infrastructure managers	548,234	225,341	662,136	273,692
Timber managers	318,538	341,757	376,717	405,526
Private equity managers	1,439,313	2,395,252	1,686,302	2,805,772
Cash equivalents managers		-	136,209	163,876
Balanced account managers		-	139,902	125,189
Investment expenses per schedule	<u>\$ 13,052,907</u>	<u>\$ 13,771,200</u>	<u>\$ 34,877,632</u>	<u>\$ 29,868,177</u>

North Dakota Retirement and Investment Office
 Schedule of Appropriations – Budget Basis – Fiduciary Funds
 July 1, 2013 to June 30, 2015 Biennium

	Approved 2013-2015 Appropriation	2013-2015 Appropriation Adjustment	Adjusted 2013-2015 Appropriation	Fiscal 2014 Expenses	Fiscal 2015 Expenses	Unexpended Appropriations
All Fund Types:						
Salaries and wages	\$ 3,772,504	\$ -	\$ 3,772,504	\$ 1,501,994	\$ 1,869,076	\$ 401,434
Accrued Leave Payments	71,541		71,541	37,144	6,760	27,637
Operating expenses	973,324	-	973,324	399,219	485,664	88,441
Contingency	82,000	-	82,000	61,987	-	20,013
Total	<u>\$ 4,899,369</u>	<u>\$ -</u>	<u>\$ 4,899,369</u>	<u>\$ 2,000,344</u>	<u>\$ 2,361,500</u>	<u>\$ 537,525</u>

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

Reconciliation of Administrative Expenses
to Appropriated Expenditures

	2015	2014
Administrative expenses as reflected in the financial statements	2,863,190	2,279,940
Less:		
Professional fees*	(371,851)	(194,345)
Other operating fees paid under continuing appropriations*	(125,616)	(101,797)
Changes in benefit accrual amounts	(4,223)	16,546
Total appropriated expenses	<u>\$2,361,500</u>	<u>\$2,000,344</u>

* 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, 2015**

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.

No

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, 2015, the financial statements include the impact of adoption of Governmental Accounting Standards Board Statements (GASB) numbers 68 and 71.

GASB 68, *Accounting and Financial Reporting for Pensions*, is effective to fiscal years beginning after June 15, 2014. This Statement revises and replaces Statement nos. 27, *Accounting for Pensions by State and Local Government Employers*, as well as 50, *Pension Disclosures* as they relate to governmental employers that account for pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The objective of this Statement is to establish standards for governmental employer recognition, measurement, and presentation of information about their governmental defined benefit pension plans.

GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, is also effective for fiscal years beginning after June 15, 2014. This Statement requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditors' 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, 2015. 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 sampled 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 7.75%, which was reduced from 8.0% during 2015, per annum compounded annually. The valuation takes into account all of the promised benefits to which members are entitled as of July 1, 2015 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 auditors' 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 auditors' 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 9, 2015

**RETIREMENT AND INVESTMENT OFFICE
AUDIT SERVICES
2015 - 2016 1st Quarter Audit Activities Report
July 1, 2015 – September 30, 2015**

The audit objective of Audit Services 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.

Audit coverage is based on the July 1, 2015 through June 30, 2016 work plan approved by the SIB Audit Committee. The audit activities undertaken are consistent with the Audit Services 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.

Retirement Program Audit Activities

• **TFFR Compliance Audits and Not In Compliance (NIC) Reviews**

We examine employer 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.

Six employer audits were completed in the first quarter including five TFFR Compliance Audits and one Not In Compliance (NIC) review. Eight TFFR Compliance Audits were in progress and two TFFR Compliance Audits were pending but not yet started. Seven employers were recently notified of upcoming TFFR Compliance Audits. All employers remaining in the third audit cycle have been notified of an upcoming TFFR Compliance Audit. At the end of the first quarter seventeen employers had yet to be audited in the third audit cycle.

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 employer over a five year period.

• **TFFR File Maintenance Audits**

Audit Services tests changes made to TFFR member account data by RIO employees on a quarterly basis. Audit tables are generated and stored indicating any file maintenance changes made to member accounts. The TFFR File Maintenance Audit for the fourth quarter of fiscal year 2015 was completed and no exceptions were noted.

• **Benefits Payments Audit**

A review of deaths, purchases of service, refunds, long outstanding checks, and long term annuitants was completed to determine that established policy and procedures were being followed by the staff of Retirement Services. The 2014-2015 Benefit Payments Audit was completed and one exception was noted.

• **Regional Education Association (REA) Audits**

Preliminary work was completed on the creation and implementation of an audit program which addresses REAs. The audit program which will be utilized to audit REAs will be modeled after the audit program currently used for TFFR Compliance Audits. REA Audits will require the sending of two separate audit notifications. The initial notification will be sent to the REA with the intent of gathering preliminary information and identifying the fiscal agent. The second notification will be sent to the fiscal agent to obtain the necessary payroll information. Audit Services anticipates notifying an REA of a forthcoming audit in the 3rd quarter of the current fiscal year.

Administrative and Investment Audit Activities

- **Executive Limitation Audit**

Each year the SIB conducts a customer satisfaction survey. The purpose of this annual survey is to determine how well the SIB, through the staff of the RIO, is meeting the expectations of its clients. This survey is part of the SIB's ongoing effort to be more responsive to the needs of their clients and to continually improve the services that are provided. Audit Services facilitated the survey beginning in July 2015 and results were provided to the SIB in October 2015.

- **External Audit Support**

Audit Services provided support to our external audit partners, CliftonLarsonAllen (CLA), during the annual financial audit of the RIO and the GASB 68 Census Data Audits. Audit Services notified seventeen employers of upcoming GASB 68 Census Data audits in August 2015. The GASB 68 Census Data Audits did not require onsite fieldwork this year, additional testing was performed remotely in September 2015. CLA verified date of birth, eligibility, salary, and service credit/hours for 204 employees with no exceptions noted.

- **Audit Services Procedure Manual**

Work began on the Audit Services Procedure Manual. The procedures for the TFFR File Maintenance Audit have been documented and are currently being reviewed and refined. Audit Services hopes to have procedures for at least 3 audits and/or administrative activities documented by the end of the fiscal year.

Professional Development Activities

Audit Services continues to pursue networking and professional development opportunities via the IIA's local chapter, Central Nodak, by attending monthly meetings. Topics of discussion have included retirement planning and the banking industry in North Dakota.

Summary

Audit effort is directed to activities that are of greatest concern to the SIB Audit Committee, RIO Management, and our external audit partners. Audit Services will continue to work closely with the SIB Audit Committee, RIO Management, and our external audit partners to continue to improve overall efficiency, effectiveness, and economy of total audit activity.

CUSTOMER SATISFACTION SURVEY NORTH DAKOTA STATE INVESTMENT BOARD 2015

Evaluation Forms Sent 13
Evaluation Forms Returned 12

1. Handling of telephone calls promptly and professionally.

Excellent	Above Average	Average	Poor	N/A
7	3	0	0	2

2. Clarity and effectiveness of letters, reports, and presentations.

Excellent	Above Average	Average	Poor	N/A
6	5	0	0	1

3. Detail provided on reports.

Excellent	Above Average	Average	Poor	N/A
6	5	0	0	1

4. Delivery of high-quality service.

Excellent	Above Average	Average	Poor	N/A
8	2	0	0	2

5. Accessibility.

Excellent	Above Average	Average	Poor	N/A
7	3	0	0	2

6. Responsiveness.

Excellent	Above Average	Average	Poor	N/A
4	2	0	0	6

7. Efficiency.

Excellent	Above Average	Average	Poor	N/A
8	2	0	0	2

8. Knowledge of investments.

Excellent	Above Average	Average	Poor	N/A
7	3	0	0	2

Summary of SIB Client Satisfaction Survey Ratings:

	Excellent	Above Average	Average	Poor	N/A
Totals	53	25	0	0	18
Grade	4	3	2	1	0
Percent	55%	26%	0%	0%	19%
Average	3.7				

Overall Customer Satisfaction Survey Comments and Impressions:

- Provide June 30 financial statements for our investments by September 1.
- RIO does an excellent job for us. Staff is very professional, available, and helpful. They have put forth a great effort for our funds and have our complete confidence.
- Continue to provide the same clarity in the reports and the same prompt response to questions and requests.
- The RIO staff works diligently to be proactive which was especially evident with the GASB changes. Much work was done to educate all stakeholders to implement a relatively smooth transition.
- It may be just me, because I am new to the board, but I have a hard time getting information I may need from the monthly reports.
- Office personnel are very professional and serve customers well.
- Service is great, we are very pleased!
- We have been very pleased with the performance of the NDSIB in regards to managing the City of Grand Forks pension plan.

Miller-Bowley, Terra L.

From: Miller-Bowley, Terra L.
Sent: Wednesday, October 07, 2015 3:48 PM
To: Schumacher, Shelly A.; Kopp, Fay L.
Cc: Miller-Bowley, Terra L.
Subject: GASB 68 Census Data Audits - FY 2015

From: Altenburg, Ryan [mailto:Ryan.Altenburg@claconnect.com]
Sent: Wednesday, October 07, 2015 3:40 PM
To: Miller-Bowley, Terra L.
Cc: Flanagan, Connie L.; Ostroski, Jason
Subject: RE: [External] RE: GASB 68 employer testing wrap-up

Hello Terra,

Below are the results from our testing of the census data performed as part of our audit of the schedules of allocations and pension amounts by employer for 2015.

<u>Emp Name</u>	<u># of Employees Tested</u>	<u># of Exceptions</u>	<u>Cause of exception, if any</u>
GRAND FORKS SCHOOL	25	0	N/A
JAMESTOWN SCHOOL	25	0	N/A
VALLEY CITY SCHOOL	22	0	N/A
CENTRAL CASS SCHOOL	17	0	N/A
KINDRED SCHOOL	16	0	N/A
MAY-PORT C-G SCHOOL	16	0	N/A
NORTHERN CASS SCHOOL DIST	14	0	N/A
HILLSBORO SCHOOL	13	0	N/A
BARNES COUNTY NORTH	9	0	N/A
HETTINGER SCHOOL	9	0	N/A
GLENBURN SCHOOL	10	0	N/A
FINLEY-SHARON SCHOOL	7	0	N/A
RURAL CASS SPEC ED	4	0	N/A
ND CENTER FOR DISTANCE EDUCATION	6	0	N/A
SHEYENNE VALLEY AREA VOC	3	0	N/A
PAGE SCHOOL	5	0	N/A
MAPLETON ELEM. SCHOOL	3	0	N/A
Total	204	0	

Thanks,

Ryan



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*Investment advisory services are offered through CliftonLarsonAllen
Wealth Advisors, LLC, an SEC-registered investment advisor.*

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CliftonLarsonAllen LLP

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
TFFR EMPLOYER AUDIT PROGRESS AND STATUS REPORT
THIRD AUDIT CYCLE**

FISCAL YEAR JULY 1, 2015 - JUNE 30, 2016

	Size	Auditor	School District	Anticipated Notification Timeframe	100% or On-site	Info Request	Info Received	Audit Started	Report Date	Corrections to Retirement Services	Invoice/Check Received from Retirement Services	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	Days w/Retirement Services	Audit Findings	Hours to Complete
1		DT	South Heart School (New Admin 08/14)			5/28/2014	6/9/2014	6/19/2014	8/6/2014	7/21/2014	7/30/2014	Complete	31	12	58	10	48	9	Generally In Compliance	54
2		DT	Grand Forks - fiscal agent for the Red River Valley Ed. Cooperative			6/18/2013	7/22/2013	3/10/2014	9/10/2014	8/17/2014	9/4/2014	Complete	802	34	415	231	184	18	Generally In Compliance	157
3		DT	Flasher			2/18/2014	3/17/2014	5/29/2014	9/10/2014	8/26/2014	9/5/2014	Complete	22	27	177	73	104	10	Generally In Compliance	61
4		DT	Lake Region Spec Ed (New Admin 06/14)			5/28/2014	6/12/2014	9/16/2014	10/10/2014	N/A	N/A	Complete	29	15	120	96	24	N/A	In Compliance	27
5		DT	Oliver-Mercer Spec Ed			5/28/2014	6/26/2014	9/23/2014	12/8/2014	11/20/2014	12/1/2014	Complete	19	29	165	89	76	11	Generally In Compliance	87
6		TMB	Nesson (New Admin 06/14)			5/28/2014	6/13/2014	10/20/2014	12/9/2014	12/1/2014	12/8/2014	Complete	25	16	179	129	50	7	Generally In Compliance	35
7		TMB	Mayville-Portland C-G			9/16/2014	10/17/2014	12/2/2014	12/29/2014	N/A	N/A	Complete	49	31	73	46	27	N/A	In Compliance	22
8		TMB	Edmore			9/16/2014	11/3/2014	12/19/2014	1/26/2015	1/16/2015	1/23/2015	Complete	16	48	84	46	38	7	Generally In Compliance	36
9		TMB	Wolford			9/16/2014	10/16/2014	11/24/2014	1/21/2015	N/A	N/A	Complete	12	30	97	39	58	N/A	In Compliance	30
10	S	TMB	Page	November 2014		11/13/2014	12/15/2014	1/5/2015	2/3/2015	N/A	N/A	Complete	16	32	50	21	29	N/A	In Compliance	21
11		DT	Devil's Lake	September 2014		9/16/2014	10/13/2014	12/29/2014	3/5/2015	2/20/2015	3/4/2015	Complete	173	27	143	77	66	12	Generally In Compliance	86
12	S	TMB	Hazelton-Moffitt School** (New Bus Mgr/Admin 06/14)	May 2014		5/28/2014	6/18/2014	2/3/2015	3/6/2015	3/2/2015	3/6/2015	Complete	18	21	261	230	31	4	Generally In Compliance	16
13	M	TMB	North Border School District	November 2014		11/13/2014	12/19/2014	1/26/2015	3/19/2015	3/18/2015	3/19/2015	Complete	75	36	90	38	52	1	In Compliance	26
14		DT	Mohall/Lansford/Sherwood (New Bus Mgr)	April 2014		4/23/2014	5/27/2014	12/10/2014	3/20/2015	N/A	N/A	Complete	42	34	297	197	100	N/A	In Compliance	59
15	S	DT	Montpelior	December 2014		12/29/2014	1/26/2015	3/6/2015	3/27/2015	3/23/2015	3/26/2015	Complete	27	28	60	39	21	3	In Compliance	25
16	S	TMB	Selfridge	November 2014		11/13/2014	12/30/2014	2/19/2015	3/27/2015	N/A	N/A	Complete	23	47	87	51	36	N/A	In Compliance	17
17	S	DT	Munich	November 2014		11/13/2014	1/2/2015	2/27/2015	4/1/2015	3/31/2015	3/31/2015	Complete	32	50	89	56	33	0	In Compliance	41
18	S	TMB	Kensal	December 2014		12/29/2014	2/5/2015	3/11/2015	4/16/2015	N/A	N/A	Complete	21	38	70	34	36	N/A	In Compliance	14
19	M	TMB	Lewis & Clark School	December 2014		12/29/2014	2/10/2015	3/19/2015	5/1/2015	N/A	N/A	Complete	63	43	80	37	43	N/A	In Compliance	21
20	S	DT	South Prairie Elementary	November 2014		11/13/2014	12/23/2014	1/14/2015	5/13/2015	4/30/2015	5/11/2015	Complete	40	40	141	22	119	11	In Compliance	61
21	S	DT	Sheyenne Valley Area Vocation***	December 2014		12/29/2014	3/2/2015	5/7/2015	6/2/2015	N/A	N/A	Complete	11	63	92	66	26	N/A	In Compliance	28
22	S	DT	Glen Ullin**	May 2014		5/28/2014	7/10/2014	2/12/2015	6/11/2015	6/2/2015	6/4/2015	Complete	24	43	336	217	119	2	Not In Compliance	122

END FISCAL YEAR 2014-2015

23	S	TMB	Emerado	March 2015		3/30/2015	4/20/2015	5/5/2015	7/20/2015	7/10/2015	7/17/2015	Complete	22	21	91	15	76	7	Generally In Compliance	40
24	S	TMB	Billings Co. Sch. District****	September 2014		9/16/2014	10/23/2014	12/8/2014	8/18/2015	7/29/2015	8/12/2015	Complete	18	37	299	46	253	14	Generally In Compliance	62
25	S	TMB	James River Multidistrict	May 2015		5/26/2015	6/23/2015	6/24/2015	8/18/2015	N/A	N/A	Complete	20	28	56	1	55	N/A	In Compliance	35
26	S	TMB	New Public School (Williston) (New Admin 06/14)	June 2015		6/25/2015	6/26/2015	7/20/2015	8/26/2015	8/12/2015	8/21/2015	Complete	57	1	61	24	37	9	In Compliance	20
27	L	TMB	Dickinson	March 2015		3/30/2015	4/2/2015	4/28/2015	8/26/2015	8/12/2015	8/21/2015	Complete	332	3	146	26	120	9	Generally In Compliance	77
28	S	TMB	Kulm	May 2015		5/26/2015	6/29/2015	8/14/2015	10/2/2015	9/30/2015	10/1/2015	Complete	22	34	95	46	49	1	In Compliance	22
29	L	TMB	Fargo	December 2014		12/29/2014	2/4/2015	2/25/2015	10/19/2015	10/12/2015	10/16/2015	Complete	1333	37	257	21	236	4	Generally In Compliance	77
30	M	TMB	Wilmac Special Education (Temp Bus Mgr 08/14)	May 2015		4/15/2015	5/13/2015	9/16/2015	10/19/2015	10/14/2015	10/19/2015	Complete	58	28	33	126	33	5	In Compliance	31
31	L	DT	West Fargo	November 2014		11/13/2014	12/31/2014	3/23/2015		10/19/2015		In Progress	875	48		82				
32	S	DT	Ft. Totten	December 2014		12/29/2014	1/30/2015	5/27/2015				In Progress	36	32		117				
33	S	DT	Southeast Region Career and Tech	March 2015		3/30/2015	4/23/2015	7/6/2015				In Progress								**HOLD - FEBRUARY 2016 - TFFR BOARD DECISION**
34	S	TMB	Maple Valley (New Bus Mgr 06/14 & Admin 09/14)	June 2015		6/10/2015	7/16/2015	8/17/2015				In Progress	38	36		32				
35	S	DT	North Valley Area Careers	March 2015		3/30/2015	4/27/2015	8/31/2015				In Progress								**HOLD - FEBRUARY 2016 - TFFR BOARD DECISION**
36	S	DT	Fordville-Lankin	June 2015		5/26/2015	6/26/2015	10/2/2015				In Progress	12	31		98				
37	S	DT	Litchville-Marion	June 2015		6/10/2015	6/26/2015	10/12/2015				In Progress	28	16		108				
38	S	TMB	Starkweather (Master Payroll File)	September 2015		9/14/2015	10/2/2015	10/19/2015				In Progress	14	18		17				
39	S	DT	Wing (New Admin 10/14)	September 2015		9/3/2015	10/1/2015	10/19/2015				In Progress	19	28		18				
40	M	TMB	St John	September 2015		9/4/2015	10/7/2015	10/22/2015				In Progress	42	33		15				
41	S	DT	Warwick	September 2015		9/3/2015	10/2/2015	10/22/2015				In Progress	31	29		20				
42	S	TMB	White Shield (Roseglen) (New Admin 09/14)	September 2015		9/4/2015	10/9/2015					Pending	28	35						
43	S	TMB	Solen-Cannonball	September 2015		9/4/2015	10/16/2015					Pending	29	42						
44	S	DT	Parshall	September 2015		9/4/2015	10/21/2015					Pending	35	47						

Average: 152 29 130 48 107 6 45

YTD Assigned			Total Audit Days		Average Audit Days	Audits Completed	Total Hours	Average Hrs		Average Actual Audit Days
9		DT			#DIV/0!	0	0	#DIV/0!		#DIV/0!
13		TMB	107		13	8	363	45		5.7

NOT IN COMPLIANCE (NIC) REVIEWS

	Size	Auditor	School District	100% or On-site	Info Request	Info Received	Review Started	Report Date	Corrections to Retirement Services	Invoice/Check Received from Retirement Services	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	Days w/Retirement Services	Audit Findings	Hours to Complete
1	S	TMB	Halliday		2/26/2015	3/4/2015	N/A	N/A	N/A	N/A	N/A	11	N/A	N/A	N/A	N/A	N/A	See Explanation Below	N/A
2	S	DT	McClusky		12/11/2014	12/23/2014	1/26/2015	3/12/2015	N/A	N/A	Complete	18	12	79	34	45	N/A	In Compliance	36
5	L	DT	Williston		1/7/2014	1/29/2014	4/14/2014	1/29/2015	1/14/2015	1/22/2015	Complete	217	22	365	75	290	8	Not In Compliance	130
3	S		Ft. Yates																***TFFR Compliance Audit Scheduled for 2015-2016***

END FISCAL YEAR 2014-2015

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
TFFR EMPLOYER AUDIT PROGRESS AND STATUS REPORT
THIRD AUDIT CYCLE**

FISCAL YEAR JULY 1, 2015 - JUNE 30, 2016

	Size	Auditor	School District	Anticipated Notification Timeframe	100% or On-site	Info Request	Info Received	Audit Started	Report Date	Corrections to Retirement Services	Invoice/Check Received from Retirement Services	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	Days w/Retirement Services	Audit Findings	Hours to Complete
4	S	TMB	Minnewaukan			3/3/2015	3/25/2015	3/27/2015	8/11/2015	7/16/2015	8/10/2015	Complete	36	22	139	2	137	25	Not In Compliance	43

Average: 36

****Due to multiple errors discovered during audit process and multiple years of salary which will require corrections staff feels it is best to close 2014-2015 and then process any and all corrections.

Halliday NIC Review - Original TFFR Compliance Audit occurred during fiscal year ended June 30, 2011, six findings were noted. First NIC review completed during fiscal year ended June 30, 2013, 100% of District members were included in sample, failure to report in-staff sub pay continued to occur, District was found not in compliance a second time. Second NIC review was initiated during fiscal year ended June 30, 2015, request was made for itemized payroll and contracts for all members who received in-staff sub pay in 2013-2014. District indicated that the practice of receiving in-staff sub pay was discontinued at the District on July 1, 2013 and has been replaced by a "Gentleman's Agreement" between teachers. After discussions with staff the NIC review will not be pursued and Halliday will be placed into the next audit cycle as usual.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
AUDIT SERVICES DIVISION
BUDGETED VS. ACTUAL HOURS FOR FISCAL YEAR 2015-2016**

	2015-2016 BUDGET HOURS (2 FTE'S)
1. Audit	
Retirement Program Audits:	
TFFR Employer Compliance Audits	1,890
REA Audit(s)	75
Benefit Payments Audit	50
TFFR File Maintenance Audit(s)	80
Annual Salary Verification Project	65
TFFR Cost Effective Benefit Payments/Benefit Recalculation	80
Agency Administrative and Investment Audits	
Executive Limitation Audit	90
Investment Performance Summary Review	60
Schedule of Investment Fees Review	60
Investment Management Fees Review	60
RIO External Auditor Assistance	40
Special Projects	120
Total Audit Hours:	2,670
2. Administrative	
Administrative - Staff Mtgs, Time Reports, Email, Records Retention, General Reporting	400
Audit Committee/SIB/TFFR Attendance and Preparation	250
Professional Development/CE/General Education	160
Audit Services Procedure Manual	120
Annual Leave, Sick Leave, and Holidays	592
Total Administrative Hours:	1,522
Total Hours for 2015-2016:	4,192

Total Hours for 2015-2016: 4,192
D. Thorsen Total Hours 2015-2016: 2,096
T. Miller Bowley Hours 2015-2016: 2,096

1st Quarter Actual Hours	2nd Quarter Actual Hours	3rd Quarter Actual Hours	4th Quarter Actual Hours	2015- 2016 Actual Hours
522				522
8				8
126				126
57				57
0				0
0				0
6				6
0				0
0				0
0				0
16				16
0				0
734	0	0	0	734
128				128
72				72
7				7
7				7
111				111
325	0	0	0	325
1,059	0	0	0	1,059

25%

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee

FROM: Terra Miller Bowley, Supervisor of Audit Services

DATE: November 19, 2015

SUBJECT: Audit Charter Revisions

The Audit Committee is a standing committee of the State Investment Board (SIB) authorized under SIB Governance Policy B-6, Standing Committees. Its primary function is to assist the SIB in fulfilling its oversight responsibilities of the Retirement and Investment Office (RIO) internal and external audit programs, including the financial reporting process, internal controls, and compliance with laws, regulations, policies, and procedures. SIB Governance Policy B-6 requires the Audit Committee to operate under the terms of a charter approved by the SIB.

Attached is a copy of the current audit charter adopted in June 2009 for your reference. In September 2015 the Committee opted to further revise an audit charter which was proposed by a subcommittee of staff and committee members in September 2013. In October 2015 input was received from the committee chair as well as staff resulting in revisions to the audit charter proposed in September 2013. Attached is a copy of the revised audit charter for your review.

During the revision process several questions were posed which likely require further discussion by the Committee as a whole:

- What options does the Committee have when a quorum is not present prior to the start of a meeting or during a meeting? Is a motion required to adjourn a meeting already in progress when a quorum is no longer present?
 - Reference page 2 paragraph 3 under Meetings heading in revised audit charter document.
 - Robert's Rules of Order provides the following regarding a quorum:
 - If a quorum is not present prior to the start of a meeting the chairman should not take the chair, the meeting will not be called to order. There would be no need to adjourn the meeting in this instance.
 - If a quorum is not present at any time during a meeting already in progress the only business which can be conducted is:
 - Take measures to obtain a quorum
 - Fix a time which to adjourn
 - Adjourn or recess
 - A motion is not required to adjourn a meeting when the end of the agenda has been reached, an end time previously agreed upon has arrived, or an emergency situation arises. Otherwise a motion to adjourn, adjourn and meet later, or adjourn and meet at a date and time to be determined can be made.
- Internal audit units are permitted to indicate that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if a quality assurance and improvement program (QAIP) supports this statement. A recognized QAIP requires both internal and external assessments of the internal audit activity. At this time Audit Services does not have a QAIP which includes external assessments which precludes us from using the above referenced statement in reports and other publications. Should the reference to this topic be removed from the audit charter or modified? Should the reference to this topic be removed from year end and quarterly audit reports or modified?
 - Reference page 4 bullet point 1 under Audit Services heading in revised audit charter document.

- The revised audit charter indicates that the Audit Committee can serve as a confidential mechanism for individuals to provide information on potentially fraudulent financial reporting or breaches of internal control. Is this something that is known among RIO employees and/or the public? Are there other mechanisms in place for the reporting of suspected fraudulent financial reporting or breaches of internal control such as a whistleblower hotline?
 - Reference page 5 bullet point 4 under Other Responsibilities heading in revised audit charter document.
 - The RIO does not have a whistleblower hotline which would allow the confidential reporting of any concerns. Employees have the option of bringing concerns directly to RIO management, Audit Services, or the Office of the Attorney General. State statues provide protection from retaliation` to public sector employee whistleblowers. At this time Audit Services is unaware of any formal and/or informal communication provided to employees or the public which would promote the Audit Committee as an entity which could service as a confidential mechanism for reporting suspected fraud or breaches of internal control. Is the Audit Committee prepared to perform this role and are there procedures in place to receive such information and handle appropriately?

- The revised audit charter indicates that the Committee should inquire as to the procedure for the prevention of illegal payments, conflicts of interest, or other questionable practices and inquire as to the existence of any illegal payments, conflicts of interest, or other questionable acts. The Audit Committee is also to review the code of conduct, rules, and policies applicable to the RIO. How does the Audit Committee accomplish this directive? Should more or less be done in the future with regards to a review of the RIO Administrative Manual by the Audit Committee?
 - Reference page 5 bullet point 5 under Other Responsibilities heading in revised audit charter document.
 - The RIO Administrative Manual and compliance with policies set forth is reviewed during the Executive Limitations Audit which occurs during the 2nd and 3rd quarter of each fiscal year. The RIO Administrative Manual addresses conflicts of interest, provides a code of conduct, and other policies. A copy of the RIO Administrative Manual can be provided to the Audit Committee. The Audit Committee does receive the final report which is issued at the conclusion of the Executive Limitation Audit.

- The revised audit charter indicates that the Committee should confirm annually that all responsibilities outlined in the audit charter have been carried out. This is currently not done, how can this be accomplished in the future?
 - Reference page 5 bullet point 11 under Other Responsibilities heading in revised audit charter document.
 - Upon approval of a new audit charter additional activity by the Committee will be required. The Committee will need to review the audit charter on an annual basis. Periodic updates regarding the Committee's accomplishment of tasks set forth in the audit charter will need to be provided by Audit Services staff.

At the conclusion of any discussion the Audit Committee will need to do one of the following:

- Approve the audit charter proposed today along with any revisions discussed. The approved audit charter will then be sent to RIO legal counsel for review. Following the required legal review the approved audit charter will be forwarded to the SIB for final approval.

- Request that staff make additional revisions to the audit charter proposed today and return with a final draft in February 2015 for consideration and approval. The approved audit charter will then be sent to RIO legal counsel for review. Following the required legal review the approved audit charter will be forwarded to the SIB for final approval.

STATE INVESTMENT BOARD AUDIT COMMITTEE CHARTER

PURPOSE

The Audit Committee (the Committee) is a standing committee of the North Dakota State Investment Board (SIB). The Committee will perform as an effective oversight function of the Retirement and Investment Office (RIO) internal and external audit programs; including the financial reporting process, internal controls, policies, and practices.

AUTHORITY

The Committee is authorized to develop and direct the internal audit program for RIO as well as oversee the external audit. The internal audit program provides assurance to the Committee that RIO's financial condition and results of operations are accomplished in accordance with RIO's policies and plans. The Committee may investigate any activity of RIO and may retain persons as necessary from within or outside RIO having special competence to assist the Committee in the accomplishment of its responsibilities.

RESPONSIBILITIES

RIO executive management is responsible for financial and other reporting, internal control, and compliance with laws, regulations, and ethics. The Committee has the responsibility to assure the reliability and integrity of financial and operating information; compliance with policies, plans, procedures, pertinent laws and regulations, and ethical conduct; safeguarding of assets; economical and efficient use of resources; and effectiveness of achieving desired results from operations. To this end, the Committee will:

Internal Audit

1. Approve and periodically review the internal audit charter and submit to the SIB for approval.
2. Review and approve the annual work plan detailing the planned scope of internal audits of RIO activities and functions, and review the results of the internal audit program.
3. Discuss with the internal auditors' significant internal audit recommendations and review and analyze RIO's internal accounting control systems and related policies and control systems.
4. Review the coordination of the internal audit work with the external auditor's work.
5. Participate with RIO's Executive Director in the appointment of the internal audit supervisor, and evaluation of the performance of the internal audit supervisor. Approve any changes in staffing; including the addition, termination, or replacement of internal auditors, and the approval of salary increases and/or promotions other than those authorized by the legislature.
6. Meet with the internal auditor(s) periodically (out of the presence of management and the external auditors as appropriate) with respect to any of the foregoing and review any restrictions on the audit work.

7. Review with the audit supervisor whether internal audit activities are being carried out in accordance with the Institute of Internal Auditors, Inc. "International Standards for the Professional Practice of Internal Auditing," as adopted by the Committee.

External Audit

1. Make recommendations to the State Auditor when appropriate as it relates to selection, evaluation, and termination.
2. Review non-auditing services, if any, performed for RIO by the external auditors.
3. Review annually the overall plan of the audit as proposed by the external auditors and management, including the scope of the examination to be performed, the assistance to be provided by the internal auditors and any developments in accounting principles and auditing standards that may affect either the financial statements or the audit.
4. Prior to the release of the annual report to the SIB and other officials, review the results of the audit with the external auditors and management, which review will include the following, as applicable:
 - (a) Any major problems encountered by the external auditors and the resolution thereof;
 - (b) The effect on the audit of any developments referred to in item 3 above;
 - (c) Any unresolved differences between the external auditors and management;
 - (d) Any other significant comments or recommendations of the external auditors or management;
 - (e) And the adequacy of RIO's internal accounting controls and accounting policies, procedures, and practices.
5. Meet with the external auditors periodically (out of the presence of management as appropriate) with respect to any of the foregoing, and review any restrictions on the audit work.
6. Engage in dialogue with the external auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditors.

RIO Management

1. Provide oversight of RIO's financial reporting process. Inquire as to any proposed changes in accounting or financial reporting procedures and of any unusual events that could impact the financial statements.
2. Inquire as to the procedure for the prevention of illegal payments, conflicts of interest, or other questionable practices. Inquire as to the existence of any illegal payments, conflicts of interest, or other questionable acts. Review the Code of Conduct, rules, and policies applicable to RIO.
3. Review compliance with federal and state law, North Dakota administrative code, and SIB and Teachers' Fund for Retirement (TFFR) Board policies.

ADMINISTRATIVE

The Committee will consist of five members, selected by the SIB. Three members of the Committee will represent the three groups on the SIB (TFFR Board, Public Employees Retirement System (PERS) Board, and elected and appointed officials). The other two members will be selected from outside of the SIB.

The Committee will elect a Chair, a Vice Chair, and a liaison. The Chair will preside at all meetings of the SIB Audit Committee. In the absence of the Chair, the Vice Chair will perform the duties of the Chair. The liaison will report annually to the SIB on the results of the annual audit and quarterly to the SIB on the activities of the Committee and other pertinent information.

RIO's Executive Director will supervise the administrative activities of the internal and external audit programs such as travel, securing contracts, paying fees, maintaining official reports, and other appropriate activities.

The Supervisor of Internal Audit Services will be the staff member to report directly to the Committee.

Membership on the Committee will be for one year or termination of term on the SIB. Vacancies will be filled by the SIB at the first scheduled meeting following the vacancy. There will be no limit to the number of terms served on the Committee.

The Committee will meet quarterly, or more frequently as appropriate, and will give notice of Committee meetings to RIO's Executive Director and the Internal Audit Supervisor. The Executive Director and Internal Audit Supervisor will attend all Committee meetings except that the Committee may, at its discretion, elect to meet without the presence of the Executive Director and/or Internal Audit Supervisor.

Approved minutes of the Committee will be submitted to the SIB.

DATE OF CREATION OF COMMITTEE AMENDMENTS: December 14, 1993

DATE AUDIT COMMITTEE CHARTER ADOPTED AND APPROVED: June 24, 1994

REVISED: November 22, 1996, February 13, 1997, November 6, 2001, May 18, 2007, June 26, 2009.

DRAFT

**CHARTER OF THE
AUDIT COMMITTEE OF THE
NORTH DAKOTA STATE INVESTMENT BOARD**

PURPOSE

The Audit Committee (the Committee) is a standing committee of the North Dakota State Investment Board (SIB) created to fulfill its fiduciary oversight responsibilities of the North Dakota Retirement and Investment Office (RIO) and to serve as a communications link among the SIB, the RIO's management and Audit Services staff, independent auditors, and others.

The Committee will assist with the integrity of the RIO's financial reporting process and system of internal controls, the RIO's compliance with legal and regulatory requirements, the performance of the RIO's Audit Services function and independent auditors, and the RIO's management of risks in the Committee's areas of responsibility.

AUTHORITY

The Committee is authorized to provide oversight to the Audit Services function and the independent audit for the RIO. These activities provide assurance that RIO's financial condition and results of operations are accomplished in accordance with the RIO's policies and procedures and legal and regulatory requirements. The Committee may investigate any activity of the RIO and may retain persons as necessary from within or outside the RIO having special competence to assist the Committee in the accomplishment of its responsibilities.

The RIO's Supervisor of Audit Services will be the staff member reporting administratively to the Executive Director/Chief Investment Officer and functionally to the Committee.

The RIO's management will supervise the administrative activities of the Audit Services function and independent audit activities such as securing contracts, paying fees, maintaining official reports, and other appropriate activities.

COMPOSITION

The Committee will consist of five members, selected by and approved by the SIB. Three members of the Committee will represent the three groups on the SIB: Teachers' Fund for Retirement (TFFR) Board, Public Employees Retirement System (PERS) Board, and elected and appointed officials, and two members selected from outside of the SIB and the RIO. The SIB should select committee members who are both independent and financially literate.

Membership on the Committee will be for one year or termination of term on the SIB. Vacancies will be filled by the SIB at the first scheduled meeting following the vacancy. There will be no limit to the number of terms served on the Committee.

The Committee will elect a Chair, a Vice Chair, and a liaison. The Chair will preside at all meetings of the Committee. In the absence of the Chair, the Vice Chair will perform the duties of

the Chair. The liaison will report annually to the SIB on the results of the independent audit and at least four times a year to the SIB and TFFR board on the activities of the Committee and other pertinent information.

The Committee may form, and delegate authority to, subcommittees when it deems appropriate.

MEETINGS

The Committee will meet generally four times a year, with authority to convene additional meetings, as circumstances require or to adequately fulfill all the obligations and duties as outlined in this charter.

Meeting agendas will be prepared by the Supervisor of Audit Services and approved by the Committee Chair, unless otherwise directed by the Committee and will be provided to the Committee members along with briefing materials before the scheduled committee meeting.

Committee members are expected to attend each meeting, in person or via tele- or video-conference. The RIO's executive management and Supervisor of Audit Services and others necessary to provide information and to conduct business will attend meetings. The Committee may invite staff of the RIO, auditors or others to attend meetings, as necessary. The Committee may meet separately with the staff of the RIO, auditors and others. The Committee may, at its discretion, elect to meet without the presence of the RIO's executive management and/or Supervisor of Audit Services or others. The Committee may hold executive sessions as allowed under state law.

The Committee will act only on the affirmative vote of a majority of the committee members at a meeting or by unanimous consent. To conduct business, a quorum will be three members of the Committee. Should a quorum not be present before a scheduled meeting or during a meeting, the Chair will announce the absence of a quorum, and invite a motion to adjourn the meeting. Meetings unable to transact business or lack of a quorum are considered meetings. Meeting minutes will be prepared by the RIO, or as otherwise directed by the Committee. Approved meeting minutes of the Committee will be submitted to the SIB.

RESPONSIBILITIES

The RIO's management is responsible for financial and other reporting, internal controls, and compliance with laws, regulations, and ethics. The Committee has the responsibility to provide oversight in the areas of:

- the reliability and integrity of financial and operating information;
- compliance with policies, plans, procedures, pertinent laws and regulations;
- ethical conduct;
- safeguarding of assets;
- economical and efficient use of resources; and
- effectiveness of achieving desired results from operations.

To this end, the Committee will:

Independent Audit

- Review the independent auditors' proposed audit scope and approach, including coordination of audit effort with RIO's Audit Services staff and any developments in accounting principles and auditing standards that may affect either the financial statements or the audit.
- Meet with the independent auditors to discuss any matters that the Committee or auditors believe should be discussed privately (out of the presence of RIO's management and/or Audit Services staff, as appropriate) and review any restrictions on the audit work.
- Inquire as to any proposed changes in accounting or financial reporting procedures and of any unusual events that could impact the financial statements.
- Review the results of the financial statements report with the independent auditors and the RIO's management, prior to the release of the financial statements report to the SIB and other officials. This review will include the following, as applicable:
 - Any major problems encountered by the independent auditors and the resolution thereof;
 - The effect on the audit of any developments;
 - Any unresolved differences between the independent auditors and the RIO's management;
 - Any other significant comments or recommendations of the independent auditors or the RIO's management;
 - The adequacy of the RIO's internal accounting controls and accounting policies, procedures, and practices; and
 - Understand the scope of independent auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with the RIO's management responses.
- Consider the effectiveness of the RIO's internal control system, including information technology security and control.
- Consider whether the financial statements are complete, consistent with information known to committee members, and reflect appropriate accounting principles. This will include the following, as applicable:
 - The accuracy and completeness of the information in other sections of the annual report and related regulatory filings;
 - The significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements; and

- All matters required to be communicated to the Committee under generally accepted auditing standards with the RIO's management and the independent auditors.
- Review non-audit services, if any, performed for the RIO by the independent auditors.

Audit Services

- Consider the effectiveness of the Audit Services function, including compliance with The Institute of Internal Auditors' *International Professional Practices Framework for Internal Auditing consisting of the Definition of Internal Auditing, Code of Ethics and the Standards*, to the extent practical.
- Review with the RIO's management and the Supervisor of Audit Services the audit charter, activities, staffing, and organizational structure of Audit Services.
- Review and approve the annual work plan and all major changes to the plan.
- Meet with the RIO's Supervisor of Audit Services to discuss any matters that the Committee or Audit Services believes should be discussed privately (out of the presence of RIO's management and/or the independent auditors, as appropriate) and review any restrictions on the audit work.
- Participate with RIO's management in the appointment and annual evaluation of the Supervisor of Audit Services. Work with RIO's management on any changes in staffing, including the addition, termination, or replacement of auditors, and the approval of salary increases and/or promotions other than those authorized by the legislature.

Compliance

- Review compliance by TFFR participating employers as it relates to TFFR laws, rules and policies through the receipt of employer audit results.
- Review the RIO's staff compliance with federal and state law, North Dakota administrative code, the SIB and TFFR Board programs, and the process for communicating the code of conduct to the RIO's staff, and for monitoring compliance through the receipt of the audit results.
- Obtain updates from the RIO's management and legal counsel regarding compliance matters, as deemed necessary.

Reporting Responsibilities

- Report to the SIB about the Committee's activities, issues, and related recommendations.

- Provide a written report annually to the SIB, describing the Committee's composition, responsibilities and how they were discharged, and any other information required.

Other Responsibilities

- Make recommendations to the North Dakota State Auditor's Office, when appropriate, as it relates to selection, evaluation, and termination of independent auditors.
- Obtain the information and training needed to enhance the committee members' understanding of the role of Audit Services and the independent auditor, the risk management process, internal controls, and a certain level of familiarity in financial reporting standards and processes so the Committee may adequately oversee.
- Serve as an open avenue of communication among the SIB, the RIO's management and Audit Services, the independent auditors, and others.
- Serve as an appropriate confidential mechanism for individuals to provide information on potentially fraudulent financial reporting or breaches of internal control.
- Inquire as to the procedure for the prevention of illegal payments, conflicts of interest, or other questionable practices. Inquire as to the existence of any illegal payments, conflicts of interest, or other questionable acts. Review the Code of Conduct, rules, and policies applicable to the RIO.
- Meet with the RIO's management to discuss any matters that the Committee or management believes should be discussed privately (out of the presence of Audit Services staff and/or the independent auditors, as appropriate) and review any restrictions on the audit work.
- Perform other activities related to this charter as requested by the SIB.
- Institute and oversee special investigations as needed.
- Review any other reports the RIO issues that relates to the Committee's responsibilities.
- Review and assess the adequacy of the Committee charter annually, requesting the SIB approval for proposed changes.
- Confirm annually that all responsibilities outlined in this charter have been carried out.

DATE OF CREATION OF COMMITTEE AMENDMENTS: December 14, 1993

DATE AUDIT COMMITTEE CHARTER ADOPTED AND APPROVED: June 24, 1994

REVISED: November 22, 1996, February 13, 1997, November 6, 2001, May 19, 2006, May 18, 2007, June 26, 2009.

COMMUNITY EXPERTS

Recently the Governor approved new ESPB emergency rules which would allow “community experts” to temporarily fill certain vacant non-core teaching positions for the 2015-16 school year. Please note that non-licensed “community experts” who receive letters of approval from ESPB will not be eligible to participate in TFFR. However, if you offer PERS retirement plan participation, you will want to contact PERS to discuss if these “community experts” will be eligible for PERS retirement coverage.

EMPLOYERS USING TFFR EMPLOYER ONLINE REPORTING

It is not necessary to send TFFR a paper copy of your monthly report if you upload the report using TFFR Employer Online reporting. All the information we need to process the report will be on your upload. If you are aware of changes that need to be made to the uploaded information, please document the changes and email or send the documentation with your check. You may also contact TFFR to request deletion of the upload and then upload a corrected report.

EMPLOYER SUMMARY REPORTS

A 2014-2015 Employer Summary Report was mailed to each school district at the end of August. Please review this report and verify that the reported salaries and service hours are correct. Let us know if you find any discrepancies and the accounts will be corrected.

YOUR VESTED INTEREST NEWSLETTER

The October 2015 edition of the [Your Vested Interest newsletter](#) can be viewed on our website. Please take a few minutes to read this informative newsletter.

RETIREMENT ELIGIBILITY REPORT

Upon request, TFFR can provide school districts with a Retirement Eligibility Profile 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 timing issues with new members and retirees, the retirement eligibility profile is not available from July through October of each year.

RETIREE SUBBING

A TFFR retiree can perform unlimited non-contracted substitute teaching. The hours do not count towards the annual hour limit and contributions are not paid to TFFR. This is also the case if the retiree is a long term sub, without any form of written agreement, filling in for an individual until they come back to teach. However, in-staff substitute teaching performed by a retiree, while already under an existing agreement to teach, will count towards the annual hour limit and contributions must be paid to TFFR.

TFFR Employer Audit Information Corner

Terra Miller Bowley
Supervisor of Audit Services

TFFR Employer Compliance Audits

TFFR participating employers play a critical role in the retirement process by verifying member eligibility and reporting salary and service hours to TFFR. TFFR Compliance Audits ensure the accuracy of the information reported. Each year 35 employers are selected for a TFFR Compliance Audit. Employers will receive an audit notification via email and will be asked to provide documentation which confirms eligibility, salary, and service hours reported in prior fiscal years.

A majority of employers are found in compliance. In compliance employers will be eligible for a TFFR Compliance Audit every 5 years. Audit Services will follow-up with those employers found “not in compliance” the following fiscal year to verify reporting errors have been corrected. If reporting errors persist a second TFFR Compliance Audit may be conducted.

Material reporting errors identified during a TFFR Compliance Audit will be corrected. Overpaid contributions will be refunded to the employer and the employer will be billed with interest for any underpaid contributions. Service hours will also be adjusted as needed. Members whose accounts require correction will be notified of any changes.

Audit Services staff includes Supervisor of Audit Services, Terra Miller Bowley, and staff auditor, Dottie Thorsen.



GASB STATEMENT 68 UPDATE

The audited fiscal year [2014 Schedules of Employer Allocations and Pension Amounts by Employer](#), and the [GASB 68 Disclosure Template - 2015](#) are now available on our website. Employers and auditors can use this information to complete your 2015 financials.

New Email Address?

Please update information as soon as possible on the [Notification of School District Changes](#) form.

ND SCHOOL BOARD ASSOCIATION CONVENTION

Please stop by our booth during the SBA convention at the Bismarck Ramkota Hotel on October 30th. We look forward to seeing you.

