ND STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING

Thursday November 17, 2016 – 3:00 PM
Workforce Safety & Insurance
1600 E Century Ave, Bismarck, ND 58503

AGENDA

1. Call to Order and Approval of Agenda – Chair (committee action)(5 minutes)

2. Approval of September 23, 2016 Minutes – Chair (committee action)(5 minutes)

3. Presentation of June 30, 2016 Financial Audit Report of RIO + Update on GASB 68 Schedule Audit – CliftonLarsonAllen, LLP (to follow)(committee action)(60 minutes)

4. 2016 – 2017 First Quarter Audit Activities Report – Terra Miller Bowley (committee action)(20 minutes)

5. Other – Next SIB Audit Committee Meeting

   Workforce Safety & Insurance (WSI)
   Thursday February 23, 2017 @ 3:00 PM
   1600 E Century Ave, Bismarck, ND 58503

6. 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 23, 2016, MEETING

COMMITTEE MEMBERS PRESENT: Rebecca Dorwart, Chair
Mike Gessner, TFFR Board
Mike Sandal, PERS Board
Cindy Ternes, Workforce Safety & Insurance
Josh Wiens, External Representative

STAFF PRESENT: Bonnie Heit, Assist to the Audit Committee
David Hunter, ED/CIO
Fay Kopp, Dep ED/CRO
Terra Miller Bowley, Suprv Audit Services
Cody Schmidt, Compliance Officer
Dottie Thorsen, Internal Auditor

CALL TO ORDER:

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 12:52 p.m., on Friday, September 23, 2016, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

The Committee welcomed Mr. Josh Wiens. Mr. Wiens will serve as an independent participant on the Committee. Mr. Wiens is a CPA who currently serves as Chief Financial Officer for Shiloh Christian School and McDonalds of Bismarck/Mandan.

AGENDA:

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO APPROVE THE AGENDA FOR THE SEPTEMBER 23, 2016, MEETING AS DISTRIBUTED.

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

MINUTES:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE MAY 19, 2016, MINUTES AS DISTRIBUTED.

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

ELECTION OF OFFICERS:

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED BY A ROLL CALL VOTE TO CONTINUE WITH THE CURRENT SLATE OF OFFICERS: MS. DORWART, CHAIR, MR. GESSNER, VICE CHAIR/LIAISON, FOR THE PERIOD OF JULY 1, 2016 – JUNE 30, 2017.

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

CODE OF CONDUCT:

Mr. Schmidt reviewed the SIB Board Members' Code of Conduct Policy B-8, which details the code of ethical responsibility applicable to members of the SIB. The SIB is required to affirm their understanding of the policy on an annual basis. As a standing committee of the SIB, the SIB Audit Committee is required to adhere to any applicable policies contained within the SIB Governance Manual. Committee members were advised to affirm their understanding of the policy by signing and returning the acknowledgment to Mr. Schmidt.

AUDIT REPORT – YEAR END:

Ms. Miller Bowley reviewed activities of the Audit Division for the period of July 1, 2015 – June 30, 2016.

A total of 22 employer audits were completed (21 Compliance and 1 Not in Compliance). Nine employer audits were in progress at fiscal year-end, which included two employers from the third audit cycle and seven from the fourth audit cycle. Seven audits in the fourth audit cycle were pending along with audit information from three employers who had been notified of an upcoming audit. A total of 25 employers received audit notifications.

The Audit Division completed the following audits – Benefits Payments Audit, Teachers' Fund for Retirement (TFFR) File Maintenance Audit, Annual Salary Verification Project, and Executive Limitation Audit.

The Audit Division was not able to complete work on the following audits - Regional Education Association Audits, Investment Performance Summary Review, Schedule of Investment Fees Review, and Investment Management Fees Review. The hours allocated to these audits were reallocated to other audit activities that were of higher importance.

Ms. Miller Bowley stated the TFFR Cost Effective Benefit Payments/Benefit Recalculation Audit is currently in progress.

The Audit Division also assisted the external auditors, CliftonLarsonAllen, during the current financial audit of RIO along with the GASB census data audits.

The Audit Division in conjunction with the Retirement Division created an internship program. The internship program ran from May 16 – August 19, 2016. Ms. Miller Bowley stated the internship program went very well and would definitely recommend future programs.

The Audit Division continues to make progress on their procedures manual.

Staff also attends local Institute of Internal Audit (IIA) meetings as well as regional conferences and other misc. seminars and webinars. Ms. Miller Bowley is pursuing a Certified Internal Auditor designation.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. WIENS TO APPROVE THE 2015-16 AUDIT ACTIVITIES REPORT.

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

AUDIT REPORT – SIB:

Ms. Miller Bowley reviewed the annual report to the SIB, which will be on their October 28, 2016, agenda. The Committee requested language be added to the report regarding the process taken when employers are not in compliance.

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

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

AUDIT REPORT – FIRST QUARTER:

Ms. Miller Bowley reviewed Audit Services activities from July 1 – August 26, 2016. Five employer audits had been completed, nine were in progress, five were pending and not yet started, and one special audit on Parshall was in progress. RIO personnel had concerns regarding the accuracy of reporting from Parshall following the completion of an employer audit in June 2016 and year-end closing activities. The audit will conclude as soon as possible in an effort to correct current and future reporting errors.

As of September 23, 2016, an additional five employer audits had been completed. The Audit Division is in the process of completing third cycle audits of Ft. Totten and White Shield Public School Districts.

Ms. Miller Bowley also indicated staff will be conducting a 100 percent audit on Ft. Yates Public School for the 2013-14, 2014-15 and 2015-16 school years. Ft. Yates was able to close the 2015-16 school year but because of reporting discrepancies, items remain outstanding. There are 35 employees and Audit Services estimates it will take a full year to complete the audit.

Discussion took place on verification of retirement salaries.

Ms. Miller Bowley stated Williston, Minnewaukan, and McClusky will receive audit notifications next week as the Employers' status has been Not In Compliance for some time.

Discussion took place on the support and education available to the Employers and in particular to the Business Managers.

The Benefits Payment Audit for 2015-16 was completed on August 26, 2016. No findings were noted but two recommendations for future actions were provided.

The TFFR Cost Effective Benefit Payments/Benefit Recalculation Audit is underway and will be completed in fiscal year 2017.

The SIB customer satisfaction survey was facilitated in July 2016 and the results will be provided to the SIB at their October 28, 2016, meeting.

Audit Services is providing support to CliftonLarsonAllen for the 2016 financial audit of RIO. Audit Services notified 17 employers of upcoming GASB 68 Census Data audits in August 2016. The GASB 68 Census Data audits are currently underway and requests for supporting documentation have been sent to selected employers.

The internship program concluded on August 19, 2016. Primarily the Supervisor of Audit Services along with the Retirement Program Manager gave support and assistance to the intern.

Ms. Miller Bowley has also been assisting RIO personnel and the TFFR Board with special projects, e.g. the retiree substitute teaching issue.

Ms. Miller Bowley completed the requirement for a Certified Internal Auditor (CIA) designation in July 2016.

The Audit Committee congratulated Ms. Miller Bowley on her designation and the progress made by both members of the Audit Division.

OTHER:

The next Audit Committee meeting is scheduled for Thursday, November 17, 2016, at 3:00 pm at Workforce Safety and Insurance, 1600 E Century Ave, Bismarck, ND.

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 1:50 p.m.

Respectfully Submitted:

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Ms. Rebecca Dorwart, Chair
SIB Audit Committee

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Bonnie Heit
Assistant to the Audit Committee

November 17, 2016

Audit Results Presentation to:

North Dakota Retirement and Investment Office – Audit Committee

CliftonLarsonAllen

www.cliftonlarsonallen.com

Agenda

- 2016 Audit Results
- Required Communications
- Financial Highlights
- GASB 68 Schedule Audit Update

2016 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

Required Governing Body Communications

- Auditor's responsibility under U.S. Generally Accepted Auditing Standards
- Significant accounting policies
  - GASB Standard No. 72 *Fair Value Measurement and Application*
- 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

Financial Highlights

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

	2016	2015	Total % Change
Assets			
Investments	$ 11,278.3	$ 10,668.6	5.7%
Securities Lending Collateral	116.6	-	100.0%
Receivables	70.5	61.1	15.3%
Cash & Other	19.9	19.0	4.5%
Total Assets	11,485.3	10,748.7	6.9%
Deferred Outflows of Resources			
Deferred outflows related to pensions	0.3	0.1	128.8%
Liabilities			
Obligations under Securities Lending	116.6	-	100.0%
Accounts Payable & Accrued Expenses	10.1	13.2	-23.7%
Total Liabilities	126.7	13.2	860.4%
Deferred Inflows of Resources			
Deferred inflows related to pensions	0.1	0.2	-25.4%
Total Net Position	$ 11,358.8	$ 10,735.5	5.8%

Financial Highlights, cont'd.

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

	2016	2015	Total % Change
Additions:			
Contributions	$ 162.0	$ 152.5	6.3%
Net Investment Income	151.0	340.0	-55.6%
Net Securities Lending Income	1.4	-	100.0%
Purchase of Units	763.2	1,239.9	-38.4%
Total Additions	1,077.6	1,732.4	-37.8%
Deductions:			
Payments to TFFR members	186.0	172.2	8.0%
Administrative Expenses	2.9	2.9	1.9%
Redemption of Units	265.4	249.1	6.6%
Total Deductions	454.3	424.2	7.1%
Total Change in Net Position	$ 623.3	$ 1,308.2	-52.4%

Financial Highlights, cont'd.

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

	2016	2015	2014
Total pension liability			
Service cost	$ 68,239	$ 60,618	$ 56,752
Interest	265,440	249,064	237,821
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(8,093)	2,209	9,347
Changes of assumptions	-	171,325	-
Benefit payments, including refunds of member contributions	(185,969)	(172,239)	(162,259)
Net change in total pension liability	139,617	310,977	141,661
Total pension liability - beginning	3,449,777	3,138,800	2,997,139
Total pension liability - ending (a)	$3,589,394	$3,449,777	$ 3,138,800
Plan fiduciary net position			
Contributions - employer	$ 82,840	$ 78,422	$ 62,355
Contributions - member	76,343	72,268	56,555
Contributions - purchased service credit	2,768	1,601	2,034
Contributions - other	45	172	48
Net investment income	8,239	73,205	294,246
Benefit payments, including refunds of member contributions	(185,969)	(172,239)	(162,259)
Administrative expenses	(1,852)	(1,923)	(1,586)
Net change in plan fiduciary net position	(17,586)	51,506	251,393
Plan fiduciary net position - beginning **	2,141,921	2,090,415	1,839,584
Plan fiduciary net position - ending (b)	$2,124,335	$2,141,921	$ 2,090,977
Plan's net pension liability - ending (a) - (b)	$1,465,059	$1,307,856	$ 1,047,823
Plan fiduciary net position as a percentage of the total pension liability	59.2%	62.1%	66.6%

Financial Highlights, cont'd.

		Fair Value Measures Using		
	Fair Value 6/30/16	Quoted Prices in Active Markets for Indentical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Short Term Securities				
Short Term Bills and Notes	$ 17,161	$ -	$ 17,161	$ -
Short Term Securities	**17,161**	-	**17,161**	-
Fixed income investments				
Asset Backed Securities	214,093	-	212,013	2,080
Bank Loans	7,524	-	7,524	-
Commercial Mortgage-Backed	143,357	-	141,957	1,400
Corporate Bonds	1,292,451	-	1,289,656	2,795
Corporate Convertible Bonds	8,502	-	8,312	190
Funds - Fixed Income ETF	29,531	29,531	-	-
Government Agencies	68,113	-	68,113	-
Government Bonds	567,638	-	567,638	-
Government Mortgage Backed Securities	657,728	-	656,882	846
Gov't-issued Commercial Mortgage-Backed	57,491	-	57,491	-
Index Linked Government Bonds	34,183	-	34,183	-
Municipal/Provincial Bonds	36,951	-	36,951	-
Non-Government Backed C.M.O.s	60,641	-	55,099	5,542
Other Fixed Income	6,528	-	6,528	-
Total fixed income investments	**3,184,731**	**29,531**	**3,142,347**	**12,853**
Equity investments				
Common Stock	3,136,055	3,130,843	4,375	837
Convertible Equity	1,495	899	596	-
Funds - Common Stock	22,430	22,430	-	-
Funds - Equities ETF	84,030	84,030	-	-
Preferred Stock	2,550	2,550	-	-
Rights/Warrants	12	-	-	12
Stapled Securities	2,228	2,228	-	-
Total equity investments	**3,248,800**	**3,242,980**	**4,971**	**849**
Derivative investments				
Exchange Cleared Swaps	(6,584)	-	(6,584)	-
Options	(38)	(52)	14	-
Swaps	(1,015)	-	(1,018)	3
Total derivative investments	**(7,637)**	**(52)**	**(7,588)**	**3**
Total investments by fair value level	**$ 6,443,055**	**$ 3,272,459**	**$ 3,156,891**	**$ 13,705**

Financial Highlights, cont'd.

Investments measured at the net asset value (NAV)		Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Commingled Funds-Debt	$ 1,510,097	$ -	Daily, monthly	1-15 days
Commingled Funds-Equities	885,713	-	Daily, monthly	1-15 days
Distressed Debt	268,329	21,735	Quarterly, Not eligible	60 days
Long/Short	167,752	-	Monthly	15 days
Mezzanine Debt	3,686	13,147	Not eligible	Not eligible
Private Equity	159,340	105,293	Not eligible	Not eligible
Real Assets	1,457,778	212,297	Quarterly, Not eligible	30-90 days
Total investments measured at the NAV	**$ 4,452,695**	**$ 352,472**		
Investments at other than fair value				
Cash and adjustments to cash	$ 315,852			
Bank Certificates of Deposit	81,144			
Repurchase Agreements	(14,482)			
Total investments at other than fair value	**$ 382,514**			
Total investments	**$ 11,278,264**			

GASB 68 Schedule Audit Update

- Employer Census Testing is Complete
  - Tested individual employee census data at **17** separate employers
  - No errors noted
- Expect to begin work on the GASB 68 Schedules this month
- Expect to issue our final report on the schedules by the end of 2016

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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, 2016, and have issued our report thereon dated November 7, 2016. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

<u>*Accounting policies*</u>

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

For the year ended June 30, 2016, the financial statements include the impact of adoption of Governmental Accounting Standards Board (GASB) Statement Number 72.

GASB 72, *Fair Value Measurement and Application*, is effective for fiscal years beginning after June 15, 2015. This statement addresses accounting and financial reporting requirements related to fair value measurements. GASB 72 requires measurement of certain assets and liabilities at fair value using a consistent and detailed definition of fair value and accepted valuation techniques. It also enhances disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques. Additional disclosures are also required for investments in certain entities that calculate net asset value per share (or its equivalent).

We noted no transactions entered into by RIO during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

<u>*Accounting estimates*</u>

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were significant estimates in the valuation of alternative investments and the calculation of the actuarial information included in the footnotes and required supplementary information.

The valuation of alternative investments, including private equity and real asset investments, are a management estimate which is primarily based upon net asset values reported by the investment managers and comprise 18% 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, 2016. 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% 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, 2016. 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 7, 2016.

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 7, 2016.

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

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

* * *

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 7, 2016

ND Retirement and Investment Office

State Investment Board
Teachers' Fund for Retirement

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November 7, 2016

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

This representation letter is provided in connection with your audit of the financial statements of North Dakota Retirement and Investment Office (RIO), which comprise the financial position of the entity as of June 30, 2016, 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 7, 2016, 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: Executive Director/CIO

Signature: ______________________ Title: Fiscal + Investment Ops Mgr.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

PAGE

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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 statement of net position – fiduciary funds as of June 30, 2016, and the related statement of changes in net position – fiduciary funds for the year 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 year ended June 30, 2016, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2016, and the respective changes in financial position for the year 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, 2016, and the results of the changes in financial position of such funds for the year 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, 2016, and the changes in its financial position for the year 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was 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 audit 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.

The Introductory, Investment, Actuarial and Statistical Section, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Audit Standards*, we have also issued our report dated November 7, 2016, 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* in considering RIO's internal control over financial reporting.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 7, 2016

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the schedule of employer allocations and the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense as of and for the year ended June 30, 2016 (specified column totals), included in the schedule of pension amounts by employer of the North Dakota Retirement and Investment Office - North Dakota Teachers' Fund for Retirement (TFFR), and have issued our report thereon dated November 7, 2016.

Internal Control over Financial Reporting

Management of TFFR is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered TFFR's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer, but not for the purpose of expressing an opinion on the effectiveness of TFFR's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of TFFR'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 schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TFFR's schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer 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 the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

CliftonLarsonAllen LLP

Baltimore, Maryland
November 7, 2016

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

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, 2016. 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 four individual investment accounts.

Financial Highlights

Total net position increased in the fiduciary funds by $623.3 million or 5.8% from the prior year. Approximately 78% of that increase is due to the growth of the Legacy Fund and the addition of the assets of the Tobacco Prevention and Control 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 $434.9 million during the fiscal year. The Tobacco Prevention and Control Fund had a net contribution of $53.5 million during its first fiscal year within the SIB investment program.

Additions in the fiduciary funds for the year decreased $654.8 million or 37.8% from the previous year. There was a significant decrease ($476.7 million) in new purchases of units in the investment program mainly due to the slowdown of oil and gas tax collections in the Legacy Fund. Net investment income decreased by $189.0 million and total contributions increased $9.5 million.

Deductions in the fiduciary funds increased over the prior year by $30.1 million or 7.1%. Payments to TFFR members in the form of benefits and refunds increased by $13.7 million or 8.0%. 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 increased by $16.3 million or 6.6%.

As of June 30, 2016, the TFFR pension plan had a Net Pension Liability (NPL) of $1.47 billion and Plan Fiduciary Net Position as a percent of Total Pension Liability (TPL) of 59.2%.

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, 2016, were $11.5 billion and were comprised mainly of investments. Total assets increased by $736.6 million or 6.9% from the prior year primarily due to the growth of the Legacy Fund and addition of the Tobacco Prevention and Control Fund, as well as securities lending collateral from the program added during the fiscal year.

Total liabilities as of June 30, 2016, were $126.7 million. The majority of the liabilities was comprised of the securities lending collateral payable due to the addition of the program during the fiscal year. Total liabilities increased by $113.4 million or 860.4% from the prior year due entirely to the securities lending collateral.

RIO's fiduciary fund total net position was $11.4 billion at the close of fiscal year 2016.

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

	2016	2015	Total % Change
Assets			
Investments	$ 11,278.3	$ 10,668.6	5.7%
Securities Lending Collateral	116.6	-	100.0%
Receivables	70.5	61.1	15.3%
Cash & Other	19.9	19.0	4.5%
Total Assets	11,485.3	10,748.7	6.9%
Deferred Outflows of Resources			
Deferred outflows related to pensions	0.3	0.1	128.8%
Liabilities			
Obligations under Securities Lending	116.6	-	100.0%
Accounts Payable & Accrued Expenses	10.1	13.2	-23.7%
Total Liabilities	126.7	13.2	860.4%
Deferred Inflows of Resources			
Deferred inflows related to pensions	0.1	0.2	-25.4%
Total Net Position	$ 11,358.8	$ 10,735.5	5.8%

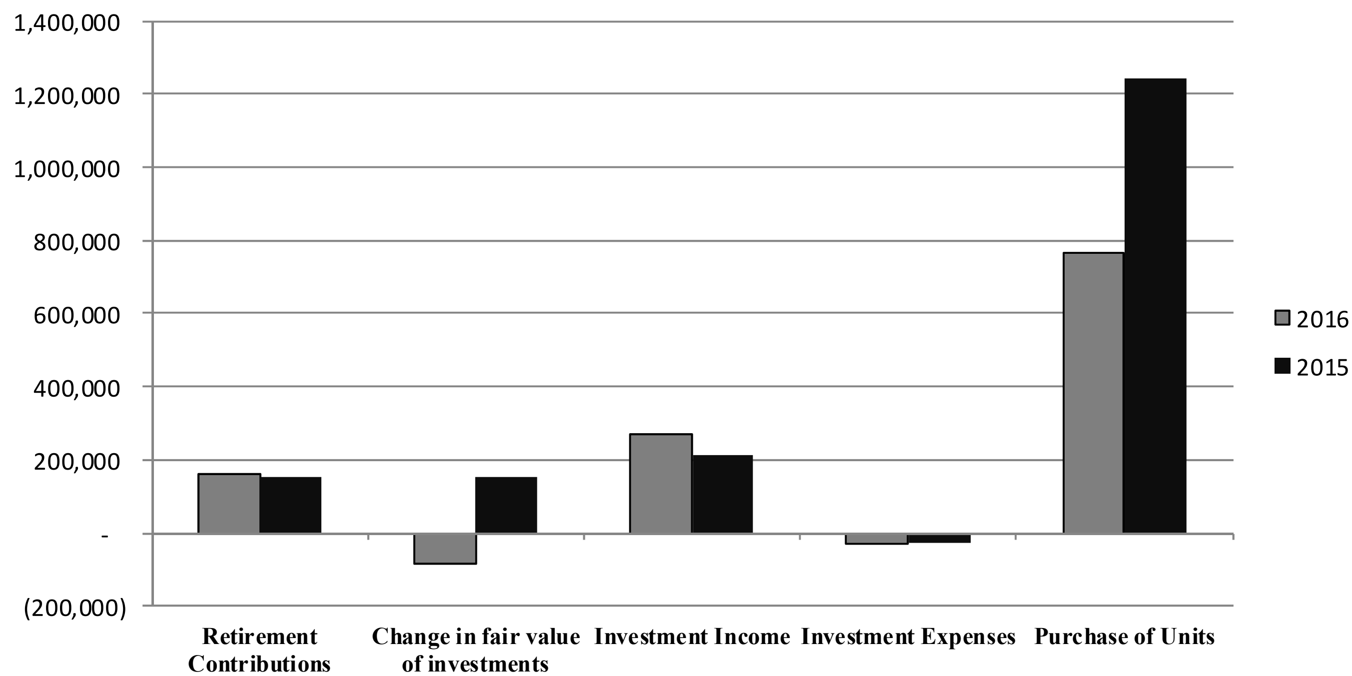
North Dakota Retirement and Investment Office
Changes in Net Position – Fiduciary Funds
(In Millions)

	2016	2015	Total % Change
Additions:			
Contributions	$ 162.0	$ 152.5	6.3%
Net Investment Income	151.0	340.0	-55.6%
Net Securities Lending Income	1.4	-	100.0%
Purchase of Units	763.2	1,239.9	-38.4%
Total Additions	1,077.6	1,732.4	-37.8%
Deductions:			
Payments to TFFR members	186.0	172.2	8.0%
Administrative Expenses	2.9	2.9	1.9%
Redemption of Units	265.4	249.1	6.6%
Total Deductions	454.3	424.2	7.1%
Total Change in Net Position	$ 623.3	$ 1,308.2	-52.4%

Statement of Changes in Net Position – Additions

Contributions collected by the pension trust fund increased by $9.5 million or 6.3% over the previous fiscal year due to both an increase in the number of active members contributing to the fund and an increase in the average salary of active members. Net investment income (net of investment expenses) decreased by $189.0 million or 55.6% from last year. This was the result of weak financial markets during the fiscal year. Deposits of funds into the investment trust fund (purchase of units) decreased by $476.7 million or 38.4% due mainly to lower oil and gas tax collections affecting the Legacy Fund.

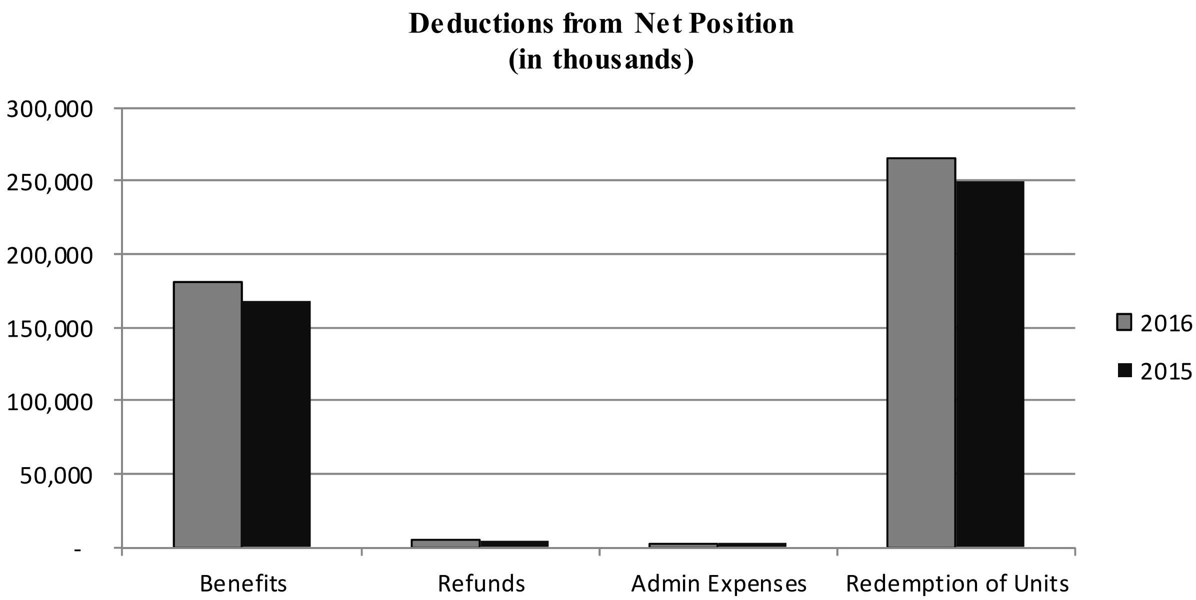
Additions to Net Position
(in thousands)



Statement of Changes in Net Position – Deductions

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by $12.3 million or 7.3% during the fiscal year ended June 30, 2016. This was due to an increase in the total number of retirees in the plan as well as an increased retirement salary on which the benefits are based upon. Refunds increased in fiscal year 2016 by $1.5 million or 37.6%.

Administrative expenses remained relatively steady in fiscal year 2016, showing a modest 1.9% increase over the previous fiscal year.



Conclusion

Net returns were positive despite challenging global economic conditions and heightened volatility in the capital markets last year. China's currency devaluation on August 11, 2015, and the U.K. Brexit vote on June 23, 2016, contributed to this increased volatility. Although the U.S. economy appeared stronger than the broader global markets, GDP growth rates in the U.S. have declined for four consecutive quarters on an annualized basis. For the fiscal year ended June 30, 2016, the TFFR pension plan generated a net investment return of 0.3% which trailed the investment policy benchmark of 0.6%. Strong returns in real estate (up 11%) and international fixed income (up 7%) were largely offset by muted returns in U.S. equities (up 2%) and sharply disappointing results in world, international and private equities (down over 7%). U.S. fixed income and other real assets (including infrastructure and timber) posted net investment returns of less than 4% for fiscal year 2016.

While cumulative returns in the post-credit crisis era have been strong, investors today face numerous challenges in the future that may limit the potential for high market returns and amplify investment 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, 2016, TFFR's funding level was 62.1% on an actuarial basis (and 59.2% on a market basis). Because recent investment performance has been less than assumed, TFFR's funded status is expected to decline as these losses are recognized over the next few years due to the plan's five-year asset smoothing method. However, over the long term, the plan's funding level is expected to gradually improve with full funding expected in 30-40 years, if all actuarial assumptions are met in the future, including the 7.75% investment return assumption. Protecting the long term solvency of the pension plan is the TFFR Board's fiduciary responsibility. The Board will continue to proactively address TFFR funding issues so the plan will be financially strong and sustainable for past, present, and future ND educators.

Contacting RIO Financial Management

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

	Pension Trust	Investment Trust	Total
Assets:			
Investments, at fair value			
Equities	$ -	$ 1,900,710,606	$ 1,900,710,606
Equity pool	1,131,917,482	1,921,253,074	3,053,170,556
Fixed income	-	1,415,525,781	1,415,525,781
Fixed income pool	479,086,760	2,285,945,327	2,765,032,087
Real assets	-	615,513,449	615,513,449
Real assets pool	369,771,496	889,167,336	1,258,938,832
Private equity pool	73,374,321	85,965,628	159,339,949
Cash pool	18,515,640	91,516,800	110,032,440
Total investments	2,072,665,699	9,205,598,001	11,278,263,700
Invested securities lending collateral	19,859,451	96,710,963	116,570,414
Receivables:			
Investment income	9,517,943	35,454,773	44,972,716
Contributions	25,494,939	-	25,494,939
Miscellaneous	7,963	13,880	21,843
Total receivables	35,020,845	35,468,653	70,489,498
Cash and cash equivalents	19,747,422	168,372	19,915,794
Total assets	2,147,293,417	9,337,945,989	11,485,239,406
Deferred outflows of resources			
Deferred outflows related to pensions	168,324	113,380	281,704
Liabilities:			
Accounts payable	118,477	38,269	156,746
Investment expenses payable	1,713,404	6,349,541	8,062,945
Securities lending collateral	19,859,451	96,710,963	116,570,414
Accrued expenses	1,354,756	443,950	1,798,706
Miscellaneous payable	-	17,233	17,233
Due to other state agencies	10,055	7,234	17,289
Total liabilities	23,056,143	103,567,190	126,623,333
Deferred inflows of resources			
Deferred inflows related to pensions	70,310	42,271	112,581
Net position:			
Restricted for pensions	2,124,335,288	-	2,124,335,288
Held in trust for external investment pool participants:			
Pension pool	-	2,637,238,130	2,637,238,130
Insurance pool	-	2,538,236,673	2,538,236,673
Held in trust for individual investment accounts	-	4,058,975,105	4,058,975,105
Total net position	$ 2,124,335,288	$ 9,234,449,908	$ 11,358,785,196
Each participant unit is valued at $1.00			
Participant units outstanding		9,234,449,908	9,234,449,908

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

North Dakota Retirement and Investment Office

Statement of Changes in Net Position – Fiduciary Funds

For the year ended June 30, 2016

	Pension Trust	Investment Trust	Total
Additions:			
Contributions:			
Employer contributions	$ 82,839,932	$ -	$ 82,839,932
Member contributions	76,342,685	-	76,342,685
Purchased service credit	2,768,245	-	2,768,245
Interest, penalties and other	44,966	-	44,966
Total contributions	161,995,828	-	161,995,828
Investment income:			
Net change in fair value of investments	(35,952,316)	(51,056,400)	(87,008,716)
Interest, dividends and other income	49,982,337	217,167,354	267,149,691
	14,030,021	166,110,954	180,140,975
Less investment expenses	6,034,689	23,130,811	29,165,500
Net investment income	7,995,332	142,980,143	150,975,475
Securities lending activity:			
Securities lending income	304,571	1,465,052	1,769,623
Less securities lending expenses	(60,907)	(292,852)	(353,759)
Net securities lending income	243,664	1,172,200	1,415,864
Purchase of units ($1 per unit)	-	763,176,205	763,176,205
Total additions	170,234,824	907,328,548	1,077,563,372
Deductions:			
Benefits paid to participants	179,625,551	-	179,625,551
Partial lump-sum distributions	992,233	-	992,233
Refunds	5,350,896	-	5,350,896
Administrative expenses	1,851,656	1,066,070	2,917,726
Redemption of units ($1 per unit)	-	265,411,054	265,411,054
Total deductions	187,820,336	266,477,124	454,297,460
Change in net position	(17,585,512)	640,851,424	623,265,912
Net position:			
Beginning of year	2,141,920,800	8,593,598,484	10,735,519,284
End of Year	$ 2,124,335,288	$ 9,234,449,908	$ 11,358,785,196

The accompanying notes are an integral part of these 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.

New Accounting Standards

In fiscal year 2016, the Plan implemented GASB Statement No. 72, Fair Value Measurement and Application, ("GASB 72"). This statement defines fair value and describes how state and local governments should define and measure fair value, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. GASB 72 enhances transparency through new note disclosures as reflected in Note 3 Investments - Fair Value Measurement.

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 four 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, Bismarck City Employees and Police, City of Grand Forks Employees and City of Grand Forks Park District 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 Medicine, and Budget Stabilization Fund are managed in the insurance pool. The Legacy Fund, Job Service of North Dakota, Tobacco Prevention and Control 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 passthrough federal funds from one state agency to another. The Emergency Commission may authorize the transfer of expenditure authority between appropriated line items, however RIO has specific authority as a special fund to transfer between the contingency line item and other line items. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under the NDCC section 54-44.1-11.

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

Capital Assets and Depreciation

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

	Years
Office equipment	5
Furniture and fixtures	5

Investments

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

The pension fund belonging to TFFR and investment trust funds attributable to the City of Bismarck Employee Pension Plan, the City of Bismarck Police Pension Plan, Job Service of North Dakota, City of Grand Forks Employee Pension Plan, City of Grand Forks Park District 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, 2016 were deposited in the Bank of North Dakota. At June 30, 2016, the carrying amount of TFFR's deposits was $19,747,422 and the bank balance was $19,799,474. 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 $81,143,786 at June 30, 2016. In addition these funds carry cash and cash equivalents totaling $168,372 at June 30, 2016. 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.

At June 30, 2016, the following tables show the investments by investment type and maturity (expressed in thousands).

	Total Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years
Asset Backed Securities	$ 214,093	$ 1,354	$ 73,333	$ 35,566	$ 103,840
Bank Loans	7,523	-	5,407	2,116	-
Collateralized Bonds	-	-	-	-	-
Commercial Mortgage-Backed	143,357	67	17	5,760	137,513
Commercial Paper	-	-	-	-	-
Corporate Bonds	1,292,451	56,049	432,650	433,705	370,047
Corporate Convertible Bonds	8,502	-	6,629	190	1,683
Government Agencies	68,113	5,900	44,149	8,266	9,798
Government Bonds	567,638	26,480	273,899	107,544	159,715
Gov't Mortgage Backed and CMB	715,219	256	27,624	36,868	650,471
Repurchase Agreements	(14,482)	(14,482)	-	-	-
Index Linked Government Bonds	34,183	5,903	-	7,456	20,824
Municipal/Provincial Bonds	36,951	154	5,845	9,704	21,248
Non-Government Backed CMOs	60,641	-	8,303	900	51,438
Other Fixed Income	6,528	1,455	5,073	-	-
Short Term Bills and Notes	17,161	17,161	-	-	-
Funds/Pooled Investments	1,713,792	172,187	701,969	442,005	397,631
Total Debt Securities	$ 4,871,670	$ 272,484	$ 1,584,898	$ 1,090,080	$ 1,924,208

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

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

Interest-only (IO) and principal-only (PO) strips are transactions which involve the separation of the interest and principal components of a security. They are highly sensitive to prepayments by mortgagors, which may result from a decline in interest rates. The SIB held IOs valued at $7.7 million and POs valued at $6.7 million at June 30, 2016. 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 table presents the SIB's ratings as of June 30, 2016 (expressed in thousands).

2016	Total Fair Value	Credit Rating* AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset Backed Securities	$ 213,219	$ 123,092	$ 21,414	$ 30,455	$ 19,980	$ 3,822	$ 2,797	$ 9,202	$ 1,804	$ -	$ 653	$ -
Bank Loans	7,523	-	-	-	2,977	2,305	2,241	-	-	-	-	-
Commercial Mortgage Backed	111,063	47,154	23,370	10,891	9,682	5,798	6,791	6,618	-	-	759	-
Corporate Bonds	1,292,451	2,026	45,795	218,343	783,700	165,038	64,841	9,969	471	-	2,268	-
Corporate Convertible Bonds	8,502	-	-	-	34	2,689	3,905	1,477	-	-	397	-
Gov't Agencies	63,908	4,305	44,179	1,066	14,358	-	-	-	-	-	-	-
Gov't Bonds	128,745	8,315	12,427	34,160	41,997	28,531	3,315	-	-	-	-	-
Gov't Issued Commercial & Gov't Mortgage Backed	507,990	2,587	505,403	-	-	-	-	-	-	-	-	-
Municipal/Provincial Bonds	36,951	4,517	16,036	7,456	8,788	-	-	-	-	-	-	154
Non-Gov't Backed CMOs	59,280	7,493	6,533	18,982	8,676	699	4,242	4,664	2,924	-	5,067	-
Other Fixed Income	6,528	-	6,528	-	-	-	-	-	-	-	-	-
Repurchase Agreements	(14,482)	3,700	(18,182)	-	-	-	-	-	-	-	-	-
Short Term Bills & Notes	15,697	-	15,697	-	-	-	-	-	-	-	-	-
Funds/Pooled Investments	1,713,792	107,858	940,656	418,236	190,616	49,459	6,967	-	-	-	-	-
Total Credit Risk of Debt Securities	4,151,167	$ 311,047	$1,619,856	$ 739,589	$ 1,080,808	$ 258,341	$ 95,099	$ 31,930	$ 5,199	$ -	$ 9,144	$ 154
US Gov't & Agencies **	720,503											
Total Debt Securities	$ 4,871,670											

* 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,* and *Short Term Bills and Notes* categories are issued by FNMA, FDIC, FHLB, FHLMC, FICO, FAMC and NCUA and TVA.

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, 2016, 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 table as of June 30, 2016 (expressed in thousands).

Currency	Short-Term	Debt	Equity	Total
Australian dollar	$ 508	$ 11,044	$ 40,740	$ 52,292
Brazilian real	560	7,856	4,035	12,451
British pound sterling	(839)	8,370	194,291	201,822
Canadian dollar	48	-	22,605	22,653
Chilean peso	54	9,704	853	10,611
Chinese yuan renminbi	(17)	-	-	(17)
Columbian peso	-	2,184	-	2,184
Czech koruna	-	-	743	743
Israeli shekel	46	-	5,332	5,378
Danish krone	70	-	12,863	12,933
Euro	(9,287)	12,557	287,286	290,556
Hong Kong dollar	419	-	67,721	68,140
Hungarian forint	3	5,619	1,912	7,534
Indian rupee	6,858	-	-	6,858
Indonesian Rupiah	33	6,771	1,051	7,855
Japanese yen	2,582	397	190,320	193,299
Malaysian Ringgit	59	6,469	-	6,528
Mexican peso	(304)	25,778	7,358	32,832
New Zealand dollar	28	5,187	2,476	7,691
Norwegian krone	4,735	-	12,551	17,286
Polish zloty	-	2,952	1,177	4,129
Russian ruble	(546)	-	-	(546)
Singapore dollar	113	-	6,049	6,162
South African rand	93	4,540	9,775	14,408
South Korean won	486	-	18,227	18,713
Swedish krona	9,995	-	27,601	37,596
Swiss franc	62	-	68,795	68,857
Taiwan dollar	9	-	2,807	2,816
Thai baht	387	-	3,838	4,225
Turkish lira	42	-	1,173	1,215
International commingled funds (various currencies)	-	110,368	762,502	872,870
Total international investment securities	$ 16,197	$ 219,796	$ 1,754,081	$ 1,990,074

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 statement of net position. At June 30, 2016, 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 statement of changes in net position and totaled $(7.5) million for fiscal year 2016. At June 30, 2016, the SIB investment portfolio had the notional futures balances shown below (expressed in thousands).

Futures	Notional Value June 30, 2016
Cash & Cash Equivalent Derivative Futures	
Long	$ 37,736
Short	(946,602)
Equity Derivative Futures	
Long	623,571
Fixed Income Derivative Futures	
Long	509,240
Short	(290,226)
Total Futures	$ (66,281)

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 statement of changes in net position and totaled $0.4 million for fiscal year 2016. At June 30, 2016, the SIB investment portfolio had the following option balances (expressed in thousands).

Options		Fair Value June 30, 2016
Cash & Other Options		
Call	$	(72)
Put		72
Fixed Income Options		
Call		(37)
Put		(1)
Total Options	$	(38)

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, currency risk and total return.

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.

A total return swap is an agreement in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset (income and capital gains). The underlying asset, or reference asset, is owned by the party receiving the set rate payment.

Gains and losses on swaps are determined based on fair values and are recorded with the net change in fair value of investments in the statement of changes in net position and totaled $(10.7) million for fiscal year 2016. The maximum loss that would be recognized at June 30, 2016, if all counterparties failed to perform as contracted is $3.25 million. Swap fair values are determined by a third party pricing source. At June 30, 2016, the SIB's investment portfolio had the swap fair value balances as shown below (expressed in thousands).

Credit Default Swaps

	Notional Amount	Expiration Date	Fair Value
Counterparty/Moody's Rating	June 30, 2016	Range	June 30, 2016
Bank of America/A3 (1 contract)	$ (2,600)	12/2018	$ 40
Barclays/A2 (1 contract)	(100)	9/2019	1
BNP Paribas/A2 (2 contracts)	(450)	12/2016 - 6/2019	(44)
Citibank/A3 (4 contracts)	(11,050)	12/2018 - 12/2019	105
Citigroup Global Markets/A1	(6,500)	12/2018	75
Credit Suisse First Boston/A1 (2 contracts)	4,340	6/2021	(81)
Deutsche Bank/A2 (2 contracts)	2,400	6/2017	(18)
Goldman Sachs/A3 (5 contracts)	(1,850)	12/2016 - 3/2020	(2)
JP Morgan Chase/Aa3 (14 contracts)	2,181	12/2016 - 11/2045	(51)
Total Credit Default Swaps	$ (13,629)		$ 25

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

Currency Swaps

	Notional Amount	Expiration Date	Fair Value
Counterparty/Moody's Rating	June 30, 2016	Range	June 30, 2016
Deutsche Bank London/A2	$ 281	5/2017	$ 1
Goldman Sachs/A3	150	1/2017	5
JP Morgan Chase/Aa3 (8 contracts)	181,560	11/2016 - 11/2024	-
Total Currency Swaps	$ 181,991		$ 6

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

Interest Rate Swaps

	Notional Amount	Expiration Date	Fair Value
Counterparty/Moody's Rating	June 30, 2016	Range	June 30, 2016
Bank of America/A3 (1 contract)	$ 6,243	1/2018	$ (50)
Citigroup Global Markets/A1 (3 contracts)	(3,055)	8/2020	(178)
Credit Suisse First Boston/A1 (24 contracts	(235,092)	12/2017 - 6/2046	(3,353)
Credit Suiss International/A1 (4 contracts)	8,137	1/2018 - 1/2021	(76)
Deutsche Bank/A2 (4 contracts)	6,697	1/2018 - 1/2021	(18)
Goldman Sachs/A3 (3 contracts)	7,850	1/2021 - 6/2026	(69)
HSBC Bank/A1 (2 contracts)	20,500	3/2020 - 9/2033	(4)
JP Morgan Chase/Aa3 (86 contracts)	(4,765)	2/2019 - 6/2046	(3,799)
Morgan Stanley/Baa1 (1 contract)	3,900	5/2022	8
Total Interest Rate Swaps	$ (189,585)		$ (7,539)

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

	Notional Amount	Expiration Date	Fair Value
Counterparty/Moody's Rating	June 30, 2016	Range	June 30, 2016
Bank of America/A3 (7 contracts)	$ 700	1/2020	$ (10)
BNP Paribas/A2 (3 contracts)	600	1/2020	(8)
Citibank/A3 (4 contracts)	520	3/2020 - 6/2030	(11)
Deutsche Bank/A2 (1 contract)	206	11/2030	16
Goldman Sachs/A3 (11 contracts)	4,430	1/2020 - 1/2030	(52)
Total Inflation Swaps	$ 6,456		$ (65)

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

Total Return Swaps

	Notional Amount	Expiration Date	Fair Value
Counterparty/Moody's Rating	June 30, 2016	Range	June 30, 2016
Credit Suisse International/A1 (2 contracts)	$ 2,252	1/2041	$ (26)
Total Total Return Swaps	$ 2,252		$ (26)

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

Currency Forwards

Currency forwards represent forward exchange contracts that are entered into in order to manage the exposure to changes in currency exchange rates on the currency denominated portfolio holdings. A forward exchange contract is a commitment to purchase (positive) or sell (negative) a currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net change in fair value of investments in the statements of changes in net position and totaled $0.9 million for fiscal year 2016. At June 30, 2016, the SIB's investment portfolio included the currency forwards balances shown below (expressed in thousands).

					Fair Value
	Currency	Cost	Purchases	Sales	6/30/2016
AUD	Australian dollar	$ (60)	$ -	$ (60)	$ (60)
BRL	Brazilian real	208	471	(263)	230
GBP	British pound sterling	(1,323)	-	(1,323)	(1,222)
CAD	Canadian dollar	(85)	87	(172)	(84)
CLP	Chilean peso	9,404	9,404	-	9,704
CNY	Chinese yuan renminbi	(4,588)	-	(4,588)	(4,492)
EUR	Euro	(8,067)	2,565	(10,632)	(7,919)
HKD/CNH	Hong Kong dollar	4,598	6,210	(1,612)	4,475
HUF	Hungarian forint	(20)	-	(20)	(19)
INR	Indian rupee	6,920	6,920	-	6,858
JPY	Japanese yen	(2,192)	2,558	(4,750)	(2,353)
MXN	Mexican peso	(470)	-	(470)	(467)
NOK	Norwegian krone	4,162	4,162	-	4,099
RUB	Russian ruble	(540)	678	(1,218)	(546)
SEK	Swedish krona	10,368	10,368	-	9,986
USD	United States dollar	(18,315)	25,108	(43,423)	(18,315)
	Total forwards subject to currency risk				$ (125)

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, 2016, the tables below show the SIB's derivative investments subject to interest rate risk (expressed in thousands).

	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	$ (689,852)	$ (586,165)	$ (93,571)	$ 37,736	$ (47,852)	$ -
Options-margined interest rate contracts	(2)	(2)	-	-	-	-
Total	$ (689,854)	$ (586,167)	$ (93,571)	$ 37,736	$ (47,852)	$ -

	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	$ (37)	$ (37)	$ -	$ -	$ -	$ -
Options - interest rate contracts	-	-	-	-	-	-
Options - credit contracts	(1)	(1)	-	-	-	-
Swaps - interest rate contracts	(7,602)	-	-	-	(1,103)	(6,499)
Swaps - credit contracts	24	-	1	(16)	83	(44)
Total	$ (7,616)	$ (38)	$ 1	$ (16)	$ (1,020)	$ (6,543)

Fair Value Measurement

The SIB categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

Level 1 Unadjusted quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

Level 3 Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

The following table shows the fair value leveling of the SIB's investment portfolio at June 30, 2016 (expressed in thousands).

	Fair Value 6/30/16	Fair Value Measures Using: Quoted Prices in Active Markets for Indentical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Short Term Securities				
Short Term Bills and Notes	$ 17,161	$ -	$ 17,161	$ -
Short Term Securities	**17,161**	**-**	**17,161**	**-**
Fixed income investments				
Asset Backed Securities	214,093	-	212,013	2,080
Bank Loans	7,524	-	7,524	-
Commercial Mortgage-Backed	143,357	-	141,957	1,400
Corporate Bonds	1,292,451	-	1,289,656	2,795
Corporate Convertible Bonds	8,502	-	8,312	190
Funds - Fixed Income ETF	29,531	29,531	-	-
Government Agencies	68,113	-	68,113	-
Government Bonds	567,638	-	567,638	-
Government Mortgage Backed Securities	657,728	-	656,882	846
Gov't-issued Commercial Mortgage-Backed	57,491	-	57,491	-
Index Linked Government Bonds	34,183	-	34,183	-
Municipal/Provincial Bonds	36,951	-	36,951	-
Non-Government Backed C.M.O.s	60,641	-	55,099	5,542
Other Fixed Income	6,528	-	6,528	-
Total fixed income investments	**3,184,731**	**29,531**	**3,142,347**	**12,853**
Equity investments				
Common Stock	3,136,055	3,130,843	4,375	837
Convertible Equity	1,495	899	596	-
Funds - Common Stock	22,430	22,430	-	-
Funds - Equities ETF	84,030	84,030	-	-
Preferred Stock	2,550	2,550	-	-
Rights/Warrants	12	-	-	12
Stapled Securities	2,228	2,228	-	-
Total equity investments	**3,248,800**	**3,242,980**	**4,971**	**849**
Derivative investments				
Exchange Cleared Swaps	(6,584)	-	(6,584)	-
Options	(38)	(52)	14	-
Swaps	(1,015)	-	(1,018)	3
Total derivative investments	**(7,637)**	**(52)**	**(7,588)**	**3**
Total investments by fair value level	**$ 6,443,055**	**$ 3,272,459**	**$ 3,156,891**	**$ 13,705**

Investments measured at the net asset value (NAV)		Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Commingled Funds-Debt	$ 1,510,097	$ -	Daily, monthly	1-15 days
Commingled Funds-Equities	885,713	-	Daily, monthly	1-15 days
Distressed Debt	268,329	21,735	Quarterly, Not eligible	60 days
Long/Short	167,752	-	Monthly	15 days
Mezzanine Debt	3,686	13,147	Not eligible	Not eligible
Private Equity	159,340	105,293	Not eligible	Not eligible
Real Assets	1,457,778	212,297	Quarterly, Not eligible	30-90 days
Total investments measured at the NAV	**$ 4,452,695**	**$ 352,472**		
Investments at other than fair value				
Cash and adjustments to cash	$ 315,852			
Bank Certificates of Deposit	81,144			
Repurchase Agreements	(14,482)			
Total investments at other than fair value	**$ 382,514**			
Total investments	**$ 11,278,264**			

Securities classified in Level 1 are valued using quoted prices in active markets for those securities. Securities classified in Level 2 and Level 3 are valued using methodologies such as various bid evaluations, market averages and other matrix pricing techniques as well as values derived from associated traded securities or last trade data. In instances where inputs used to measure fair value fall into different levels, the fair value is categorized based on the lowest level input that is significant to the valuation.

Investments valued at the net asset value (NAV) per share (or its equivalent) have been classified separately in the table above and include investments considered to be Alternative Investments as defined by the AICPA. 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 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, generally with daily or monthly liquidity, with a notice period of one to fifteen days. Because they are liquid funds, there are no unfunded commitments for these types of investments.

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. The SIB does not have the option to request redemptions from its private equity funds. The General Partner distributes earnings and proceeds from the sale of the underlying investments as transactions occur. The SIB has $105.3 million in unfunded private equity commitments as of June 30, 2016.

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 fixed income and private equity asset classes. As of June 30, 2016, unfunded commitments in two of the four distressed debt funds totaled $21.7 million. Those two funds are not eligible for redemptions. Of the other two funds, one is in wind-down with final distributions expected in the next 12-18 months and the other fund is eligible for redemptions with quarterly liquidity and 60 days notice. Neither has an unfunded commitment.

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. The two funds in this category are not eligible for redemptions, have remaining lives of 3-6 years, and unfunded commitments of $13.2 million as of June 30, 2016.

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. This is an open-ended fund with monthly liquidity with a notice period of 15 days. There was no unfunded commitment as of June 30, 2016.

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

Real Estate — includes investments in private vehicles through limited partnerships or commingled vehicles that have an ownership interest in direct real estate properties. The investment strategies may include “value added” strategies, which derive their return from both income and appreciation, “opportunistic”, which derive their return primarily through appreciation, and “alternative” which invest in less traditional types of property. Both domestic and international real estate funds are utilized. The SIB has a dedicated asset class for these types of investments. There are currently 10 different real estate funds in the portfolio. Two of those funds are open-ended vehicles that accept redemption requests quarterly with a 30-90 day notification period. One fund is in wind-down and will be distributing the final proceeds within the next 12-18 months. The remaining seven funds are closed-ended limited partnerships that are not eligible for redemptions. Those seven funds have a combined unfunded commitment of $112.2 million.

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. There are three funds in the portfolio and they have no unfunded commitments. The funds are not eligible for redemption other than distributions of income and/or proceeds as determined by the investment manager. The funds have remaining lives of 3-9 years.

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. The infrastructure investments in the portfolio as of June 30, 2016, include both open and closed-ended funds. The open-ended funds have no unfunded commitments and are eligible for redemptions quarterly with 90 days notice. There may be a 3-12 month queue for receiving redemptions. The closed-ended funds have unfunded commitments of $100.1 million at June 30, 2016 and are not eligible for redemptions.

Securities Lending

State statutes permit and the SIB has authorized the use of securities lending – loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Northern Trust is the securities lending agent for the SIB. Securities are loaned versus collateral that may include cash, U.S. government securities and irrevocable letters of credit. U.S. securities are loaned versus collateral valued at 102% of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the market value of the securities plus any accrued interest.

Non-cash collateral cannot be pledged or sold unless the borrower defaults. All securities loans can be terminated on demand by either the lender or the borrower, although the average term of SIB loans was approximately 69 days as of June 30, 2016. Cash open collateral is invested in a short term investment pool, which had an interest sensitivity of 1 day as of this statement date. This pool is valued based on amortized cost. There were no violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent. There are no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month.

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and Northern Trust has failed to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending.

For securities loaned at fiscal year end, the SIB has no credit risk exposure to borrowers because the amounts the SIB owes the borrowers exceeds the amounts the borrowers owe the SIB.

The following represents the balances relating to the securities lending transactions at June 30, 2016 (expressed in thousands).

	Securities Lent	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for cash collateral:			
US agency securities	$ 10	$ -	$ 10
US government securities	10,435	-	10,603
US corporate fixed income securities	29,492	-	29,954
Global government fixed income securities	2,992	-	3,125
US equities	65,991	-	66,969
Global equities	5,603	-	5,909
Lent for non-cash collateral:			
US agency securities	-	-	-
US government securities	212	216	-
US corporate fixed income securities	1,574	1,599	-
US equities	18,636	18,949	-
Global equities	20,525	21,776	-
Total	$ 155,470	$ 42,540	$ 116,570

Note 4 - Capital Assets

	June 30, 2015	Additions	Retirements	June 30, 2016
Office equipment	$19,321	$ -	$ -	$19,321
Less accumulated depreciation on office equipment	(19,321)	-	-	(19,321)
Software	1,213,500	-	-	1,213,500
Less accumulated depreciation on software	(1,213,500)	-	-	(1,213,500)
	$0			$0

Note 5 - State Agency Transactions

Due From/To Other State Agencies

Amounts due from/to other state agencies are as follows as of June 30, 2016:

	2016
Due To	
Information Technology Department	$ 8,469
Office of Attorney General	8,666
Office of Management and Budget	154
Total due to other state agencies	$ 17,289

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, 2015 through June 30, 2017. RIO also incurs rent expense at other locations on a temporary basis to sponsor retirement education for TFFR members. Rent expense totaled $81,886 for fiscal 2016. Minimum payments under the lease for fiscal 2017 are $80,806.

Note 7 - Changes in Noncurrent Liabilities

Changes in noncurrent liabilities for the years ended June 30, 2016 are summarized as follows:

	Beginning Balance 7/1/2015	Additions	Reductions	Ending Balance 6/30/2016	Amounts Due Within One Year
Accrued Leave	$155,443	$138,889	($122,829)	$171,503	$96,470

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.

Membership

As of June 30, 2016 and 2015 and 2015 and 2015 and 2015 and 2015 and 2015 and 2015 and 2015 and 2015 and 2015, the number of participating employer units was 214, consisting of the following:

	June 30, 2016
Public School Districts	176
County Superintendents	6
Special Education Units	19
Vocational Education Units	5
Other	8
Total	214

TFFR's membership consisted of the following:

	2016
Retirees and beneficiaries currently receiving benefits	8,249
Terminated employees - vested	1,601
Terminated employees - nonvested	779
Total	10,629
Current employees	
Vested	7,433
Nonvested	3,380
Total	10,813

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.

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, 2016.

Asset Class	Target Allocation
Global Equity	58.0%
Global Fixed Income	23.0%
Global Real Assets	18.0%
Cash Equivalents	1.0%
Total	100.0%

Private equity is included in the Global Equity asset class.

Investment Rate of Return

The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 0.39% for the year ended June 30, 2016. 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 change in fair value of investments and are computed as described in Note 1. For the years ended June 30, 2016, TFFR had net realized gains of $60,426,737.

Net Pension Liability

The components of the net pension liability of TFFR at June 30, 2016 (expressed in thousands), were as follows:

Total pension liability	3,589,394
Plan fiduciary net position	(2,124,335)
Net pension liability (NPL)	1,465,059
Plan fiduciary net position as a percentage of the total pension liability	59.2%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions:

Valuation date	July 1, 2016
Inflation	2.75%
Salary increases	4.25% to 14.50%; varying by service, including inflation and productivity
Cost of living adjustments	None
Investment rate of return	7.75% 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, 2016 valuation were based on the results of an actuarial experience study dated April 30, 2015, for the period July 1, 2009 – June 30, 2014. An actuarial experience study is generally conducted every five years.
The long-term expected rate of return on TFFR investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the TFFR target asset allocation as of June 30, 2016 and 2015 (see the discussion of TFFR investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Global Equity	7.3%
Global Fixed Income	0.9%
Global Real Assets	5.3%
Cash Equivalents	0.0%

Discount Rate

The discount rate used to measure the total pension liability was 7.75% as of June 30, 2016. 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, 2016 Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, TFFR's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members as of July 1, 2016. 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, 2016.

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, 2016, 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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employers' net pension liability	$ 1,900,291,033	$ 1,465,058,563	$ 1,102,551,032

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. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS 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). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly 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 members' 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.

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 salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is $25 and the maximum may not exceed the following:

1 to 12 months of service – Greater of one percent of monthly salary or $25
13 to 24 months of service – Greater of two percent of monthly salary or $25
25 to 36 months of service – Greater of three percent of monthly salary or $25
Longer than 36 months of service – Greater of four percent of monthly salary or $25

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

At June 30, 2016, RIO reported a liability of $989,688 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, RIO's proportion was 0.145546 percent.

For the year ended June 30, 2016, RIO recognized pension expense of $122,885. At June 30, 2016, 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	$ 28,712	$ -
Changes in assumptions	-	88,177
Net differences between projected and actual earnings on pension plan investments	-	20,892
Changes in proportion and differences between employer contributions and proportionate share of contributions	145,647	3,512
Employer contributions subsequent to the measurement date	107,345	-
Total	$ 281,704	$ 112,581

Deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date in the amount of $107,345 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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	
2017	$ 1,746
2018	1,746
2019	1,746
2020	44,917
2021	11,613
	$ 61,768

Actuarial assumptions

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increase (Payroll Growth)	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 set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58%	7.5%
Global Fixed Income	23%	1.3%
Global Real Assets	18%	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, 2015. 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, 2015 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, 2015. 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, 2015.

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	$ 1,517,637	$ 989,688	$ 557,730

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS Comprehensive Annual Financial Report. This report can be accessed on the NDPERS website at http://www.nd.gov/ndpers/forms-and-publications/index.html.

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 - Contingencies/Litigation

The State Investment Board has been named as a defendant in two cases, arising out of the Tribune and General Motors bankruptcy proceedings, relating to securities that were purchased by external investment managers in one or more portfolios held by the SIB on behalf of its investment client funds. Outside counsel has been retained for both cases, in addition to assistance received from the ND Office of Attorney General. As of June 30, 2016, no liability has been recorded as it is too early in the litigation process to reasonably determine whether any payments will be required.

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)

	2016	2015	2014
Total pension liability			
Service cost	$ 68,239	$ 60,618	$ 56,752
Interest	265,440	249,064	237,821
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(8,093)	2,209	9,347
Changes of assumptions	-	171,325	-
Benefit payments, including refunds of member contributions	(185,969)	(172,239)	(162,259)
Net change in total pension liability	139,617	310,977	141,661
Total pension liability - beginning	3,449,777	3,138,800	2,997,139
Total pension liability - ending (a)	$3,589,394	$3,449,777	$ 3,138,800
Plan fiduciary net position			
Contributions - employer	$ 82,840	$ 78,422	$ 62,355
Contributions - member	76,343	72,268	56,555
Contributions - purchased service credit	2,768	1,601	2,034
Contributions - other	45	172	48
Net investment income	8,239	73,205	294,246
Benefit payments, including refunds of member contributions	(185,969)	(172,239)	(162,259)
Administrative expenses	(1,852)	(1,923)	(1,586)
Net change in plan fiduciary net position	(17,586)	51,506	251,393
Plan fiduciary net position - beginning **	2,141,921	2,090,415	1,839,584
Plan fiduciary net position - ending (b)	$2,124,335	$2,141,921	$ 2,090,977
Plan's net pension liability - ending (a) - (b)	$1,465,059	$1,307,856	$ 1,047,823
Plan fiduciary net position as a percentage of the total pension liability	59.2%	62.1%	66.6%
Covered-employee payroll	$ 649,725	$ 615,105	$ 580,053
Plan's net pension liability as a percentage of covered-employee payroll	225.5%	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.

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	84,724	71,168	59,513	52,396	69,374	65,113	52,053	41,986	44,115	50,532
Contributions in relation to the actuarially determined contribution	82,840	78,422	62,355	59,301	46,126	44,545	39,837	37,488	33,684	31,865
Contribution deficiency (excess)	1,884	(7,254)	(2,842)	(6,905)	23,248	20,568	12,216	4,498	10,431	18,667
Covered-employee payroll	649,725	615,105	580,053	551,656	527,156	509,091	482,868	454,396	434,626	411,167
Contributions as a percentage of covered-employee payroll	12.75%	12.75%	10.75%	10.75%	8.75%	8.75%	8.25%	8.25%	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	27 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*

	2016	2015	2014	2013
Annual money-weighted rate of return, net of investment expense	0.39%	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)

	2016	2015
RIO's proportion of NDPERS net pension liability (asset)	0.145546%	0.121849%
RIO's proportionate share of NDPERS net pension liability (asset)	$ 990	$ 773
RIO's covered-employee payroll	$ 1,297	$ 1,026
RIO's proportionate share of NDPERS net pension liability (asset) as a percentage of its covered-employee payroll	76.33%	75.34%
NDPERS Plan fiduciary net position as a percentage of the total pension liability	77.15%	77.70%

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

	2016	2015
RIO's Statutorily required contributions	$ 98	$ 73
RIO's Contributions in relation to the actuarially determined contribution	94	73
Contribution deficiency (excess)	$ 4	$ -
RIO's Covered-employee payroll	$ 1,297	$ 1,026
RIO's Contributions as a percentage of covered-employee payroll	7.25%	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.

	Pension Pool Participants					Insurance Pool Participants						
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police 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	Insurance Regulatory Trust Fund	Cultural Endowment Fund	Risk Mgmt
Assets:												
Investments												
Equities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Equity pool	1,313,879,825	35,455,137	15,999,867	32,428,872	3,508,133	446,262,045	8,372,416	-	-	325,475	212,359	1,960,610
Fixed income	-	-	-	-	-	-	-	-	-	-	-	-
Fixed income pool	561,288,209	28,038,870	9,874,331	13,930,739	1,486,259	970,969,515	13,165,969	1,789,154	3,523,663	370,465	143,381	4,201,817
Real assets												
Real assets pool	459,762,805	16,202,424	6,721,270	8,670,751	487,946	393,406,291	-	-	-	-	18,858	-
Private equity pool	79,938,588	2,279,387	1,266,397	2,265,631	215,625	-	-	-	-	-	-	-
Cash pool	38,598,744	334,159	55,819	615,004	16,822	11,801,374	2,413,138	1,482,077	3,571,271	380,209	11,630	326,346
Total investments	2,453,468,171	82,309,977	33,917,684	57,910,997	5,714,785	1,822,439,225	23,951,523	3,271,231	7,094,934	1,076,149	386,228	6,488,773
Invested sec lending collateral	24,703,417	795,849	337,005	603,943	44,106	17,214,543	284,132	17,459	34,435	9,584	5,738	86,602
Investment income receivable	5,919,911	131,024	65,916	64,763	5,457	9,664,982	139,678	25,138	54,576	9,686	219	46,029
Operating Cash	58,769	-	-	-	-	44,480	850	947	889	656	280	1,143
Miscellaneous receivable	3,944	-	-	-	-	2,933	38	5	11	2	1	10
Due from other state agency	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	2,484,154,212	83,236,850	34,320,605	58,579,703	5,764,348	1,849,366,163	24,376,221	3,314,780	7,184,845	1,096,077	392,466	6,622,557
Deferred outflows of resources												
Deferred outflows related to pensions	32,365	-	-	-	-	24,049	318	43	94	14	5	86
Liabilities:												
Investment expenses payable	2,033,481	68,689	29,337	49,976	4,056	902,230	16,077	653	1,296	574	349	4,492
Securities lending collateral	24,703,417	795,849	337,005	603,943	44,106	17,214,543	284,132	17,459	34,435	9,584	5,738	86,602
Accounts payable	11,497	-	-	-	-	8,332	118	14	31	6	2	28
Accrued expenses	147,685	-	-	-	-	109,961	1,781	210	479	75	24	415
Miscellaneous payable	-	2,737	1,132	1,826	250	-	-	-	-	-	-	-
Due to other state agencies	2,055	-	-	-	-	1,529	20	3	6	1	-	5
Total liabilities	26,898,135	867,275	367,474	655,745	48,412	18,236,595	302,128	18,339	36,247	10,240	6,113	91,542
Deferred inflows of resources												
Deferred inflows related to pensions	12,912	-	-	-	-	9,491	140	18	39	3	2	38
Net position held in trust for external investment pool participants	$ 2,457,275,530	$ 82,369,575	$ 33,953,131	$ 57,923,958	$ 5,715,936	$ 1,831,144,126	$ 24,074,271	$ 3,296,466	$ 7,148,653	$ 1,085,848	$ 386,356	$ 6,531,063
Each participant unit is valued at $1.00												
Participant units outstanding	2,457,275,530	82,369,575	33,953,131	57,923,958	5,715,936	1,831,144,126	24,074,271	3,296,466	7,148,653	1,085,848	386,356	6,531,063

Insurance Pool Participants							Individual Investment Accounts				Totals	
Risk Mgmt Workers' 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 Medicine	Legacy Fund	Job Service of North Dakota	Tobacco Prevention and Control Fund	PERS Retiree Health Credit Fund	2016	2015
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,835,361,022	$ -	$ 5,446,369	$ 59,903,215	$ 1,900,710,606	$ 1,708,243,680
2,039,929	1,207,624	-	-	191,332	19,311,569	460,484	-	39,637,397	-	-	1,921,253,074	1,899,373,890
-	-	-	-	-	-	-	1,333,087,521	-	40,816,114	41,622,146	1,415,525,781	1,186,979,426
3,306,740	2,313,171	33,598,449	564,094,702	417,733	15,173,457	1,699,775	-	56,558,928	-	-	2,285,945,327	2,202,727,271
							615,513,449		-		615,513,449	509,958,485
-	-	-	-	-	3,850,123	46,868	-	-	-	-	889,167,336	843,179,560
-	-	-	-	-	-	-	-	-	-	-	85,965,628	95,675,581
165,642	526,438	4,098,901	8,994,897	31,692	396,841	2,149	9,199,026	391,845	8,102,776	-	91,516,800	127,180,135
5,512,311	4,047,233	37,697,350	573,089,599	640,757	38,731,990	2,209,276	3,793,161,018	96,588,170	54,365,259	101,525,361	9,205,598,001	8,573,318,028
79,306	44,080	45,991	2,571,110	7,375	557,673	18,340	49,250,275	-	-	-	96,710,963	-
3,863	1,633	18,010	2,828,790	1,507	50,730	(610)	16,324,166	163	1,280	97,862	35,454,773	28,925,179
1,141	-	-	13,286	-	-	-	45,931	-	-	-	168,372	90,692
10	-	-	944	-	-	-	5,982	-	-	-	13,880	13,084
-	-	-	-	-	-	-	-	-	-	-	-	57
5,596,631	4,092,946	37,761,351	578,503,729	649,639	39,340,393	2,227,006	3,858,787,372	96,588,333	54,366,539	101,623,223	9,337,945,989	8,602,347,040
79	-	-	7,772	-	-	-	48,555	-	-	-	113,380	47,146
4,289	2,431	13,304	183,727	399	35,220	1,199	2,861,410	57,023	5,751	73,578	6,349,541	8,326,400
79,306	44,080	45,991	2,571,110	7,375	557,673	18,340	49,250,275	-	-	-	96,710,963	-
26	-	-	2,471	-	-	-	15,744	-	-	-	38,269	49,697
364	-	-	35,273	-	-	-	147,683	-	-	-	443,950	342,998
-	250	1,264	-	236	1,309	250	-	3,289	1,467	3,223	17,233	16,497
5	-	-	492	-	-	-	3,118	-	-	-	7,234	2,314
83,990	46,761	60,559	2,793,073	8,010	594,202	19,789	52,278,230	60,312	7,218	76,801	103,567,190	8,737,906
35	-	-	3,237	-	-	-	16,356	-	-	-	42,271	57,796
$ 5,512,685	$ 4,046,185	$ 37,700,792	$ 575,715,191	$ 641,629	$ 38,746,191	$ 2,207,217	$ 3,806,541,341	$ 96,528,021	$ 54,359,321	$ 101,546,422	$ 9,234,449,908	$ 8,593,598,484
5,512,685	4,046,185	37,700,792	575,715,191	641,629	38,746,191	2,207,217	3,806,541,341	96,528,021	54,359,321	101,546,422	9,234,449,908	8,593,598,484

	Pension Pool Participants						Insurance Pool Participants					
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	City of Fargo Employee Pension Plan	City of Grand Forks Employee Pension Plan	City of Grand Forks Park District Pension Plan	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund	Cultural Endowment Fund
Additions:												
Investment income:												
Net change in fair value of investments	$ (39,399,793)	$ (962,485)	$ (604,855)	$ -	$ (1,154,709)	$ (86,854)	$ 22,777,732	$ 150,447	$ 68,582	$ 133,864	$ (14,307)	$ 59
Interest, dividends and other income	58,071,997	1,944,554	821,724	41,431	1,271,401	120,995	46,504,149	567,145	51,284	108,926	26,821	9,737
	18,672,204	982,069	216,869	41,431	116,692	34,141	69,281,881	717,592	119,866	242,790	12,514	9,796
Less investment expenses	6,981,023	240,726	101,614	242	158,797	13,850	4,461,210	43,877	2,589	5,204	1,759	960
Net investment income	11,691,181	741,343	115,255	41,189	(42,105)	20,291	64,820,671	673,715	117,277	237,586	10,755	8,836
Securities lending activity:												
Securities lending income	358,681	11,452	4,809	-	8,076	805	213,849	3,631	85	170	160	76
Less Securities lending expenses	(71,724)	(2,291)	(961)	-	(1,615)	(160)	(42,729)	(725)	(17)	(34)	(33)	(15)
Net securities lending income	286,957	9,161	3,848	-	6,461	645	171,120	2,906	68	136	127	61
Purchase of units ($1 per unit)	29,500,000	-	-	-	4,057,319	286,925	28,000,000	-	-	-	-	-
Total Additions	41,478,138	750,504	119,103	41,189	4,021,675	307,861	92,991,791	676,621	117,345	237,722	10,882	8,897
Deductions:												
Administrative Expenses	333,608	-	-	-	-	-	220,265	2,936	1,025	1,055	1,009	565
Redemption of units ($1 per unit)	2,800,000	-	2,000,000	42,648	5,245,008	619,394	23,000,000	-	-	250,000	1,560,000	5,000
Total Deductions	3,133,608	-	2,000,000	42,648	5,245,008	619,394	23,220,265	2,936	1,025	251,055	1,561,009	5,565
Change in net position	38,344,530	750,504	(1,880,897)	(1,459)	(1,223,333)	(311,533)	69,771,526	673,685	116,320	(13,333)	(1,550,127)	3,332
Net position:												
Beginning of year	2,418,931,000	81,619,071	35,834,028	1,459	59,147,291	6,027,469	1,761,372,600	23,400,586	3,180,146	7,161,986	2,635,975	383,024
Restatement due to implementation of GASB 68	-	-	-	-	-	-	-	-	-	-	-	-
Beginning of year, as restated	2,418,931,000	81,619,071	35,834,028	1,459	59,147,291	6,027,469	1,761,372,600	23,400,586	3,180,146	7,161,986	2,635,975	383,024
End of year	$ 2,457,275,530	$ 82,369,575	$ 33,953,131	$ -	$ 57,923,958	$ 5,715,936	$ 1,831,144,126	$ 24,074,271	$ 3,296,466	$ 7,148,653	$ 1,085,848	$ 386,356

Insurance Pool Participants								Individual Investment Accounts					
Risk Mgmt	Risk Mgmt Workers' 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 Medicine	Legacy Fund	Job Service of North Dakota	Tobacco Prevention and Control Fund	PERS Retiree Health Credit Fund	Totals 2016	Totals 2015
$ 142,283	$ 110,474	$ 32,045	$ 208,951	$ (2,598,566)	$ 4,725	$ (402,921)	$ (13,650)	$ (31,454,851)	$ 2,352,098	$ 840,505	$ (1,185,174)	$ (51,056,400)	$ 115,453,148
154,478	142,278	90,580	389,887	14,079,730	17,577	970,497	53,273	86,798,282	2,650,945	8,255	2,271,408	217,167,354	173,270,874
296,761	252,752	122,625	598,838	11,481,164	22,302	567,576	39,623	55,343,431	5,003,043	848,760	1,086,234	166,110,954	288,724,022
10,962	10,678	7,974	42,532	734,828	2,153	97,132	5,270	9,728,057	166,226	20,328	292,820	23,130,811	21,929,066
285,799	242,074	114,651	556,306	10,746,336	20,149	470,444	34,353	45,615,374	4,836,817	828,432	793,414	142,980,143	266,794,956
751	796	558	230	12,354	94	8,671	216	835,193	4,395	-	-	1,465,052	-
(151)	(160)	(113)	(45)	(2,469)	(19)	(1,732)	(44)	(166,936)	(879)	-	-	(292,852)	-
600	636	445	185	9,885	75	6,939	172	668,257	3,516	-	-	1,172,200	-
-	-	100,000	203,692,122	-	-	-	-	434,853,950	-	58,780,889	3,905,000	763,176,205	1,239,909,653
286,399	242,710	215,096	204,248,613	10,756,221	20,224	477,383	34,525	481,137,581	4,840,333	59,609,321	4,698,414	907,328,548	1,506,704,609
1,048	1,046	-	-	71,562	-	-	-	431,951	-	-	-	1,066,070	939,798
600,000	950,000	-	206,200,000	8,606,169	250,000	2,700,000	-	-	4,582,835	5,250,000	750,000	265,411,054	249,087,335
601,048	951,046	-	206,200,000	8,677,731	250,000	2,700,000	-	431,951	4,582,835	5,250,000	750,000	266,477,124	250,027,133
(314,649)	(708,336)	215,096	(1,951,387)	2,078,490	(229,776)	(2,222,617)	34,525	480,705,630	257,498	54,359,321	3,948,414	640,851,424	1,256,677,476
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	96,270,523	-	97,598,008	8,593,598,484	7,337,180,888
-	-	-	-	-	-	-	-	-	-	-	-	-	(259,880)
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	96,270,523	-	97,598,008	8,593,598,484	7,336,921,008
$ 6,531,063	$ 5,512,685	$ 4,046,185	$ 37,700,792	$ 575,715,191	$ 641,629	$ 38,746,191	$ 2,207,217	$ 3,806,541,341	$ 96,528,021	$ 54,359,321	$ 101,546,422	$ 9,234,449,908	$ 8,593,598,484

	Pension Trust	Investment Trust
Salaries and wages:		
Salaries and wages	$ 759,748	$ 766,619
Fringe benefits	318,254	250,520
Total salaries and wages	1,078,002	1,017,139
Operating expenses:		
Travel	28,153	37,121
Supplies	2,746	1,083
Postage and Mailing Services	53,804	31,194
Printing	15,057	6,743
Small Office Equipment and Furniture	2,655	1,557
Insurance	401	230
Rent/Lease of Building Space	50,841	31,045
Repairs	-	12
Information Technology and Communications	71,447	16,231
IT Contractual Services	17,575	61,061
Professional Development	16,052	7,477
Operating Fees and Services	16,535	7,115
Professional Fees and Services	10,242	13,019
Consultant Services	270,302	52,887
Total operating expenses	555,810	266,775
Pension trust portion of investment program expenses	217,844	(217,844)
Total administrative expenses	1,851,656	1,066,070
Less - nonappropriated items:		
Consultant Services	270,302	52,887
Other operating fees paid under continuing appropriation	37,530	121,645
Accrual adjustments to employee benefits	22,352	13,046
Total nonappropriated items	330,184	187,578
Total appropriated expenditures	$ 1,521,472	$ 878,492

The accompanying notes are an integral part of these statements.

	Pension Trust	Investment Trust
Actuary fees:		
Segal Company	$ 144,633	$ -
Auditing/Accounting fees:		
CliftonLarsonAllen LLP	104,507	27,993
Disability consulting fees:		
Sanford Health	300	-
Legal fees:		
K&L Gates LLP	2,598	3,401
ND Attorney General	18,264	21,493
Total legal fees:	20,862	24,894
Total consultant expenses	$ 270,302	$ 52,887

	Pension Trust	Investment Trust
Investment managers' fees:		
Global equity managers	$ 1,230,533	$ 1,594,767
Domestic large cap equity managers	903,523	3,847,413
Domestic small cap equity managers	563,542	2,268,783
International equity managers	977,198	4,609,027
Emerging markets equity managers	529,699	770,162
Domestic fixed income managers	1,005,950	7,607,743
Below investment grade fixed income managers	1,082,779	1,462,837
Diversified Real Assets	-	3,001,349
International fixed income managers	376,723	457,845
Real estate managers	2,053,698	4,873,012
Infrastructure managers	1,027,901	1,241,458
Timber managers	(956,302)	(1,130,962)
Private equity managers	1,399,707	1,639,900
Short term fixed income managers	-	719,134
Cash & equivalents managers	23,185	149,960
Balanced account managers	-	642,747
Total investment managers' fees	$ 10,218,136	$ 33,755,175
Custodian fees	197,310	831,889
Investment consultant fees	204,752	475,338
SIB Service Fees	-	60,211
Total investment expenses	$ 10,620,198	$ 35,122,613

Reconciliation of investment expenses to financial statements

	Pension Trust	Investment Trust
Investment expenses as reflected in the financial statement	$ 6,034,689	$ 23,130,811
Plus investment management fees included in investment income		
Domestic large cap equity managers	354,231	872,120
Domestic small cap equity managers	207,192	267,457
International equity managers	216,778	1,121,711
Emerging markets equity managers	529,699	770,162
Domestic fixed income managers	727,899	4,282,647
Below investment grade fixed income managers	660,499	901,054
Inflation protected assets managers	-	1,093,122
Real estate managers	999,958	1,245,203
Infrastructure managers	453,976	548,295
Timber managers	(956,302)	(1,130,962)
Private equity managers	1,391,579	1,630,377
Cash equivalents managers	-	113,080
Balanced account managers	-	277,536
Investment expenses per schedule	$ 10,620,198	$ 35,122,613

Timber manager fees include a refund of incentive-based fees from prior years that were renegotiated in FY2016.

	Approved 2015-2017 Appropriation	2015-2017 Appropriation Adjustment	Adjusted 2015-2017 Appropriation	Fiscal 2016 Expenses	Unexpended Appropriations
All Fund Types:					
Salaries and wages	$ 4,340,551	$ 2,250	$ 4,342,801	$ 2,059,743	$ 2,283,058
Operating expenses	990,874	-	990,874	340,221	650,653
Contingency	82,000	-	82,000	-	82,000
Total	$ 5,413,425	$ 2,250	$ 5,415,675	$ 2,399,964	$ 3,015,711

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

Reconciliation of Administrative Expenses
to Appropriated Expenditures

	2016
Administrative expenses as reflected in the financial statements	$ 2,917,726
Less:	
Professional fees*	(323,189)
Other operating fees paid under continuing appropriations*	(159,175)
Changes in benefit accrual amounts	(35,398)
Total appropriated expenses	$2,399,964

* 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, 2016

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, 2016, the financial statements include the impact of adoption of Governmental Accounting Standards Board (GASB) Statement number 72.

   GASB 72, *Fair Value Measurement and Application*, is effective for fiscal years beginning after June 15, 2015. This statement addresses accounting and financial reporting requirements related to fair value measurements. GASB 72 requires measurement of certain assets and liabilities at fair value using a consistent and detailed definition of fair value and accepted valuation techniques. It also enhances disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques. Additional disclosures are also required for investments in certain entities that calculate net asset value per share (or its equivalent).

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

   The valuation of alternative investments, including private equity and real asset investments, are a management estimate which is primarily based upon net asset values reported by the investment managers and comprise 18% 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, 2016. Our audit procedures validated this approach through the use of confirmations sent directly to a sample of investment managers and the review of the most recent audited financial statements for these funds. Furthermore, we reviewed management's estimate and found it to be reasonable.

   The actuarial valuation was based on the actuarial assumptions and methods adopted by the Board, including an actuarial expected investment rate of return of 7.75% per annum compounded annually. The valuation takes into account all of the promised benefits to which members are entitled as of July 1, 2016 as required by the North Dakota Century Code. The valuation provides certain information required by GASB to be disclosed in the financial statements. Additionally, the valuation is used to determine the adequacy of the current employer contribution rate. Our audit procedures included reviewing the actuarial valuation and related assumptions used therein and we believe the estimate to be reasonable.

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

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

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

CliftonLarsonAllen LLP

Baltimore, Maryland
November 7, 2016

RETIREMENT AND INVESTMENT OFFICE
AUDIT SERVICES
2016 - 2017 1st Quarter Audit Activities Report
July 1, 2016 – September 30, 2016

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, 2016 through June 30, 2017 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.

<u>Retirement Program Audit Activities</u>

- **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.

Status of TFFR Employer Audits as of September 30, 2016:

- Eleven (11) TFFR Compliance Audits had been completed.
- Five (5) TFFR Compliance Audits were in progress.
  - Two TFFR Compliance Audits in the third audit cycle were in progress.
  - Three TFFR Compliance Audits in the fourth audit cycle were in progress.
- Five (5) TFFR Compliance Audits were pending but not yet started.
  - All pending audits were in the fourth audit cycle.
- Five (5) employers were notified of an upcoming audit but information requested had yet to be received from the employers.
  - All employers notified were in the fourth 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 an eight year period.

- **Benefits Payments Audit**

A review of deaths, purchases of service, refunds, long outstanding checks, and long term annuitants was completed to determine that established policies and procedures were being followed by the staff of Retirement Services. The 2015-2016 Benefit Payments Audit was completed on August 26, 2016 no findings were noted, two recommendations for future actions were provided.

- **TFFR File Maintenance Audit**

A review of changes made to TFFR member account data by Retirement and Investment Office employees is reviewed on a quarterly basis. The TFFR File Maintenance Audit for the fourth quarter of fiscal year 2016 was completed on September 19, 2016. No findings were noted.

- **TFFR Cost Effective Benefit Payments/Benefit Recalculation Audit**

The start of the TFFR Cost Effective Benefit Payments/Benefit Recalculation Audit was delayed. The audit was not completed in fiscal year 2016 as planned and has been carried over to be completed in fiscal year 2017. The audit is currently in progress.

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 in July 2016 and results were provided to the SIB in October 2016.

- **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 2016. The GASB 68 Census Data audits were completed in October 2016.

- **Audit Services Procedure Manual**

Work continued on the Audit Services policy and procedure manual. Procedures for the TFFR File Maintenance Audit have been placed on RIO's intranet site. Procedures for the TFFR Cost Effective Benefit Payments Audit and the Benefit Payment Audit are in progress.

Audit Services/Retirement Services Internship Program

The internship program concluded on August 19, 2016. The Supervisor of Audit Services and the Retirement Program Manager provided ongoing support and assistance to the intern throughout July and August.

Professional Development/CE/General Education

Audit Services continued its participation with the Institute of Internal Auditors (IIA) by attending monthly meetings. The Supervisor of Audit Services completed the requirements for a Certified Internal Auditor (CIA) designation in July 2016.

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.

REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
GRIGGS COUNTY CENTRAL PUBLIC SCHOOL DISTRICT
AUGUST 24, 2016

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

SCOPE

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the employer for the 2013/14 through 2014/15 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See *Primary Test.*

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See *Primary Test.*

The Primary Test did not disclose any reporting procedure used by the employer that would affect a large portion of the population for fiscal years 2013/14 through 2014/15. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal years 2013/14 through 2014/15 reported by the Griggs County Central Public School District are in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The employer reported contract salary to TFFR after deductions for 403B payments for one member.
2. The employer did not report actual hours worked for retirees who have returned to covered employment.
3. The employer incorrectly reported service hours worked for one member.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio//TFFR/Publications.

Finding 1:
The employer reported contract salary to TFFR after deductions for 403B payments for one member. The payments were deducted from contract salary prior to the calculation of TFFR contributions causing salary and contributions to be under reported to TFFR. The member account will be corrected and RIO will notify the member that adjustments have been made to their account. The employer will be billed for contributions owed with interest. Please reference worksheets labeled *Primary Test, Salary Correction Summary, and Change in Salaries and Contributions* for additional information.

Finding 2:
The employer did not report actual hours worked for retirees who have returned to covered employment. State law allows retirees who are receiving TFFR retirement benefits to return to covered employment under certain limitations. If the retiree exceeds these limitations, TFFR must discontinue payment of retirement benefits. One such limitation which must be adhered to is the General Rule – Annual Hour Limit, retirees who returned to covered employment under the General Rule are restricted in the hours which can be worked based on the length of the contract issued. The employer is required to report actual hours worked by retirees who have returned to covered employment. The employer must also be aware of annual hour limitations and ensure that retirees are not exceeding those limits. Reported hours for re-employed retirees should include the number of hours the member was employed including in-staff subbing hours but excluding extra-curricular and professional development hours. It is recommended that the employer establish procedures to monitor retirees who have returned to covered employment to ensure proper reporting of hours to TFFR.

Finding 3:
The employer incorrectly reported service hours worked for one member. The employer is required to report actual hours worked to TFFR for members who work less than 700 total hours throughout the year. Corrections will be made to the member account and RIO will notify the member that adjustments have been made to their account. Please reference the worksheet labeled *Service Hours Correction* for additional information.

The amount of the contributions owed by the employer is $1,256.70. An invoice for the amount of contributions due is included. Please reference attached *Salary Correction Summary* for additional details. **Please provide payment for the contributions owed and a written response detailing the actions to be taken to correct the above findings by September 23, 2016.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Bradley Kasper
Staff Auditor

Enclosures

REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
ROLETTE PUBLIC SCHOOL DISTRICT
AUGUST 26, 2016

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

SCOPE

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the employer for the 2013/14 through 2014/15 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. Please reference the worksheets labeled *Primary Test – Model 2 (All) and Primary Test – Model 2 (Partial)* for additional information*.*

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Primary Test did not disclose any reporting procedure used by the employer that would affect a large portion of the population for fiscal years 2013/14 through 2014/15. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal years 2013/14 through 2014/15 reported by the Rolette Public School District are in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The employer incorrectly reported service hours worked for one member.
2. The employer did not report actual hours worked for retirees who have returned to covered employment.
3. The employer reported ineligible personal day salary for one member.
4. The employer incorrectly reported contract salary for one retiree who has returned to covered employment.
5. The employer reported salary and service hours without a written agreement for two members.
6. The employer does not issue written agreements for summer school and 21st Century programs.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio//TFFR/Publications.

Finding 1:
The employer incorrectly reported service hours worked for one member. The employer is required to report actual hours worked to TFFR for members who work less than 700 total hours throughout the year. Corrections will be made to the member account and RIO will notify the member that adjustments have been made to their account. Please reference the worksheet labeled *Service Hours Correction* for additional information.

Finding 2:
The employer did not report actual hours worked for retirees who have returned to covered employment. State law allows retirees who are receiving TFFR retirement benefits to return to covered employment under certain limitations. If the retiree exceeds these limitations, TFFR must discontinue payment of retirement benefits. One such limitation which must be adhered to is the General Rule – Annual Hour Limit, retirees who returned to covered employment under the General Rule are restricted in the hours which can be worked based on the length of the contract issued. The employer is required to report actual hours worked by retirees who have returned to covered employment. The employer must also be aware of annual hour limitations and ensure that retirees are not exceeding those limits. Reported hours for re-employed retirees should include the number of hours the member was employed including in-staff subbing and after school hours but excluding extra-curricular and professional development hours. It is recommended that the employer establish procedures to monitor retirees who have returned to covered employment to ensure proper reporting of hours to TFFR.

Finding 3:
The employer reported ineligible personal day salary for one member. A member's earnings for teaching, supervisory, administrative, and extra-curricular services performed during a school year are considered eligible TFFR salary, eligible salary does not include pay for unused sick and personal days. The member's account will not be corrected due to the immaterial amount of the error. Please reference the worksheet labeled *Primary Test – Model 2 (Partial)* for additional information.

Finding 4:
The employer incorrectly reported contract salary for one retiree who has returned to covered employment. This was due to a clerical error by the previous business manager. This was an isolated incident. The member account will be corrected, contributions owed with interest will be billed to the employer, and RIO will notify the member of the changes. Please reference worksheets labeled *Primary Test - Model 2 (All), Salary Corrections Summary, and Changes in Salaries and Contributions* for additional information.

Finding 5:
The employer reported salary and service hours without a written agreement for two members. Salary can only be reported to TFFR if the member is currently licensed to teach in North Dakota and contractually employed in teaching, supervisory, administrative, or extra-curricular activities by a participating employer. The employer did not issue written agreements to two teachers without a continuing contract with the employer. Therefore, summer salary earned would not be reportable to TFFR. The member accounts will be corrected, contributions paid will be refunded to the employer, and RIO will notify the members of the changes. Please reference worksheets labeled *Primary Test - Model 2 (All), Salary Corrections Summary, and Changes in Salaries and Contributions* for additional information.

Finding 6:
The employer does not issue written agreements for summer school and 21st Century programs. TFFR recommends that the employer provide written agreements to **all** members for summer salary and 21st Century salary. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and a participating employer. If written agreements are not issued to a teacher employed elsewhere or teachers without a continuing contract with the employer, the salary would not be reported.

The amount of contributions overpaid by the employer is $718.55. A check for the amount overpaid will be sent to the Business Manager. Please reference attached *Salary Correction Summary* for additional details. **Please provide a written response detailing actions to be taken to correct the above findings by September 30, 2016.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Bradley Kasper
Staff Auditor

Enclosures

REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
YELLOWSTONE PUBLIC SCHOOL DISTRICT
AUGUST 26, 2016

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

SCOPE

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the employer for the 2013/14 through 2014/15 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. Please reference the worksheet labeled *Primary Test* for additional information.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Primary Test did not disclose any reporting procedure used by the employer that would affect a large portion of the population for fiscal years 2013/14 through 2014/15. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal years 2013/14 through 2014/15 reported by the Yellowstone Public School District are in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following finding was noted.

1. The employer reported ineligible personal day salary for five members.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio//TFFR/Publications.

During the course of the audit there were two instances where documentation needed to identify salary reported to TFFR could not be located. Please keep in mind that written documentation describing payment details is critical in determining if salary or special payments are eligible TFFR retirement salary. In many cases such documentation will be required by the staff of the RIO and the TFFR Board when making salary determinations.

Finding 1:
The employer reported ineligible personal day salary for five members. A member's earnings for teaching, supervisory, administrative, and extra-curricular services performed during a school year are considered eligible TFFR salary, eligible salary does not include pay for unused sick and personal days. Four member accounts will not be corrected due to the immaterial amount of the error. One member account will be corrected, contributions will be refunded to the employer, and RIO will notify the member of the changes. Please reference worksheets labeled *Primary Test, Salary Corrections Summary, and Changes in Salaries and Contributions* for additional information.

The amount of contributions overpaid by the employer is $73.51. A check for the amount overpaid will be sent to the Business Manager. Please reference attached *Salary Correction Summary* for additional details. **Please provide a written response detailing actions to be taken to correct the above findings by September 30, 2016.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Bradley Kasper
Staff Auditor

Enclosures

REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
VALLEY-EDINBURG PUBLIC SCHOOL DISTRICT
SEPTEMBER 7, 2016

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

SCOPE

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the employer for the 2013/14 through 2014/15 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. Please reference the worksheet labeled *Primary Test* for additional information.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Primary Test did not disclose any reporting procedure used by the employer that would affect a large portion of the population for fiscal years 2013/14 through 2014/15. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal years 2013/14 through 2014/15 reported by the Valley-Edingurg Public School District are in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The employer incorrectly reported service hours for three members.
2. The employer incorrectly reported service hours for retirees who have returned to covered employment.
3. The employer reported ineligible busing salary for one member.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio//TFFR/Publications.

Finding 1:
The employer incorrectly reported service hours for three members. The employer is required to report actual hours worked to TFFR for any members who work less than 700 hours during the year. Corrections will be made to the members' accounts and RIO will notify the members that adjustments have been made to their account. Please reference the worksheets labeled *Service Hours Correction* for additional information.

Finding 2:
The employer incorrectly reported service hours for retirees who have returned to covered employment. The employer is required to report actual hours worked by retirees who have returned to covered employment. Reported hours for re-employed retirees should include the number of hours the member was employed including in-staff subbing hours but excluding extra-curricular and professional development hours. It is recommended that the employer establish procedures to monitor retirees who have returned to covered employment (i.e. timecards, etc.) to ensure proper reporting of hours to TFFR. No corrections will be required to the member accounts.

Finding 3:
The employer reported ineligible busing salary for one member. A member's earnings for teaching, supervisory, administrative, and extra-curricular services performed during a school year are considered eligible TFFR salary, eligible salary does not include bus driver pay for route or extra-curricular purposes. The member's account will not be corrected due to the immaterial amount of the error. Please reference the worksheet labeled *Primary Test* for additional information.

Please provide a written response detailing the actions the employer intends to take to correct the above findings by October 7, 2016.

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Bradley Kasper
Staff Auditor

Enclosures

REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
BELFIELD PUBLIC SCHOOL DISTRICT
SEPTEMBER 7, 2016

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

SCOPE

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the employer for the 2013/14 through 2014/15 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. Please reference the worksheet labeled *Primary Test* for additional information.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Primary Test did not disclose any reporting procedure used by the employer that would affect a large portion of the population for fiscal years 2013/14 through 2014/15. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal years 2013/14 through 2014/15 reported by the Belfield Public School District are in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The employer reported contract salary for one member in the wrong fiscal year.
2. The employer did not report actual hours worked for retirees who have returned to covered employment.
3. The employer does not issue written agreements for summer school.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio//TFFR/Publications.

Finding 1:
The employer reported contract salary for one member in the wrong fiscal year. Eligible salary must be reported in the fiscal year in which it is earned, regardless of when it was paid. A retroactive salary payment was made and reported in September 2013 but earned in September 2012 through January 2013. Corrections will be made to the member account and the member will be notified of the changes. Please reference the worksheets labeled *Primary Test* and *Salary Correction Summary* for additional information.

Finding 2:
The employer did not report actual hours worked for retirees who have returned to covered employment. State law allows retirees who are receiving TFFR retirement benefits to return to covered employment under certain limitations. If the retiree exceeds these limitations, TFFR must discontinue payment of retirement benefits. One such limitation which must be adhered to is the General Rule – Annual Hour Limit, retirees who returned to covered employment under the General Rule are restricted in the hours which can be worked based on the length of the contract issued. The employer is required to report actual hours worked by retirees who have returned to covered employment. The employer must also be aware of annual hour limitations and ensure that retirees are not exceeding those limits. Reported hours for re-employed retirees should include the number of hours the member was employed including in-staff subbing and tutoring hours but excluding extra-curricular and professional development hours. It is recommended that the employer establish procedures to monitor retirees who have returned to covered employment to ensure proper reporting of hours to TFFR.

Finding 3:
The employer does not issue written agreements for summer school. TFFR recommends that the employer provide written agreements to **all** members for summer salary. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and a participating employer. If written agreements are not issued to a teacher employed elsewhere or to teachers without a continuing contract with the employer, the salary would not be reported.

Please provide a written response detailing the actions the employer intends to take to correct the above findings by October 7, 2016.

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Bradley Kasper
Staff Auditor

Enclosures

REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
PARSHALL PUBLIC SCHOOL DISTRICT
SPECIAL AUDIT – FISCAL YEAR 2016
SEPTEMBER 15, 2016

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

SCOPE

A TFFR Compliance Audit was completed on the Parshall Public School District in June 2016. A representative sample of retirement salaries reported for fiscal years 2013/14 through 2014/15 was reviewed during the course of the audit. It was determined that retirement salaries reported during the time period covered in the audit were not in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9), a total of twelve findings were noted in the audit report. Given the results of the TFFR Compliance Audit, TFFR had substantial concerns regarding the accuracy of the reporting of retirement salaries. At the close of fiscal year 2016, TFFR was unable to reconcile the reported retirement salaries for twenty-two member accounts and a special audit was requested.

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination. Twenty-two member accounts were selected and member contributions, employer contributions, and salaries reported for the selected members were examined. Please reference the worksheet labeled *Primary Test.*

The *Primary Test* calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. The Primary Test did not disclose any reporting procedure used by the employer that would affect a large portion of the population for fiscal year 2015/16. Therefore, the *Primary Test* was not expanded to include 100 percent of the members.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal year 2015/16 reported by the Parshall Public School District are not in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9).

The following findings were noted in the TFFR Compliance Audit Report issued June 28, 2016 and were also identified during the special audit:

1. The employer reported eligible salary after deduction for a pet deposit for two members.
2. The employer did not report eligible professional development salary for three members.

The following findings were noted during the special audit:

3. The employer did not report eligible coaching salary for three members.
4. The employer did not report eligible salary for the supervision of students at school events for six members.
5. The employer did not report eligible Title I salary for one member.
6. The employer did not report eligible in-staff substitute teaching salary for six members.
7. The employer reported eligible professional development salary twice for two members.
8. The employer reported an ineligible hiring bonus for one member.
9. The employer reported ineligible expense reimbursement for one member.
10. The employer reported eligible salary after deduction for a supplemental retirement account for one member.
11. The employer reported eligible salary after deduction for dental insurance for seven members.

12. The employer requested a refund of ineligible salary not reported for one member.
13. The employer over-reported contracted teaching salary for one member.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio//TFFR/Publications.

Finding 1, 10, & 11:

The employer reported eligible salary after deduction for a pet deposit for two members. The employer reported eligible salary after deduction for a supplemental retirement account for one member. The employer reported eligible salary after deduction for dental insurance for seven members. Deductions from eligible salary prior to the calculation of TFFR contributions cause salary and contributions to be under reported to TFFR. TFFR strongly encourages the employer to contact their school accounting system vendor, Software Unlimited, Inc., for assistance in setting up payroll deductions. Nine member accounts will require corrections and RIO will notify the members that adjustments have been made to their accounts. The employer will be billed with interest for contributions owed. Please reference the worksheets labeled *Primary Test, Changes in Salaries and Contributions,* and *Salary Correction Summary* for additional information.

Finding 2:

The employer did not report eligible professional development salary for three members. Once a member is contracted to perform teaching, supervisory, administrative, and extra-curricular services, additional payments for performance of duties of a teacher are considered eligible retirement salary. This includes salary earned for participation in in-services, workshops, and other professional development excluding reimbursement for expenses or tuition. Three member accounts will require corrections and RIO will notify the members that adjustments have been made to their accounts. The employer will be billed with interest for contributions owed. Please reference the worksheets labeled *Primary Test, Changes in Salaries and Contributions,* and *Salary Correction Summary* for additional information.

Finding 3:

The employer did not report eligible coaching salary for three members. A member's earnings for contracted extra-curricular services during a school year are considered eligible salary. Extra-curricular services include advising, directing, monitoring or coaching athletics, music, drama, journalism, and other supplemental programs. TFFR strongly encourages the employer to contact their school accounting system vendor, Software Unlimited, Inc., for assistance in setting up a separate pay code for coaching and assistant coaching duties. Currently the employer utilizes one pay code for both eligible and ineligible extra-curricular salary which is contributing to reporting errors. Three member accounts will require corrections and RIO will notify the members that adjustments have been made to their accounts. The employer will be billed with interest for contributions owed. Please reference the worksheets labeled *Primary Test, Changes in Salaries and Contributions,* and *Salary Correction Summary* for additional information.

Finding 4:

The employer did not report eligible salary for the supervision of students at school events for six members. Once a member is contracted to perform teaching, supervisory, administrative, and extra-curricular services, additional payments for performance of duties of a teacher are considered eligible retirement salary. This includes salary earned for the supervision of students at school events including athletic events and school programs. TFFR strongly encourages the employer to contact their school accounting system vendor, Software Unlimited, Inc., for assistance in setting up a separate pay codes for student supervision at school events. Currently, the employer utilizes one pay code for both eligible and ineligible extra-curricular salary which is contributing to reporting errors. Six member accounts will require corrections and RIO will notify the members that adjustments have been made to their accounts. The employer will be billed with interest for the contributions owed. Please reference the worksheets labeled *Primary Test, Changes in Salaries and Contributions,* and *Salary Correction Summary* for additional information.

Finding 5:

The employer did not report eligible Title I salary for one member. Members provide additional assistance with homework before and after school to students who qualify under a Title I program. Once a member is contracted to perform teaching, supervisory, administrative, and extra-curricular services, additional payments for performance of duties of a teacher are considered eligible retirement salary. This includes salary earned for participation in Title I programs such as the before and after school program offered by the employer. One member account will require corrections and RIO will notify the member that adjustments have been made to their account. The employer will be billed with interest for contributions owed. Please reference the worksheets labeled *Primary Test, Changes in Salaries and Contributions,* and *Salary Correction Summary* for additional information.

Finding 6:
The employer did not report eligible in-staff substitute teaching salary for six members. An in-staff substitute teacher is a licensed contracted teacher, including a re-employed retiree, who performs substitute teaching duties for the contracted employer. Contracted substitute teaching, including in-staff subbing, is reportable to TFFR. Six member accounts require corrections and RIO will notify the members that adjustments have been made to their account. The employer will be billed with interest for contributions owed. Please reference the worksheets labeled *Primary Test, Changes in Salaries and Contributions,* and *Salary Correction Summary* for additional information.

Finding 7:
The employer reported eligible professional development salary twice for two members. During the TFFR Compliance Audit, the employer indicated that professional development salary for five members who attended a national conference in July 2015 was not reported. Based on the information provided by the employer, five member accounts were corrected. Payroll records provided during the special audit revealed that the information provided during the TFFR Compliance Audit by the employer was incorrect. The professional development salary for two of the five members was reported. Therefore corrections made during the audit actually created an error, the same professional development salary was reported twice. Corrections previously made to the two member accounts will be reversed and RIO will notify the members that adjustments have been made to their account. Contributions paid will be refunded to the employer who is responsible for refunding any applicable contributions to the members. Please reference the worksheets labeled *Primary Test, Changes in Salaries and Contributions,* and *Salary Correction Summary* for additional information.

Finding 8:
The employer reported an ineligible hiring bonus for one member. A bonus is not considered eligible retirement salary and is not subject to payment of member and employer contributions. Bonuses include, but are not limited to, recruitment or contract signing payments defined in North Dakota Century Code section 15.1-09-33.1. One member account will require corrections and RIO will notify the member that adjustments have been made to their account. Contributions paid will be refunded to the employer who is responsible for refunding any applicable contributions to the member. Please reference the worksheets labeled *Primary Test, Changes in Salaries and Contributions,* and *Salary Correction Summary* for additional information.

Finding 9:
The employer reported ineligible expense reimbursement for one member. Fringe benefits or side, non-wage benefits which accompany or are in addition to a member's employment including insurance programs, annuities, transportation allowance, housing allowance, meals, lodging, and expense allowances or other benefits provided by a member's employer are considered ineligible retirement salary. One member account will require corrections and RIO will notify the member that adjustments have been made to their account. Contributions paid will be refunded to the employer who is responsible for refunding any applicable contributions to the member. Please reference the worksheets labeled *Primary Test, Changes in Salaries and Contributions,* and *Salary Correction Summary* for additional information.

Finding 12:
The employer requested a refund of ineligible salary not reported for one member. During the TFFR Compliance Audit, the employer indicated that ineligible salary for ticket taking for one member was reported. Based on the information provided by the employer, the member account was corrected. Payroll records provided during the special audit revealed that the information provided during the TFFR Compliance Audit by the employer was incorrect. The ineligible salary for ticket taking was never reported. Therefore corrections made during the audit actually created an error, the refund caused salary and contributions to be under reported. Corrections previously made to the member account will be reversed and RIO will notify the member that adjustments have been made to their account. The employer will be billed with interest for contributions owed. Please reference the worksheets labeled *Primary Test, Changes in Salaries and Contributions,* and *Salary Correction Summary* for additional information.

Finding 13:
The employer over-reported contracted teaching salary for one member. A member transitioned from full-time to part-time upon retirement, a payroll error occurred during the transition which caused contracted teaching salary to be overpaid and thus over reported to TFFR. The employer received reimbursement from the member but failed to notify TFFR of the error. One member account will require correction and RIO will notify the member that adjustments have been made to their account. Contributions paid will be refunded to the employer who is responsible for refunding any applicable contributions to the member. Please reference the worksheets labeled *Primary Test, Changes in Salaries and Contributions,* and *Salary Correction Summary* for additional information

The amount of contributions due with interest is $1,030.29. An invoice for the amount of contributions due is included. It is the responsibility of the employer to collect contributions due from the members or refund contributions overpaid to the members. Please reference the worksheet labeled *Salary Correction Summary* for additional details. **Please provide payment for the amount due and provide a written response detailing how the employer intends to correct the above findings by October 14, 2016.**

Due to the significant number of findings identified during the TFFR Compliance Audit and the special audit, a Not in Compliance (NIC) Review will be completed at the close of fiscal year 2017. The purpose of the NIC Review is to ensure that the employer has taken any actions necessary to correct previously identified reporting errors. The NIC Review will include 100% of the members reported by the employer.

The findings and recommendations in this audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations. All accounts are also reviewed as members notify the TFFR of their intent to retire.

Terra L. Miller Bowley
Supervisor of Audit Services
Enclosures

Audit Services – North Dakota Retirement and Investment Office

TFFR File Maintenance Audit

April 1, 2016 – June 30, 2016

Audit Report

September 19, 2016

Background

On a quarterly basis the Audit Services Division of the Retirement and Investment Office (RIO) reviews system generated (CPAS) audit tables to ensure transactions initiated by staff are expected and appropriate given an individual's role within the organization. The accuracy of month end reporting of lump sum payments and installment purchases of service credit is verified. Member accounts are also reviewed to ensure contact and demographic information has been updated correctly per Member Action Forms on file. This review is a part of the Audit Services Division continuous monitoring activities.

Results Summary

Audit Services determined that audit table transactions which occurred in the fourth quarter of fiscal year 2016 for all user IDs were expected and appropriate based on the organizational role held by the individual who initiated the transactions. Month end reporting of lump sum payments and installment purchases of service credit was accurate. The staff of Retirement Services adhered to established procedures for the processing of purchases, refunds, rollovers, and partial lump sum options (PLSO). Beneficiary information was found to be incorrect on one member account per Member Action Form on FileNet. All other actuarially significant contact and demographic information on member accounts was accurate and documentation was retained on FileNet.

Scope

Audit information is obtained throughout the quarter under review. System generated audit table reports are run quarterly by Audit Services staff. Staff roles and responsibilities and departmental procedures are verified annually with Division management. System generated reports of lump sum payments and installment purchases of service credit are provided monthly by the Information Services Division which also provides a listing of system User IDs, security roles, and any changes to either on a yearly basis. Each staff member within the Information Systems Division also provides a change documentation log which details transactions completed and who requested each transaction. Member Action Forms are collected in the first quarter of each fiscal year with the assistance of the Office Assistant. Actual audit work commences the month following the end of each quarter.

- Phase I –
  - Review audit table reports for all CPAS User IDs which have listed transactions.
  - Identify transactions and investigate further any transactions which do not appear to be usual and customary.
- Phase II –
  - Review accuracy of month end reporting of lump sum payments and installment purchases of service credit.
  - Sample selection and testing of the processing of purchases, refunds, rollovers, and partial lump sum options (PLSO) determining level of adherence to established procedures.
- Phase III –
  - Sample selection and testing of member account updates to contact and demographic information.

Observations, Conclusions and Recommendations

Observations, Conclusions and Recommendations Phase I

CPAS generated audit tables log transactions initiated by staff, each of whom is assigned a unique user ID. The transactions are related to the day to day business operations of the Teachers' Fund for Retirement (TFFR). For each quarter under review Audit Services staff selects one month and reviews all transactions for appropriateness based on the organizational role of the individual assigned to each user ID. Any transactions which do not appear to be usual and customary are investigated further.

For the fourth quarter of 2016 the month of June was selected. Audit Services determined that audit table transactions which occurred in June of fiscal year 2016 for all user IDs were expected and appropriate based on the organizational role held by the individual who initiated the transactions.

Observations, Conclusions and Recommendations Phase II

The NDRIO Lump Sum Payment Register lists all refunds, rollovers, and PLSOs paid to members each month. The TFFR Installment Purchase of Credit report lists the current status each month of all in progress installment purchases of service credit. Audit Services verifies that the entries on these two system generated reports correspond to a transaction on the appropriate audit table based on the organizational role held by the individual who initiated the transaction.

For each quarter under review Audit Services staff selects one month and completes additional testing. For the fourth quarter of 2016 the month of June was selected. Additional testing was completed on two entries selected from the NDRIO Lump Sum Payment Register. This included one member initiated account refund and one retirement where the member selected a PLSO. The June report did not contain a refund which resulted from the death of a member. Additional testing was completed on one entry selected from the TFFR Installment of Purchase Credit Report. This included an installment purchase for air time service credit.

Audit Services determined that month end reporting of lump sum payments and installment purchases of service credit was accurate. The staff of Retirement Services adhered to established procedures for the processing of purchases, refunds, rollovers, and partial lump sum options (PLSO). Additional testing also confirmed that supporting documentation was located in FileNet and required system process was located in CPAS for each member account selected. No discrepancies were identified between required supporting documentation and CPAS system information.

Observations, Conclusions and Recommendations Phase III

Member Action Forms are submitted to TFFR by members who are updating their status with the pension fund. For example a member may be enrolling in TFFR, returning to covered employment after a period of inactivity, or changing/adding a participating employer. Members can also designate or update a beneficiary via a Member Action Form. Member Action Forms are collected by the Office Assistant during the first quarter of each fiscal year. Audit Services staff randomly selects two member action forms per quarter for further review.

On one of two Member Action Forms reviewed the member designated both parents as beneficiaries, with each receiving a 50% share of any benefits which may be payable upon the death of the member. Within CPAS the mother of the member has been entered correctly. However the father of the member has been identified as a Friend as opposed to a Parent under Relation. Upon notification Member Services corrected the beneficiary information. All other actuarially significant contact and demographic information on member accounts was accurate and documentation was retained on FileNet.

Distribution:

Fay Kopp, Deputy Executive Director/Chief Retirement Officer
Shelly Schumacher, Retirement Program Manager
Connie Flanagan, Fiscal and Investment Operations Manager
Rich Nagel, Supervisor of Information Systems

TO:	State Investment Board
FROM:	Dave Hunter, Executive Director/CIO
DATE:	October 20, 2016
SUBJECT:	SIB Client Satisfaction Survey – Cover Memo

The Audit Services team conducted the 2016 Customer Satisfaction Survey over the past few months. Survey responses were received from all but one customer board. Several methods were used this year to collect the survey data including customer created paper forms, Survey Monkey, and PDF.

SIB clients assigned a 3.6 overall rating in 2016 which is the comparable to prior years (of 3.7). This numerical score was based on 4.0 rating scale as follows:

Excellent	4.0
Above Average	3.0
Average	2.0
Poor	1.0
Not Applicable	-

Terra Miller Bowley, Supervisor of Audit Services, has provided a summary which follows on the next two pages. Terra can address any questions on the overall survey or individual board responses. I am also able to answer any questions relating to the survey comments noting that the vast majority of board responses were positive and encouraging.

Similar to last year, we received two comments requesting "faster turnaround on monthly reports". As noted last year, RIO has not historically closed our fiscal year-end financial reporting until the external audit is substantially complete which generally does not take place until mid-to-late September.

I am pleased to note that we obtained more responses this year than in prior years and "N/A" was only provided as a response to one question this year (versus 18 in 2015).

SIB Client Boards:

1. **PERS**
2. **TFFR**
3. **City of Bismarck**
4. **City of Grand Forks Employees**
5. **City of Grand Forks Park District**
6. **WSI**
7. **Insurance Commissioner**
8. **State Risk Mgmt.**
9. **ND Association of Counties**
10. **Council on the Arts**
11. **State Board of Medical Examiners**
12. **Center for Tobacco Prevention & Control**
13. **City of Fargo**
14. **Legacy & Budget Stabilization Fund Advisory Board**

CUSTOMER SATISFACTION SURVEY
NORTH DAKOTA STATE INVESTMENT BOARD
2016

Evaluation Forms Sent 14
Evaluation Forms Returned 13

1. Telephone calls and/or e-mail handled promptly and professionally.

Excellent	Above Average	Average	Poor	N/A
8	4	0	0	1

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

Excellent	Above Average	Average	Poor	N/A
7	5	1	0	0

3. Detail provided on reports.

Excellent	Above Average	Average	Poor	N/A
7	4	2	0	0

4. Delivery of high-quality service.

Excellent	Above Average	Average	Poor	N/A
9	3	1	0	0

5. Accessibility.

Excellent	Above Average	Average	Poor	N/A
9	4	0	0	0

6. Responsiveness.

Excellent	Above Average	Average	Poor	N/A
9	4	0	0	0

7. Efficiency.

Excellent	Above Average	Average	Poor	N/A
10	2	1	0	0

8. Knowledge of investments.

Excellent	Above Average	Average	Poor	N/A
8	4	1	0	0

2016 Summary of SIB Client Satisfaction Survey Ratings:

	Excellent	Above Average	Average	Poor	N/A
Totals	67	30	6	0	1
Grade	4	3	2	1	0
Percent	64%	29%	6%	0%	1%
Average	**3.6**				

2015 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**				

2014 Summary of SIB Client Satisfaction Survey Ratings:

	Excellent	Above Average	Average	Poor	N/A
Totals	63	25	0	0	8
Grade	4	3	2	1	0
Percent	66%	26%	0%	0%	8%
Average	**3.7**				

Overall Customer Satisfaction Survey Comments and Impressions:

- Faster turnaround on monthly reports.
- My only request would be to receive the monthly reports a bit earlier. I do understand this is probably impossible but this is the only item I can say I wish were better.
- The City of Bismarck appreciates the assistance that we get from the SIB. We have a great deal of trust in what they do.
- The RIO staff have been excellent on the request from the committee. It takes a lot of effort to keep up with the changing times. SIB needs to have multiple sources of Information and the Legacy Committee requires that it is not todays information but what the future is. Thank You. Keith Kempenich District 39.
- Somewhat difficult to improve on excellence but I would like to remind you of the vital task you have and urge you to continue with the great service you are rendering.
- Keep up the good work.
- I have greatly appreciated the manner in which NDRIO operates. There is a willingness to consider constructive and actionable feedback, which is likely why the organization operates so well. I would suggest that NDRIO keep working towards the areas that have already been targeted, specifically in the creation of online member services, archived webinars on specific areas of need that can service constituencies, and any embraced methods of communication that can be utilized.
- I am very satisfied with the level of service and knowledge provided to me by staff members. I am particularly impressed with David's leadership style. He creates a positive environment and is quick to give his staff credit for success.
- The quality of customer service is excellent. The staff is obviously committed to their work and it is evident with their friendly and efficient work products.

From: Wildasin, Tonia
To: Miller-Bowley, Terra L.
Subject: RE: [External] GASB 68 Census Data Audits - FY 2016 ND TFFR
Date: Thursday, October 13, 2016 12:19:17 PM
Attachments: image001.png
image002.png
image003.png
image008.png

This email is from an external source.
Please exercise caution when opening attachments and links.

Hi Terra,

Just wrapped up the last of the testing. After a lot of phone calls and e-mail exchanges, we are finished. No exceptions were noted again this year. We did find that Dickinson School had the wrong birth date entered in their system for one employee, but it was correct in the census. Dickinson made the update. Thank you for your assistance and ensuring the process went smoothly.

Emp Name	# of Employees Tested	# of Exceptions	Cause of exception, if any
WEST FARGO SCHOOL	25	0	N/A
DICKINSON SCHOOL	25	0	N/A
BELCOURT SCHOOL	22	0	N/A
BOTTINEAU SCHOOL	17	0	N/A
UNITED SCHOOL	16	0	N/A
TGU SCHOOL DISTRICT	16	0	N/A
FLASHER SCHOOL	14	0	N/A
BEACH SCHOOL	13	0	N/A
KENMARE SCHOOL	9	0	N/A
MAPLE VALLEY SCHOOL	9	0	N/A
MT PLEASANT SCHOOL	10	0	N/A
WYNDMERE SCHOOL	7	0	N/A
NORTH SARGENT SCHOOL	4	0	N/A
MOHALL LANSFORD SHERWOOD	6	0	N/A
STRASBURG SCHOOL DISTRICT	3	0	N/A
MANVEL ELEM. SCHOOL	5	0	N/A
ANAMOOSE SCHOOL	3	0	N/A
Total	204	0	

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CLAconnect.com

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
AUDIT SERVICES DIVISION
FISCAL YEAR 2016 -2017

	FY 2017 1st QTR	FY 2017 2nd QTR	FY 2017 3rd QTR	FY 2017 4th QTR	FY 2017 TOTAL
1. Audit					
Retirement Program Audits:					
TFFR Employer Audits	504.25	0.00	0.00	0.00	504.25
Leeds Public School District	20.00				20.00
McKEnzie County Public School District	30.50				30.50
Fort Totten Public School District	132.50				132.50
Fort Yates Public School District	30.75				30.75
Parshall Public School District - Special Audit	44.00				44.00
White Shield Public School District	23.50				23.50
Audit Peer Reviews/TFFR Meeting(s)/Audit Planning/Audit Notifications/Intern Assistance	223.00				223.00
REA Audit	0.00				0.00
Benefit Payments Audit	88.50				88.50
TFFR File Maintenance Audit(s)	26.25				26.25
Annual Salary Verification Project	0.00				0.00
TFFR Cost Effective Benefit Payments/Benefit Recalculation	26.25				26.25
ACL Software Project	0.00				0.00
Agency Administrative and Investment Audits					
Executive Limitation Audit	9.00				9.00
Investment Performance Summary Review	0.00				0.00
RIO External Auditor Assistance	13.25				13.25
Audit Services Procedure Manual	15.00				15.00
2. Administrative					
Administrative - Staff Mtgs, Time Reports, Email, Records Retention, General Reporting	125.75				125.75
Audit Committee/SIB/TFFR Attendance and Preparation	63.00				63.00
Professional Development/CE/General Education	14.50				14.50
Annual Leave, Sick Leave, and Holidays	170.50				170.50
Weekly Total:	**1056.25**	**0.00**	**0.00**	**0.00**	**1056.25**

Total Hours for 2016-2017	4,176
D. Thorsen Total Hours 2015-2016	2,088
T. Miller Bowley Hours 2015-2016	2,088

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
TFFR EMPLOYER AUDIT PROGRESS AND STATUS REPORT
THIRD AUDIT CYCLE
FISCAL YEAR JULY 1, 2016 - JUNE 30, 2017

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 **Original Report: 10/19/2015** **Amended Report: 01/11/2016** **Columns N - S Reference Original Report**	December 2014		12/29/2014	2/4/2015	2/25/2015	10/19/2015 01/11/2016	10/12/2015	10/16/2015	Complete	1333	37	257	21	236	4	Generally In Compliance	107
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	159	126	33	5	In Compliance	31
31	L	DT	West Fargo	November 2014		11/13/2014	12/31/2014	3/23/2015	11/16/2015	10/19/2015	11/5/2015	Complete	875	48	320	82	238	17	Generally In Compliance	157
32	S	TMB	Maple Valley (New Bus Mgr 06/14 & Admin 09/14)	June 2015		6/10/2015	7/16/2015	8/17/2015	10/21/2015	11/23/2015	12/2/2013	Complete	38	36	97	32	65	10	Generally In Compliance	53
33	S	TMB	Starkweather (Master Payroll File)	September 2015		9/14/2015	10/2/2015	10/19/2015	12/3/2015	11/23/2015	12/2/2013	Complete	14	18	62	17	45	10	In Compliance	70
34	S	DT	Litchville-Marion	June 2015		6/10/2015	6/26/2015	10/12/2015	12/17/2015	12/14/2015	12/14/2015	Complete	28	16	174	108	66	0	In Compliance	38
35	S	DT	Wing (New Admin 10/14)	September 2015		9/3/2015	10/1/2015	10/19/2015	12/17/2015	N/A	N/A	Complete	19	28	77	18	59	N/A	In Compliance	30
36	S	DT	Fordville-Lankin **Original Report: 12/28/2015** **Amended Report: 01/27/2016** **Columns N - S Reference Original Report**	June 2015		5/26/2015	6/26/2015	10/2/2015	12/28/2015 01/27/2016	12/22/2015	12/28/2015	Complete	12	31	185	98	87	6	In Compliance	77
37	S	DT	Warwick	September 2015		9/3/2015	10/2/2015	10/22/2015	4/22/2016	4/7/2016	4/14/2016	Complete	31	29	203	20	183	7	Not in Compliance	192
40	S	DT	North Valley Area Careers	March 2015		3/30/2015	4/27/2015	8/31/2015	5/6/2016	4/25/2016	5/3/2016	Complete	10	28	375	126	249	8	In Compliance	115
39	S	DT	Southeast Region Career and Tech	March 2015		3/30/2015	4/23/2015	7/6/2015	6/6/2016	5/23/2016	6/3/2016	Complete	26	24	410	74	336	11	Generally in compliance	180
41	M	TMB	St John	September 2015		9/4/2015	10/7/2015	10/22/2015	6/7/2016	5/25/2016	6/3/2016	Complete	42	33	244	15	229	9	In Compliance	45
43	S	TMB	Solen-Cannonball	September 2015		9/4/2015	10/16/2015	11/12/2015	6/7/2016	6/7/2016	6/8/2016	Complete	29	42	235	27	208	1	In Compliance	45
44	S	TMB	Parshall	September 2015		9/4/2015	10/21/2015	12/23/2015	6/28/2016	6/17/2016	6/28/2016	Complete	35	47	251	63	188	11	Not In Compliance	90
END FISCAL YEAR 2015-2016																				
38	S	DT	Ft. Totten	December 2014		12/29/2014	1/30/2015	5/27/2015				In Progress	36	32		117				
42	S	TMB	White Shield (Roseglen) (New Admin 09/14)	September 2015		9/4/2015	10/9/2015	11/6/2015				In Progress	28	35		28				

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
TFFR EMPLOYER AUDIT PROGRESS AND STATUS REPORT
FOURTH AUDIT CYCLE
FISCAL YEAR JULY 1, 2016 - JUNE 30, 2017
FOURTH AUDIT CYCLE START DATE: May 23, 2016
FOURTH AUDIT CYCLE END DATE:

	Size	District ID	Auditor	Employer	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 (Business Days)	Days b/w Info Received and Report (Business Days)	Days b/w Info Received and Start Date (Business Days)	Days b/w Start and Report (Business Days)	Days w/Retirement Services (Business Days)	Audit Findings	Hours to Complete
1	M	06-001	INTERN	BOWMAN SCHOOL	October 2015		10/19/2015	11/13/2015	5/23/2016	6/16/2016	6/15/2016	6/16/2016	Complete	53	20	155	137	19	2	In Compliance	15
END OF FISCAL YEAR 2015-2016																					
2	S	53-006	INTERN	EIGHT MILE SCHOOL	October 2015		10/19/2015	11/2/2015	5/27/2016	7/1/2016	6/28/2016	7/1/2016	Complete	23	11	175	150	26	4	In Compliance	20
3	S	13-019	INTERN	HALLIDAY SCHOOL	October 2015		10/19/2015	11/12/2015	5/17/2016	7/28/2016	7/19/2016	7/27/2016	Complete	12	19	186	134	53	7	Generally In Compliance	22
4	S	02-007	INTERN	BARNES COUNTY NORTH	October 2015		10/19/2015	11/3/2015	6/1/2016	7/28/2016	7/19/2016	7/27/2016	Complete	31	12	193	152	42	7	In Compliance	13
5	S	25-001	INTERN	VELVA SCHOOL*	October 2015		10/19/2015	6/7/2016	6/7/2016	7/28/2016	7/19/2016	7/27/2016	Complete	47	167	38	1	38	7	In Compliance	18
6	S	41-006	INTERN	SARGENT CENTRAL SCHOOL	April 2016		4/27/2016	5/12/2016	6/16/2016	8/19/2016	8/4/2016	8/18/2016	Complete	28	12	72	26	47	11	Generally In Compliance	30
7	S	20-018	INTERN	GRIGGS COUNTY CENTRAL SCH	May 2016		5/26/2016	6/6/2016	7/14/2016	8/24/2016	8/16/2016	8/24/2016	Complete	32	8	58	29	30	7	In Compliance	15
8	S	40-029	INTERN	ROLETTE SCHOOL	May 2016		5/25/2016	6/2/2016	7/12/2016	8/26/2016	8/16/2016	8/25/2016	Complete	22	7	62	29	34	8	In Compliance	16
9	S	27-014	INTERN	YELLOWSTONE ELEM. SCHOOL	April 2016		4/27/2016	6/9/2016	7/15/2016	8/26/2016	8/17/2016	8/25/2016	Complete	10	32	57	27	31	7	In Compliance	11
10	S	34-118	INTERN	VALLEY - EDINBURG SCHOOL	April 2016		4/27/2016	4/29/2016	6/6/2016	9/7/2016	8/12/2016	9/1/2016	Complete	33	3	94	27	68	15	In Compliance	23
11	S	45-013	INTERN	BELFIELD PUBLIC SCHOOL	April 2016		4/27/2016	5/20/2016	7/11/2016	9/7/2016	8/16/2016	9/1/2016	Complete	34	18	79	37	43	13	In Compliance	13
12	S	31-003	TMB	PARSHALL SCHOOL - SPECIAL AUDIT FY 2016	N/A		8/8/2016	8/9/2016	8/10/2016	9/15/2016	9/1/2016	9/14/2016	Complete	35	2	28	2	27	10	Not In Compliance	45
13	M	27-001	INTERN/DT	MCKENZIE COUNTY SCHOOL	April 2016		4/26/2016	6/10/2016	7/21/2016				In Progress	89	34	0	30	0	0		13
14	S	43-004	INTERN/TMB	FORT YATES SCHOOL*	October 2015		10/19/2015	6/10/2016	6/10/2016				In Progress	32	170	0	1	0	0		19
15	S	03-006	DT	LEEDS SCHOOL	May 2016		5/26/2016	6/13/2016	9/22/2016				In Progress	23	13	0	74	0	0		
18	M	40-001	TMB	DUNSEITH SCHOOL	May 2016		5/26/2016	7/14/2016	10/10/2016				In Progress	54	36	0	63	0	0		
19	S	07-027	TMB	POWERS LAKE SCHOOL*	April 2016		4/26/2016	7/25/2016	10/11/2016				In Progress	25	65	0	57	0	0		
21	S	42-019	TMB	MCCLUSKY SCHOOL	October 2016		9/28/2016	10/5/2016	10/18/2016				In Progress	17	6	0	10	0	0		
22	L	53-001	TMB	WILLISTON SCHOOL	October 2016		9/28/2016	10/10/2016	10/21/2016				In Progress	271	9	0	10	0	0		
16	S	34-019	DT	DRAYTON SCHOOL	May 2016		5/26/2016	6/29/2016					Pending	28	25	0	0	0	0		
17	S	18-129	DT	NORTHWOOD SCHOOL	May 2016		5/26/2016	7/1/2016					Pending	29	27	0	0	0	0		
20	S	03-005	DT	MINNEWAUKAN SCHOOL	October 2016		9/28/2016	9/28/2016					Pending	30	1	0	0	0	0		
23	S	49-003	DT	CENTRAL VALLEY SCHOOL	October 2016		9/28/2016	10/17/2016					Pending	22	14	0	0	0	0		
24	S	38-026	DT	GLENBURN SCHOOL	October 2016		9/28/2016	10/20/2016					Pending	37	17	0	0	0	0		
25	S	30-048	TMB	GLEN ULLIN SCHOOL** 2015-2016 NIC Review	October 2016		9/28/2016	10/28/2016					Pending	25	0	0	0	0	0		
26	S	28-051		GARRISON SCHOOL New Bus. Mgr. 10/2016									IT Data Requested		0	0	0	0	0		
27	S	18-400		ND SCHOOL FOR BLIND											0	0	0	0	0		
28	S	53-015		TIOGA SCHOOL											0	0	0	0	0		
29	M	09-002		KINDRED SCHOOL											0	0	0	0	0		
30	S	25-014		ANAMOOSE SCHOOL	GASB 68 2016										0	0	0	0	0		
31	S	24-056		GACKLE-STREETER PUB SCH											0	0	0	0	0		
32	S	06-033		SCRANTON SCHOOL											0	0	0	0	0		
33	S	07-036		BURKE CENTRAL SCHOOL											0	0	0	0	0		
34	S	27-002		ALEXANDER SCHOOL											0	0	0	0	0		
35	S	39-201		SOUTH VALLEY SPEC ED											0	0	0	0	0		

Briefly

Employer Newsletter

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

October 2016

NDSBA CONVENTION

TFFR will have a booth at the School Board Association convention at the Bismarck Ramkota Hotel on October 28th. Please stop by to visit about any TFFR questions or concerns. We look forward to seeing you.

TEACHER/LEGISLATOR INFORMATION

The 2017 legislative session is quickly approaching. If any of your TFFR employees are serving in the 2017 Legislative Assembly, please submit a member action form indicating the legislative leave of absence. The options for reporting these members to TFFR are summarized below.

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

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

UPDATED TFFR FORMS

It is important to use the most recent version when completing TFFR forms. The following most used forms by employers are available on our website:

- A Notification of School District Changes form must be submitted if there are changes in demographics or contact (i.e. superintendent-business manager) information.

- A new Member Action form is needed if you employ a new teacher in your district or one that had a one year or more break in service with your district.

  We recently updated the Member Action form. Please discard all old versions and use the attached link to access the updated form.

- A TFFR Retired Member Employment Notification form should be completed if you employ a TFFR retiree. This form must be completed each year a retiree is employed and submitted to TFFR no later than 30 days after employment begins.

EMPLOYER SUMMARY REPORT

A 2015-2016 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 2016 edition of the Your Vested Interest newsletter can be viewed on our website. Please take a few minutes to read this informative newsletter.

LATE REPORTING PENALTY INFORMATION

Your monthly TFFR report and payment are due **in** our office by the 15th day of the month following the month in which the members' salaries are earned. Member Action forms and TFFR Retired Member Employment Notification forms are due within 30 days of the teacher's employment. Other invoices requiring a TFFR payment will clearly include a due date. Please consider the amount of mailing time or any other event that can cause a delay when you are sending TFFR reports, forms, or payments. Sending your TFFR payments ACH can save time and eliminate the need to print and mail checks to TFFR. Please contact Tami at tdvolkert@nd.gov for more information.

Employers who fail to remit reports, forms, or payments on time will be assessed a penalty of $250. In addition, if your regular monthly report is late, interest of one percent per month for each month the payment is late will be charged on the amount due. TFFR may also withhold state foundation aid payments until all TFFR reports, forms, or payments are received.

RETIREMENT ELIGIBILITY REPORT

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

GASB STATEMENT 68 UPDATE

The audited fiscal year 2015 GASB Statement 68 information is available on our website. This information includes the Schedules of Employer Allocations and Pension Amounts by Employer, GASB 68 Disclosure Template, and Sample Journal Entries. Employers and auditors can use this information to complete your 2016 financials.

REPORT CARD HIGHLIGHTS

The August 2016 edition of the Report Card Newsletter was recently published and can be viewed on our website. The newsletter highlights include:

- Actuarial Audit Results
- TFFR Member Online update
- TFFR Trustee Changes

TFFR Employer Audit Information Corner

Terra Miller Bowley
Supervisor of Audit Services

SERVICE HOURS

At the close of each fiscal year participating employers are required to report the total number of hours a member was employed and compensated for during the school year to TFFR. For full-time, non-retired members the total number of compensated hours reported should not exceed 700. For part-time, non-retired members the actual number of compensated hours worked should be reported, with the total number of hours reported capped at 700.

Service hours continue to be reported incorrectly for part-time, non-retired members. In the last fiscal year 86% of the TFFR Compliance Audits completed by Audit Services identified an error related to the reporting of service hours. Service hours reported to TFFR for non-retired members are used to determine when a member is eligible to retire and to calculate the monthly pension benefit earned. Failing to report service hours correctly could delay retirement for a member or allow a member to retire prior to being eligible and cause a retiree's monthly pension benefit to be incorrect.

Audit Services recommends that participating employers establish procedures to monitor part-time, non-retired members to ensure proper reporting of service hours. Participating employers must also be able to provide documentation in support of service hours reported to TFFR when requested to do so. Timecards or other tracking mechanisms can accomplish both of these goals.