Financial Statements
June 30, 2011 and 2010

North Dakota Retirement and Investment Office

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Governor Jack Dalrymple
The Legislative Assembly
John Geissinger, Executive Director
State Investment Board
Teachers' Fund for Retirement Board
North Dakota Retirement and Investment Office

We have audited the accompanying financial statements of the fiduciary funds of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements, as listed in the table of contents, as of and for the years ended June 30, 2011 and 2010. These financial statements are the responsibility of RIO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of RIO, are intended to present the financial position and the changes in plan net assets of only that portion of the fiduciary funds of the State of North Dakota that is attributable to the transactions of RIO. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2011 and 2010, and the changes in its financial position and plan net assets, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The actuary for the North Dakota Teachers' Fund for Retirement has determined the Fund's unfunded actuarially accrued liability is approximately $927 and $795 million at June 30, 2011 and 2010, respectively. The funding for the actuarial accrued liabilities is predicated on employer and employee funding rates mandated by North Dakota statutes. However, the 2011 Legislature has approved increases to member contribution rates and benefit changes. Once fully phased in, these legislative changes are projected to increase TFFR funding over the long term, and there would no longer be a contribution deficiency. The actuary has determined that the current statutory contribution rates will never fully fund the unfunded actuarial accrued liability based on the current actuarial assumptions.

www.eidebailly.com

1730 Burnt Boat Loop, Ste. 100 | P.O. Box 1914 | Bismarck, ND 58502-1914 | T 701.255.1091 | F 701.224.1582 | EOE

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary funds of RIO as of June 30, 2011 and 2010, and the respective changes in plan net assets where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining and individual fund financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds of RIO as of June 30, 2011 and 2010, and the results of the operations of such funds for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the RIO's financial statements as a whole. The accompanying supplementary information on pages 44 through 50 are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated November 8, 2011, on our consideration of RIO's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Eide Bailly LLP

Bismarck, North Dakota
November 8, 2011

EideBailly
CPAs & BUSINESS ADVISORS

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
John Geissinger, Executive Director
State Investment Board
Teachers' Fund for Retirement Board
North Dakota Retirement and Investment Office

We have audited the financial statements of the fiduciary funds of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

www.eidebailly.com
1730 Burnt Boat Loop, Ste. 100 | P.O. Box 1914 | Bismarck, ND 58502-1914 | T 701.255.1091 | F 701.224.1582 | EOE

Compliance and Other Matters

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

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

Eide Bailly LLP

Bismarck, North Dakota
November 8, 2011

None

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, 2011. Please read it in conjunction with the basic financial statements, which follow this discussion.

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

Financial Highlights

Total net assets increased in the fiduciary funds by $773.5 million or 16.1% due to net gains in the investment markets.

Additions in the fiduciary funds for the year increased $345.7 million over the previous year. Net investment income increased by $338.8 million and total contributions increased $6.8 million.

Deductions in the fiduciary funds increased over the prior year by $3.1 million or 2.4%. This increase represented a rise in the total number of retirees drawing retirement benefits from the pension fund as well as an increase in the retirement salaries of new retirees.

The TFFR funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2011, the funded ratio was approximately 66.3%.

Overview of the Financial Statements

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

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

Fund Financial Statements

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

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

Financial Analysis

RIO's fiduciary fund total assets as of June 30, 2011, were $5.6 billion and were comprised mainly of investments. Total assets increased by $747.9 million or 15.4% from the prior year primarily due to gains in the financial markets during the fiscal year.

Total liabilities as of June 30, 2011 were $6.5 million and were comprised mostly of investment expenses payable. Total liabilities decreased by $25.6 million or 79.7% from the prior year due to the discontinuation of the securities lending program in June, 2011. This resulted in the closing out of the securities lending collateral positions, effectively reducing the related asset and liability balances associated with that collateral.

RIO's fiduciary fund total net assets were $5.6 billion at the close of fiscal year 2011.

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

	2011	2010	Total % Change
Assets			
Investments	$ 5,553	$ 4,780	16.2%
Sec Lending Collateral	0	26	-99.9%
Receivables	31	30	3.6%
Cash & Other	13	12	2.8%
Total Assets	5,596	4,848	15.4%
Liabilities			
Accounts Payable	7	6	8.8%
Sec Lending Collateral	0	26	-99.9%
Total Liabilities	7	32	-79.7%
Total Net Assets	$ 5,590	$ 4,816	16.1%

	2010	2009	Total % Change
Assets			
Investments	$ 4,780	$ 4,184	14.3%
Sec Lending Collateral	26	77	-66.0%
Receivables	30	29	4.6%
Cash & Other	12	12	3.1%
Total Assets	4,848	4,302	12.7%
Liabilities			
Accounts Payable	6	6	-2.3%
Sec Lending Collateral	26	77	-66.0%
Total Liabilities	32	83	-61.3%
Total Net Assets	$ 4,816	$ 4,219	14.2%

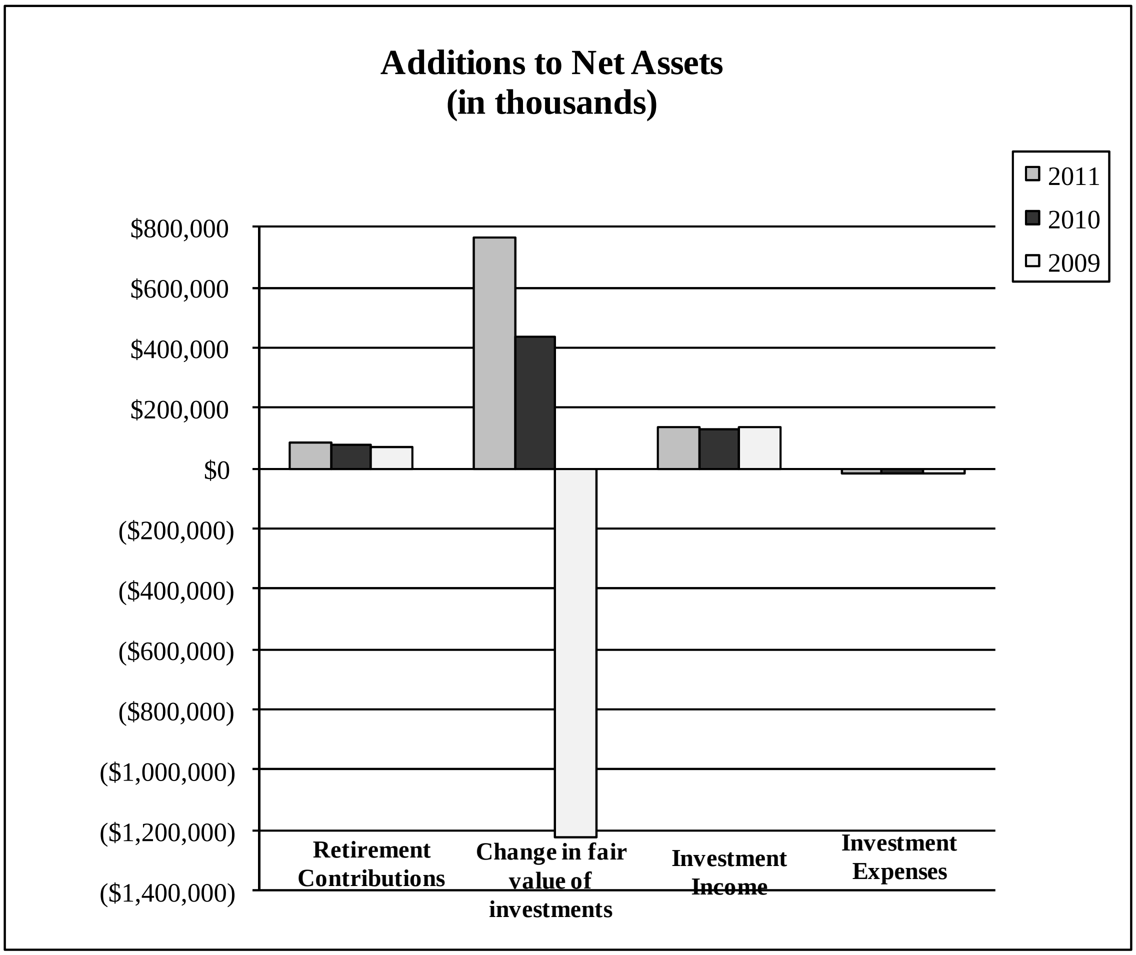
North Dakota Retirement and Investment Office
Changes in Net Assets – Fiduciary Funds
(In Millions)

	2011	2010	Total % Change
Additions:			
Contributions	$ 85	$ 78	8.7%
Investment Income	884	545	62.1%
Total Additions	969	623	55.4%
Deductions	133	129	2.4%
Net change from unit transactions	(63)	104	160.6%
Total change in net assets	$ 774	$ 598	29.3%

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

Statement of Changes in Net Assets – Additions

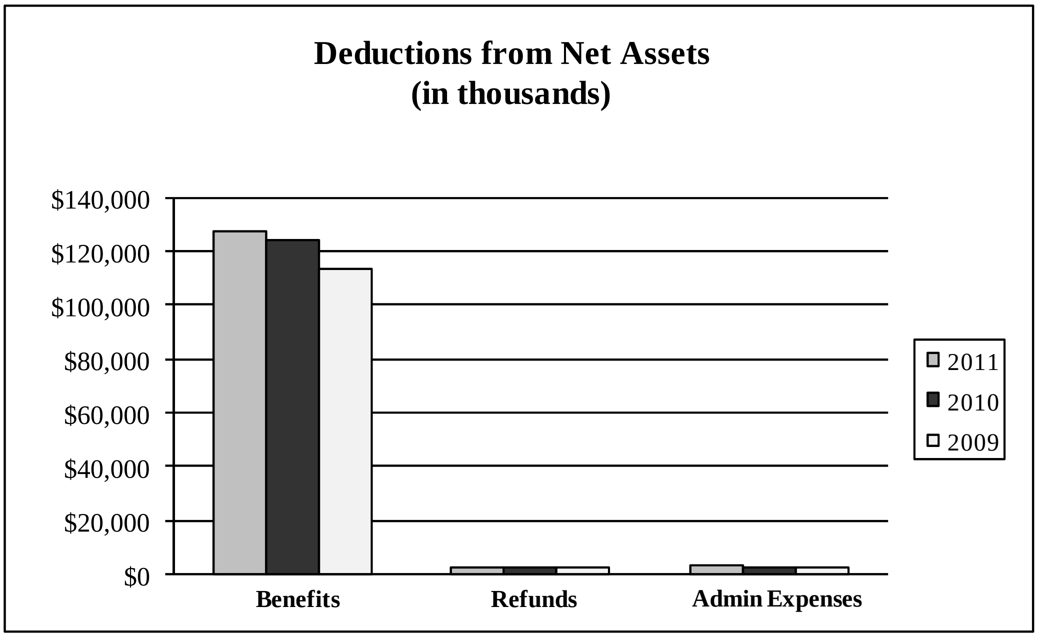
Contributions and net investment income are the two components of the fiduciary fund additions. Contributions collected by the pension trust fund increased by $6.8 million or 8.7% over the previous fiscal year. Net investment income, including securities lending activities and investment expenses, increased by $338.9 million or 62.1% from last year. This was the result of the continued recovery experienced in the financial markets during the fiscal year.



Statement of Changes in Net Assets – Deductions

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by $3.0 million or 2.4% during the fiscal year ended June 30, 2011. This was due to an increase in the total number of retirees in the plan as well as an increased retirement salary which the benefits are based upon. This increase is lower than the previous year's increase because a one-time supplemental benefit payment, totaling $4.04 million, was paid out in December 2009. Refunds decreased slightly in fiscal year 2011 by $346,500 or 13.5%.

Administrative expenses increased by $441,000 or 17.9%, due mainly to the one-time expenses for consulting services for an executive search and legal costs associated with an investment manager fraud case.



Conclusion

Fiscal year 2011 results reflect the continuation of the financial market recovery that occurred within that time frame. These conditions were reflected in the market prices of nearly all asset types. Within the SIB's investment program, the investment trust funds are invested within their policy guidelines and seek to add investment return to their expected benchmark return objectives over multi-year periods. The coming years will most likely be challenging from an investment standpoint as recessions brought on by banking and financial disasters are characterized historically as being followed by extended multi-year periods of slow global growth. The SIB will continue to research and consider investment options to address funding issues in the many challenging years ahead.

The ND State Legislature took action in 2011 to address TFFR's funding shortfall by approving legislation to increase member and employer contributions and modify certain benefits. These plan changes, along with strong future investment performance, are expected to improve TFFR's funding level over the long term. While TFFR's funded ratio has declined in the past three years, and is 66.3% as of 7/1/2011, funded levels are expected to begin rising after 2008 and 2009 investment losses are completely phased in, and as more recent investment gains are recognized in actuarial valuations and as 2011 contribution increases are phased in.. Protecting the long term solvency of the pension plan is the TFFR Board's fiduciary responsibility, and the Board will continue to closely monitor funding levels so that TFFR 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	
	2011	2010	2011	2010
Assets:				
Investments, at fair value				
Equities	$ -	$ -	$ 34,084,756	$ 25,388,750
Equity pool	1,049,479,984	796,430,612	1,411,952,870	1,091,570,903
Fixed income	-	-	22,935,906	19,519,126
Fixed income pool	395,005,152	384,369,567	2,005,016,528	1,923,597,381
Real estate pool	174,937,685	135,503,973	196,439,719	148,110,369
Alternative Investments	63,012,510	63,465,615	67,591,681	67,644,154
Cash and cash pool	15,900,962	31,908,804	116,312,551	92,525,463
Total investments	1,698,336,293	1,411,678,571	3,854,334,011	3,368,356,146
Invested securities lending collateral	-	7,710,609	13,600	18,459,367
Receivables:				
Investment income	7,419,806	6,724,760	12,821,803	13,506,243
Contributions	10,871,495	9,804,059	-	-
Miscellaneous	7,651	6,812	12,232	11,556
Total receivables	18,298,952	16,535,631	12,834,035	13,517,799
Cash and cash equivalents	12,365,575	12,029,151	153,724	83,285
Equipment & Software (net of depr)	3,050	66,013	-	-
Total assets	1,729,003,870	1,448,019,975	3,867,335,370	3,400,416,597
Liabilities:				
Accounts payable	73,258	86,936	54,288	83,430
Investment expenses payable	2,123,667	1,690,908	3,573,700	3,488,775
Securities lending collateral	-	7,710,609	13,600	18,459,367
Accrued expenses	616,348	573,782	51,601	44,721
Miscellaneous payable	-	-	18,091	17,007
Due to other state agencies	11,280	7,897	1,196	2,254
Total liabilities	2,824,553	10,070,132	3,712,476	22,095,554
Net assets:				
Held in trust for pension benefits	1,726,179,317	1,437,949,843	-	-
Held in trust for external investment pool participants:				
Pension pool	-	-	2,040,261,179	1,715,469,840
Insurance pool	-	-	1,766,310,444	1,617,908,249
Held in trust for individual investment account	-	-	57,051,271	44,942,954
Total net assets	$ 1,726,179,317	$ 1,437,949,843	$ 3,863,622,894	$ 3,378,321,043
Each participant unit is valued at $1.00				
Participant units outstanding			3,863,622,894	3,378,321,043

	Pension Trust		Investment Trust	
	2011	2010	2011	2010
Additions:				
Contributions:				
Employer contributions	$ 44,545,433	$ 39,836,646	$ -	$ -
Member contributions	38,869,260	36,848,481	-	-
Purchased service credit	1,499,748	1,413,481	-	-
Interest and penalties	8,809	7,222	-	-
Total contributions	84,923,250	78,105,830	-	-
Investment income:				
Net change in fair value of investments	305,331,203	152,525,484	461,489,827	282,514,400
Interest, dividends and other income	35,864,291	32,645,257	100,078,804	95,866,949
	341,195,494	185,170,741	561,568,631	378,381,349
Less investment expenses	6,430,327	6,234,267	12,614,624	12,410,744
Net investment income	334,765,167	178,936,474	548,954,007	365,970,605
Securities lending activity:				
Securities lending income	134,520	35,000	293,286	332,215
Less securities lending expenses	(56,544)	(87,999)	(48,354)	(23,203)
Net securities lending income	191,064	122,999	341,640	355,418
Total additions	419,879,481	257,165,303	549,295,647	366,326,023
Deductions:				
Benefits paid to participants	126,484,335	123,650,676	-	-
Partial lump-sum distributions	951,229	821,478	-	-
Refunds	2,210,738	2,557,240	-	-
Administrative charges	2,003,705	1,902,796	897,242	557,361
Total deductions	131,650,007	128,932,190	897,242	557,361
Net change in net assets resulting from operations	288,229,474	128,233,113	548,398,405	365,768,662
Unit transactions at net asset value of $1.00 per unit:				
Purchase of units	-	-	214,994,890	355,812,725
Redemption of units	-	-	(278,091,444)	(251,708,186)
Net change in assets and units resulting from unit transactions	-	-	(63,096,554)	104,104,539
Total change in net assets	288,229,474	128,233,113	485,301,851	469,873,201
Net assets:				
Beginning of year	1,437,949,843	$ 1,309,716,730	$ 3,378,321,043	$ 2,908,447,842
End of Year	$ 1,726,179,317	$ 1,437,949,843	$ 3,863,622,894	$ 3,378,321,043

See Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

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

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

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

Fund Financial Statement

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Fiduciary Fund

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

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

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

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

Use of Estimates

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

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

Budgetary Process

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

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

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

Capital Assets and Depreciation

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

	Years
Office equipment	5
Furniture and fixtures	5

Investments

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

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

Pooled Investments

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

Investment Valuation and Income Recognition

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

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

Unrealized increase or decrease is computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

Accumulated Leave

Annual leave is a part of permanent employees' compensation as set forth in Section 54-06-14 of the NDCC. Employees earn leave based on tenure of employment. Sick leave is also part of permanent employees' compensation as set forth in Section 54-52-04 of the NDCC. Accrued leave amounted to $129,737 and $107,984 at June 30, 2011 and 2010, respectively. The current portions of accrued leave amounted to $70,469 and $69,477 at June 30, 2011 and 2010, respectively, and are included in accrued expenses of the Fiduciary Funds in the statements of net assets.

Changes in accrued leave for the years ended June 30, 2011 and 2010 consisted of the following:

Balance, July 1, 2009	$113,661
Additions	66,817
Deductions	(72,494)
Balance, June 30, 2010	107,984
Additions	84,726
Deductions	(62,973)
Balance, June 30, 2011	$129,737

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, 2011 and 2010 were deposited in the Bank of North Dakota. At June 30, 2011 and 2010, the carrying amount of TFFR's deposits was $12,365,575 and $12,029,151, respectively, and the bank balance was $12,377,252 and $12,036,458 respectively. The difference results from checks outstanding or deposits not yet processed by the bank. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

Investment Trust Funds

Certificates of deposit and an insurance trust cash pool are recorded as investments and have a cost and carrying value of $188,347,945 and $216,694,154 at June 30, 2011 and 2010, respectively. In addition these funds carry cash and cash equivalents totaling $153,724 and $83,285 at June 30, 2011 and 2010, respectively. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits held at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

Note 3 - Investments

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

Securities Lending

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

The State Investment Board (SIB) lends its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The SIB contracted with a third party securities lending agent (Agent) to lend the SIB's securities portfolios. This relationship was terminated by the SIB at its May 20, 2011, meeting. The Agent was requested to call back all securities on loan and liquidate the collateral in a timely yet orderly fashion. All but one loan was recalled and collateral liquidated as of June 30, 2011.

The Agent lends securities of the type on loan at June 30, 2011, for collateral in the form of cash or other securities at 102% of the loaned securities fair value plus accrued interest for domestic securities and 105% of the loaned securities fair value plus accrued interest for international securities. The collateral for the loans is maintained at 100% per the contractual requirements. As of June 30, 2011, the fair value of the SIB's securities on loan totaled $44. As of June 30, 2011, the total amount of cash and non-cash collateral related to these lent securities was $13,600. As of June 30, 2011, the Fund has no credit risk exposure to borrowers because the amounts the SIB owes the borrowers exceed the amounts the borrowers owe the SIB.

The Average Duration of the collateral investments as of June 30, 2011, was one day. The Average Weighted Maturity of collateral investments as of June 30, 2011, was one day. The interest rate sensitivity (duration) of the securities on loan matched the duration of the collateral investments.

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

Interest Rate Risk

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

At June 30, 2011 and 2010, the following tables show the investments by investment type and maturity (expressed in thousands).

2011	Total Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years
Asset Backed Securities	$ 32,332	$ -	$ 5,243	$ 3,667	$ 23,422
Bank Loans	6,481	127	5,347	1,007	-
Commercial Mortgage-Backed	35,795	-	702	-	35,093
Guaranteed Fixed Income	4,498	377	4,121	-	-
Corporate Bonds	644,800	40,852	233,060	190,687	180,201
Corporate Convertible Bonds	59,474	1,836	37,242	4,166	16,230
Government Agencies	83,634	460	53,116	18,225	11,833
Government Bonds	227,352	3,256	80,864	65,396	77,836
Gov't Mortgage- and Commercial Mortgage-Backed	166,767	554	3,354	16,954	145,905
Index Linked Government Bonds	3,409	-	-	-	3,409
Municipal/Provincial Bonds	25,327	588	13,147	629	10,963
Non-Government Backed CMOs	49,736	-	-	11,875	37,861
Other Fixed Income	977	723	254	-	-
Short Term Bills and Notes	11,802	11,802	-	-	-
Pooled Investments	655,037	-	223,634	431,403	-
Total Debt Securities	$ 2,007,421	$ 60,575	$ 660,084	$ 744,009	$ 542,753

2010	Total Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years
Asset Backed Securities	$ 28,493	$ -	$ 5,505	$ 2,557	$ 20,431
Bank Loans	12,042	611	10,351	1,080	-
Commercial Mortgage-Backed	32,632	-	1,034	71	31,527
Guaranteed Fixed Income	5,010	-	5,010	-	-
Corporate Bonds	725,144	17,640	274,353	251,793	181,358
Corporate Convertible Bonds	40,180	28	24,229	2,791	13,132
Government Agencies	59,893	1,046	29,585	14,717	13,853
Government Bonds	193,565	11,991	65,385	52,158	64,031
Gov't Mortgage- and Commercial Mortgage-Backed	115,848	-	4,083	12,126	99,639
Index Linked Government Bonds	2,773	-	-	-	2,773
Municipal/Provincial Bonds	18,184	-	7,020	1,080	10,084
Non-Government Backed CMOs	54,857	-	-	6,127	48,730
Other Fixed Income	980	-	980	-	-
Short Term Bills and Notes	640	640	-	-	-
Pooled Investments	599,738	45,596	307,689	246,150	303
Total Debt Securities	$ 1,889,979	$ 77,552	$ 735,224	$ 590,650	$ 485,861

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 $4.7 million and $634,000, and POs valued at $3.8 million and $3.8 million at June 30, 2011 and 2010 respectively. The SIB has no policy regarding IO or PO strips.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Investment Board maintains a highly diversified portfolio of debt securities encompassing a wide range of credit ratings. Although the SIB has no overall policy regarding credit risk, each debt securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit the manager may invest. These ranges include investment grade and high yield categories. The following tables present the SIB’s ratings as of June 30, 2011 and 2010 (expressed in thousands).

2011	Total Fair Value	Credit Rating* AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset Backed Securities	$ 32,332	$ 12,757	$ 5,347	$ 2,923	$ 5,118	$ 333	$ 2,505	$ 2,991	$ 184	$ -	$ 174	$ -
Bank Loans	6,483	-	-	-	922	3,339	1,787	435	-	-	-	-
Collateralized Bonds	467	467										
Commercial Mortgage Backed	35,795	26,774	2,654	4,647	1,651	69	-	-	-	-	-	-
Corporate Bonds	644,332	3,268	40,827	165,601	310,263	62,240	42,149	14,095	2,237	210	3,215	227
Corporate Convertible Bonds	59,474	590	4,448	14,314	6,311	10,579	13,493	9,739	-	-	-	-
Gov't Agencies	74,108	57,365	4,870	8,416	3,457	-	-	-	-	-	-	-
Gov't Bonds	186,166	140,409	2,948	26,425	9,907	6,068	326	83	-	-	-	-
Gov't Mortgage and Commercial Mortgage Backed	3,592	3,592	-	-	-	-	-	-	-	-	-	-
Guaranteed Fixed Income	4,498	4,498	-	-	-	-	-	-	-	-	-	-
Index Linked Gov't Bonds	3,410	2,223	-	-	-	1,187	-	-	-	-	-	-
Municipal/Provincial Bonds	25,326	7,853	4,868	9,531	1,002	2,072	-	-		-	-	-
Non-Gov't Backed CMOs	49,026	23,098	3,849	3,903	3,246	1,704	2,773	8,855	250	1	1,347	-
Short Term Bills and Notes	480	480	-	-	-	-	-	-		-	-	-
Other Fixed Income	977	977	-							-	-	
Pooled Investments	655,035	198,626	330,311	1,872	105,338	6,474	12,414	-	-	-	-	-
Total Credit Risk of Debt Securities	1,781,501	$ 482,977	$ 400,122	$ 237,632	$ 447,215	$ 94,065	$ 75,447	$ 36,198	$ 2,671	$ 211	$ 4,736	$ 227
US Gov't & Agencies**	225,920											
Total Debt Securities	$ 2,007,421											

2010	Total Fair Value	Credit Rating* AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset Backed Securities	$ 28,493	$ 10,301	$ 5,543	$ 1,820	$ 5,632	$ 575	$ 3,148	$ 1,235	$ 63	$ -	$ 176	$ -
Bank Loans	12,042	-	-	-	1,594	6,692	3,756	-	-	-	-	-
Commercial Mortgage Backed	32,632	25,929	877	3,503	2,323	-	-	-	-	-	-	-
Corporate Bonds	725,144	5,967	39,052	157,780	387,713	66,575	45,453	18,858	1,754	347	1,643	2
Corporate Convertible Bonds	40,180	-	1,556	7,490	4,839	9,567	9,743	6,705	-	-	-	280
Gov't Agencies	52,916	42,198	3,105	3,785	3,725	103	-	-	-	-	-	-
Gov't Bonds	156,650	116,338	112	25,700	9,320	5,010	170	-	-	-	-	-
Gov't Mortgage and Commercial Mortgage Backed	862	559	-	-	303	-	-	-	-	-	-	-
Guaranteed Fixed Income	5,010	5,010	-	-	-	-	-	-	-	-	-	-
Index Linked Gov't Bonds	2,773	2,773	-	-	-	-	-	-	-	-	-	-
Municipal/Provincial Bonds	18,184	3,172	3,681	7,431	1,149	2,751	-	-		-	-	-
Non-Gov't Backed CMOs	54,855	29,341	1,897	1,464	1,576	3,109	5,135	10,827	662	278	566	-
Other Fixed Income	980	980	-							-	-	
Pooled Investments	599,737	210,649	256,181	1,637	119,731	2,087	9,452	-	-	-	-	-
Total Credit Risk of Debt Securities	1,730,458	$ 453,217	$ 312,004	$ 210,610	$ 537,905	$ 96,469	$ 76,857	$ 37,625	$ 2,479	$ 625	$ 2,385	$ 282
US Gov't & Agencies**	159,521											
Total Debt Securities	$ 1,889,979											

* 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 Gov't & Agencies" includes agencies that are only implicitly guaranteed by the US Government (Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corp. (Freddie Mac), Financing Corp. (FICO), and Federal National Mortgage Assoc. (Fannie Mae)) in the amount of $147.4 million and $109.1 million as of June 30, 2011 and 2010 respectively.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Although the SIB does not have a formal investment policy governing foreign currency risk, the SIB does manage its exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios to limit foreign currency and security risk. The SIB's exposure to foreign currency risk is presented in the following tables as of June 30, 2011 and 2010 (expressed in thousands).

2011

Currency	Short-Term	Debt	Equity	Total
Australian dollar	$ (9,878)	$ 11,131	$ 16,244	$ 17,497
Brazilian real	(3,802)	6,877	62	3,137
British pound sterling	10,553	8,647	65,886	85,086
Canadian dollar	(1,525)	7,511	5,252	11,238
Chinese yuan renminbi	4,033	-	-	4,033
Czech koruna	381	-	-	381
Israeli shekel	6	-	1,997	2,003
Danish krone	47	-	1,878	1,925
Euro	1,608	1,825	106,726	110,159
Hong Kong dollar	6	-	8,231	8,237
Hungarian forint	527	2,642	-	3,169
Iceland krona	33	-	-	33
Indian rupee	-	745	-	745
Indonesian Rupiah	-	8,915	-	8,915
Japanese yen	(1,703)	-	54,211	52,508
Malaysian Ringgit	-	4,718	57	4,775
Mexican peso	194	7,660	-	7,854
New Zealand dollar	(2,930)	3,600	-	670
Norwegian krone	639	4,209	9,444	14,292
Philippine peso	-	2,101	-	2,101
Polish zloty	234	6,321	137	6,692
Singapore dollar	2,969	-	2,477	5,446
South African rand	282	3,148	-	3,430
South Korean won	-	7,369	966	8,335
Swedish krona	587	-	5,576	6,163
Swiss franc	385	-	20,775	21,160
Turkish lira	3,681	423	-	4,104
International commingled funds (various currencies)	-	-	182,464	182,464
Total international investment securities	$ 6,327	$ 87,842	$ 482,383	$576,552

2010

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

Derivative Securities

Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from, the performance of some agreed upon benchmark. The investment policies of the SIB's clients allow the use of derivative securities to hedge or replicate underlying exposures but not for speculation. All derivatives are considered investment derivative instruments. The fair value of all derivative securities is reported in the Statements of Net Assets. At June 30, 2011 and 2010, 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 Assets and totaled $156.5 million for fiscal year 2011 and $97.4 million for fiscal year 2010. At June 30, 2011 and 2010, the SIB investment portfolio had the notional futures balances shown below (expressed in thousands).

Futures	Notional Value	
	June 30, 2011	June 30, 2010
Cash & Cash Equivalent Derivative Futures		
Long	$ 140,245	$ 110,876
Short	(130,777)	(31,990)
Equity Derivative Futures		
Long	529,063	492,773
Short	-	-
Fixed Income Derivative Futures		
Long	13,821	40,488
Short	(94,484)	(43,571)
Total Futures	$ 457,868	$ 568,576

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 risk. The option's price is usually a small percentage of the underlying asset's value. As a seller of a financial option, the SIB, through its investment manager, receives a premium at the beginning of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a buyer of a financial option, the SIB, through its investment manager, pays a premium at the beginning of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Gains and losses on options are determined based on fair values and recorded with the net change in fair value of investments in the Statement of Changes in Net Assets and totaled $(1.8) million for fiscal year 2011 and $1.5 million for fiscal year 2010. At June 30, 2011 and 2010, the SIB investment portfolio had the following option balances (expressed in thousands).

Options	Fair Value June 30, 2011	Fair Value June 30, 2010
Cash & Cash Equivalent Options		
Call	$ -	$ (22)
Put	-	-
Equity Options		
Call	-	-
Put	-	1,934
Fixed Income Options		
Call	-	25
Put	-	(2)
Total Options	$ -	$ 1,935

Swaps

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

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

Credit risk represents the exposure to fair value losses arising from a credit event such as default, failure to pay, restructuring or bankruptcy. In a credit default swap (CDS) contract, the protection buyer of the CDS makes a series of payments to the protection seller and, in exchange, receives a payoff if the credit instrument experiences a credit event. CDS contracts are also used to establish exposure to a desired credit instrument.

Gains and losses on swaps are determined based on fair values and are recorded with the net change in fair value of investments in the Statement of Changes in Net Assets and totaled $(201) thousand for fiscal year 2011 and $729 thousand for fiscal year 2010. The maximum loss that would be recognized at June 30, 2011 and 2010, if all counterparties failed to perform as contracted is $1.25 million and $750 thousand respectively. Swap fair values are determined by a third party pricing source. At June 30, 2011 and 2010, the SIB's investment portfolio had the swap fair value balances as shown below (expressed in thousands).

Credit Default Swaps

Counterparty/Moody's Rating	Notional Amount	Expiration Date	Fair Value June 30, 2011	Fair Value June 30, 2010
Deutsche Bank AG New York/Aa3	$ 45	3/20/2014	$ (8)	$ (9)
Deutsche Bank AG New York/Aa3	120	9/20/2013	1	4
Deutsche Bank AG New York/Aa3	75	3/20/2012	(2)	(4)
Barclays Capital Securities London/Aa3	105	6/20/2011	-	(4)
Total Credit Default Swaps	$ 345		$ (9)	$ (13)

Interest Rate Swaps

Counterparty	Notional Amount	Rate Range	Counterparty Rate	Expiration Date Range	Counterparty Rating (Moody's)	Fair Value June 30, 2011	Fair Value June 30, 2010
Barclays Bank PLC London	$ 1,376	4.250%	Various	4/27/2013	Aa3	$ -	$ 23
Barclays Bank PLC London (15 contracts)	(3,348)	0.283% to 7.130%	overnight	12/2011 - 01/2021	Aa3	(19)	
Barclays Capital Securities London (7 contracts)	(1,229)	0.329% to 5.665%	bank rates	01/2012 - 08/2020	Aa3	(5)	
Citibank N.A. New York (10 contracts)	(2,193)	0.430% to 3.763%	depending on	01/2012 - 02/2021	A1	(138)	
Morgan Stanley Capital Services NY (5 contracts)	504	2.510% to 5.110%	currency	02/2012 - 06/2021	A2	(115)	
Total Interest Rate Swaps	$ (4,890)					$ (277)	$ 23

Currency Forwards

Currency forwards represent forward exchange contracts that are entered into in order to manage the exposure to changes in currency exchange rates on the currency denominated portfolio holdings. A forward exchange contract is a commitment to purchase or sell a currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net change in fair value of investments in the Statement of Changes in Net Assets and totaled $(12.9) million for fiscal year 2011 and $3.7 million for fiscal year 2010. At June 30, 2011 and 2010, the SIB's investment portfolio included the currency forwards balances shown below (expressed in thousands).

				Fair Value	
Currency	Cost	Purchases	Sales	6/30/2011	6/30/2010
Australian dollar	$ (9,494)	$ 417	$ (9,911)	$ (9,842)	$ (13,268)
Brazilian real	(3,667)	-	(3,667)	(3,802)	-
British pound sterling	6,166	10,272	(4,106)	6,070	(11,561)
Canadian dollar	(1,575)	608	(2,183)	(1,554)	(7,674)
Chinese yuan renminbi	4,052	4,052	-	4,033	2,236
Czech koruna	386	478	(92)	388	
Danish krone	-	-	-	-	(313)
Euro	(2,395)	529	(2,924)	(2,400)	(42,969)
Hong Kong dollar	-	-	-	-	(4,417)
Hungarian forint	528	528	-	540	(254)
Japanese yen	(494)	217	(711)	(492)	(29,226)
Mexican peso	192	192	-	195	(312)
New Zealand dollar	(2,892)	552	(3,444)	(2,931)	1,425
Norwegian krone	477	723	(246)	495	1,647
Polish zloty	254	470	(216)	251	(122)
Singapore dollar	2,504	2,504	-	2,519	(652)
South African rand	278	278	-	282	-
Swedish krona	488	488	-	494	(5,093)
Swiss franc	83	482	(399)	83	(12,292)
Turkish lira	3,854	4,278	(424)	3,681	3,989
United States dollar	1,254	28,322	(27,068)	1,254	118,399
Total forwards subject to currency risk				$ (736)	$ (457)

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, 2011 and 2010, the tables below show the SIB's derivative investments subject to interest rate risk (expressed in thousands).

2011

	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	$ (212,302)	$ (123,551)	$ (88,751)	$ -	$ -	$ -

	Total Fair Value	3 months or less	3 to 6 months	6 to 12 months	1-5 years	Greater than 5 years
Options on interest rate futures	$ -	$ -	$ -	$ -	$ -	$ -
Swaps - interest rate contracts	(277)	-	(7)	(14)	(11)	(245)
Total	$ (277)	$ -	$ (7)	$ (14)	$ (11)	$ (245)

2010

	Total Notional Value	3 months or less	3 to 6 months	6 to 12 months	1-5 years	Greater than 5 years
Futures-interest rate contracts	$ (18,276)	$ (19,738)	$ 12,114	$ (10,652)	$ -	$ -

	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	$ 1	$ 1	$ -	$ -	$ -	$ -
Swaps - interest rate contracts	23	-	-	-	23	-
Total	$ 24	$ 1	$ -	$ -	$ 23	$ -

Alternative Investments

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

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

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

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

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

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

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

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

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

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

Portable Alpha Strategies — This strategy separates alpha from beta in a portfolio by investing in securities that differ from the market index from which their beta is derived. Alpha is the return achieved over and above the return that results from the correlation between the portfolio and the market (beta). This strategy involves investing in areas that have little to no correlation with the beta of the portfolio. The SIB utilizes this strategy in its US equity allocation by “porting” various types of fixed income-based portfolios over S&P 500 or Russell 2000 beta futures contracts.

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

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

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

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

Note 4 - Securities Lending

The following represents the balances relating to the securities lending transactions at June 30, 2011 and 2010 (expressed in thousands).

June 30, 2011

Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for cash collateral:			
US agency securities	$ -	$ -	$ -
US government securities	-	-	-
US corporate fixed income securities	-	-	-
Global government fixed income securities	-	-	-
US equities	< 1	-	14
Global equities	-	-	-
Lent for non-cash collateral:			
US agency securities	-	-	-
US government securities	-	-	-
US corporate fixed income securities	-	-	-
US equities	-	-	-
Global equities	-	-	-
Total	< 1	$ -	$ 14

June 30, 2010

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

Note 5 - Capital Assets

	June 30, 2009	Additions	Retirements	June 30, 2010	Additions	Retirements	June 30, 2011
Office equipment	$ 33,911	$ -	$ -	$ 33,911	$ -	$ (14,590)	$ 19,321
Less accumulated depreciation on office equipmen	(26,285)	(2,288)		(28,573)	(2,288)	14,590	(16,271)
Software	1,213,500	-	-	1,213,500	-	-	1,213,500
Less accumulated depreciation on software	(910,125)	(242,700)	-	(1,152,825)	(60,675)	-	(1,213,500)
	$ 311,001			$ 66,013			$ 3,050

Note 6 - State Agency Transactions

Due From/To Other State Agencies

Amounts due to other state agencies are as follows as of June 30, 2011 and 2010:

	2011	2010
Due To		
Information Technology Department	$ 7,195	$ 7,233
Office of Attorney General	1,439	2,478
University System - NDSU	-	230
Office of Management and Budget	3,844	210
Total due to other state agencies	$ 12,478	$ 10,151

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

Note 7 - Operating Leases

RIO leases office space under an operating lease effective July 1, 2009 through June 30, 2011. RIO also incurs rent expense at other locations on a temporary basis to sponsor retirement education for TFFR members. Rent expense totaled $76,104 and $76,233 for fiscal 2011 and 2010. RIO entered into a new lease for office space effective July 1, 2011. Minimum payments under the lease for fiscal 2012 are $76,351.

Note 8 - Changes in Noncurrent Liabilities

Changes in noncurrent liabilities for the years ended June 30, 2011 and 2010 are summarized as follows:

	Beginning Balance 7/1/2010	Additions	Reductions	Ending Balance 6/30/2011	Amounts Due Within One Year
Accrued Leave	107,984	84,726	(62,973)	129,737	70,469

	Beginning Balance 7/1/2009	Additions	Reductions	Ending Balance 6/30/2010	Amounts Due Within One Year
Accrued Leave	113,661	66,817	(72,494)	107,984	69,477

Pension and Investment Trust Funds liquidate the accrued leave.

Note 9 - North Dakota Teachers' Fund For Retirement

General

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

TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, death and disability benefits. The cost to administer the TFFR plan is financed by investment income and contributions.

Membership

As of June 30, 2011 and 2010, the number of participating employer units was 226 and 231, respectively, consisting of the following:

	2011	2010
Public School Districts	181	183
County Superintendents	9	11
Special Education Units	21	21
Vocational Education Units	5	5
Other	10	11
	226	231

TFFR's membership consisted of the following:

	2011	2010
Retirees and beneficiaries currently receiving benefits	6,933	6,672
Terminated employees - vested	1,463	1,472
Terminated employees - nonvested	407	331
Total	8,803	8,475
Current employees		
Vested	8,013	8,356
Nonvested	1,991	1,551
Total	10,004	9,907

Investments

Current investment guidelines set by TFFR's board specify the percentage of assets to be invested in various types of investments (equities, fixed income securities, real estate, alternative investments, and cash). The Board has set 8% as the plan's actuarially assumed rate of return. Long-term performance goals are set and evaluated by the boards of SIB and TFFR for each type of investment.

Realized Gains and Losses

Realized gains and losses on sales of investments are components of net appreciation in fair value of investments and are computed as described in Note 1. For the years ended June 30, 2011 and 2010, TFFR had net realized gains of $103,985,143 and $20,267,459 respectively.

Investment Expenses

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

Member and Employer Contributions

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 7.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 8.75% of the teacher's salary. Member contributions will increase to 9.75% on 7/1/2012 and 11.75% on 7/1/2014. Employer contributions will increase to 10.75% on 7/1/2012 and 12.75% on 7/1/2014. Member and employer contributions will be reduced to 7.75% each when the fund reaches 90% funded ratio on an actuarial basis.

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

Pension Benefits

For purposes of determining pension benefits, members are classified within one of two “tiers.” Tier 1 members are those with service credit on file as of July 1, 2008, and Tier 2 members are those newly employed and returning refunded members on or after July 1, 2008. (Note: Legislation approved in 2011 will modify pension eligibility requirements for certain non-grandfathered Tier 1 members and Tier 2 members effective 7/1/2013.)

Tier 1

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

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

Tier 2

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

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

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 one year of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and assuming the member has a minimum of 20 years of credited service. There is no actuarial reduction for reason of disability retirement. (Note: Legislation approved in 2011 will modify disability eligibility requirements and benefit calculations effective 7/1/2013.)

Funded Status and Funding Progress

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

Actuarial Valuation Date July 1	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
2011	$ 1,822.6	$ 2,749.8	$ 927.2	66.3%	$ 488.8	189.7%

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

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

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

Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2011	July 1, 2010
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percent of payroll, assuming payroll increases of 3.25% per annum	Level percent of payroll, assuming payroll increases of 3.25% per annum
Amortization period	30 year open period	30 year open period
Asset valuation method	Market value of assets less unrecognized returns in each of last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the actuarial value, and is recognized over a five-year period.	Market value of assets less unrecognized returns in each of last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the actuarial value, and is recognized over a five-year period.
Actuarial assumptions:		
Investment rate of return	8.00%	8.00%
Projected salary increases	4.50% to 14.75%	4.50% to 14.75%
Inflation	3.00%	3.00%

TFFR Plan Changes Affecting Audit Period

1. The employer contribution rate increased from 8.25% to 8.75% effective July 1, 2010. The employer contribution rate increases from 8.75% to 10.75% effective July 1, 2012, and increases thereafter to 12.75% effective July 1, 2014. The member contribution rate increases from 7.75% to 9.75% effective July 1, 2012, and increases thereafter to 11.75% effective July 1, 2014. Employer and member contributions will be reset to 7.75% once the Fund reaches a 90% funded ratio, measured using the actuarial value of assets.

2. For current Tier 1 members who, as of June 30, 2013, are vested (at least 3 years of service), and at least age 55, OR the sum of the member's age and service is at least 65, are considered a Tier 1 Grandfathered member. Current Tier 1 members, who do not meet this criteria as of June 30, 2013, are considered a Tier 1 Non-grandfathered member.

3. Eligibility for normal/unreduced retirement benefits do not change for Tier 1 Grandfathered members. For Tier 1 Non-grandfathered and Tier 2 members, effective June 30, 2013, unreduced retirement benefits start when a member reaches age 65 and is vested (3 years for Tier 1 Non-grandfathered, 5 years for Tier 2); or if earlier, when the sum of the member's age and service is at least 90, with a minimum age of 60.

4. Early retirement benefits do not change for Tier 1 Grandfathered members. For Tier 1 Non-grandfathered and Tier 2 members, effective after June 30, 2013, the normal retirement benefit will be reduced by 8% per year from the earlier of age 65 OR the age at which the sum of the member's age and service is at least 90, with a minimum age of 60.

5. Effective after June 30, 2013, all members may retire on disability after a period of at least five years of service (rather the one year of service). The amount of the benefit is based on a 2% multiplier and actual service (rather than a minimum of twenty years of service in the current calculation).

6. Effective July 1, 2012, re-employed retirees are required to pay member contributions.

7. Effective August 1, 2011, beneficiary and death benefit provisions were updated, and the 60-month death payment benefit was removed.

Note 10 - Public Employees Retirement System (PERS)

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

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

RIO is required to contribute to PERS at an actuarially determined rate for permanent employees. The current contribution rate is 8.12% of annual covered payroll as established by the NDCC. RIO's contributions to PERS for the years ended June 30, 2011, 2010, and 2009, were $84,091, $82,788, and $81,030, equal to the required contributions for each year plus a 1.14% contribution for retiree health benefits.

Note 11 - Related Parties

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

Note 12 - Commitments

The State Investment Board has at June 30, 2011 committed to fund certain alternative investment partnerships for an amount of $957.5 million. Funding of $831.1 million has been provided leaving an unfunded commitment of approximately $126.4 million.

Note 13 - Subsequent Event

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

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

	Total Recovery (April 2011)	Cost Basis	Realized loss
Teachers' Fund for Retirement	$ 23,001	$ 27,080	$ (4,079)
Public Employees Retirement System	26,012	30,626	(4,614)
Bismarck City Employee Pension Plan	503	592	(89)
Bismarck City Police Pension Plan	268	316	(48)
Job Service of ND	1,408	1,657	(249)
City of Fargo Employee Pension Plan	445	524	(79)
Workforce Safety & Insurance	10,616	12,499	(1,883)
State Fire & Tornado	512	603	(91)
State Bonding	51	60	(9)
Risk Mgmt	88	104	(16)
Risk Mgmt Work Comp	63	74	(11)
Insurance Regulatory Trust Fund	16	18	(2)
Petroleum Tank Release Comp Fund	155	182	(27)
ND Ass'n of Counties Fund	54	64	(10)
City of Bismarck Deferred Sick Leave	13	15	(2)
City of Fargo FargoDome Permanent Fund	718	846	(128)
Cultural Endowment Fund	8	10	(2)
Totals	$ 63,931	$ 75,270	$ (11,339)

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

Supplementary Information
June 30, 2011 and 2010

North Dakota Retirement and Investment Office

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

Actuarial Valuation Date July 1	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (Funded Excess)	Funded Ratio	Annual Covered Payroll	UAAL (Funded Excess) as a Percentage of Annual Covered Payroll
2006	$ 1,564.0	$ 2,073.9	$ 509.9	75.4%	$ 390.1	130.7%
2007	1,750.1	2,209.3	459.2	79.2%	401.3	114.4%
2008	1,909.5	2,330.6	421.1	81.9%	417.7	100.8%
2009	1,900.3	2,445.9	545.6	77.7%	440.0	124.0%
2010	1,824.0	2,637.2	795.2	69.8%	465.0	171.0%
2011	1,822.6	2,749.8	927.2	66.3%	488.8	189.7%

Schedule of Employer Contributions
North Dakota Teachers' Fund for Retirement

	GASB 25 Annual Required Contribution (ARC)		Actual Employer Contributions		Percentage of GASB ARC
Fiscal Year	% of Payroll [1]	Amount [2]	% of Payroll	Amount	Contributed
2006	12.12%	$ 48,747,189	7.75%	$ 31,170,851	63.9%
2007	12.29%	50,532,462	7.75%	31,865,466	63.1%
2008	10.15%	44,114,585	7.75%	33,683,550	76.4%
2009	9.24%	41,986,174	8.25%	37,487,655	89.3%
2010	10.78%	52,053,217	8.25%	39,836,646	76.5%
2011	12.79%	65,112,696	8.75%	44,545,433	68.4%

1. The GASB ARC for each fiscal year is based on the actuarial valuation as of the beginning of the year. Therefore, the FY2011 ARC is based on the July 1, 2010 valuation. The ARC is defined as the contribution rate required to pay the employer normal cost and to amortize the unfunded actuarial accrued liability over a 30-year period as a level percentage of payroll, but not less than the statutory contribution rate.

2. The dollar amount of the ARC is based on actual payroll for the year. The FY2011 ARC shown above differs from the estimated dollar amount shown in the July 1, 2010 actuarial valuation report because of differences between estimated and actual FY2011 payroll.

	Pension Pool Participants							Insurance Pool Participants				
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	Job Service of North Dakota	City of Fargo Employee Pension Plan	City of Grand Forks Employee Pension Plan	City of Grand Forks Park District	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund
Assets:												
Investments												
Equities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Equity pool	995,240,541	23,712,109	12,102,820	34,045,099	15,731,052	21,653,520	2,631,436	276,614,917	8,726,017	-	-	1,091,083
Fixed income	-	-	-	-	-	-	-	-	-	-	-	-
Fixed income pool	613,384,678	23,794,464	9,446,289	51,312,435	9,994,515	13,540,681	1,570,107	959,797,550	13,787,108	1,564,810	3,156,371	1,278,589
Real estate pool	101,876,039	5,487,312	2,236,884	-	1,652,748	2,218,302	-	82,953,635	-	-	-	-
Alternative Investments	63,145,098	461,728	653,475	-	1,227,411	1,930,603	173,366	-	-	-	-	-
Cash and cash pool	25,963,000	43,069	45,235	277,745	253,480	3,706,413	43,951	24,396,476	2,542,024	1,309,614	3,233,780	1,295,069
Total investments	1,799,609,356	53,498,682	24,484,703	85,635,279	28,859,206	43,049,519	4,418,860	1,343,762,578	25,055,149	2,874,424	6,390,151	3,664,741
Invested sec lending collateral	-	-	-	-	-	-	-	12,070	360	-	-	42
Investment income receivable	2,740,635	56,732	33,583	169,686	(20,925)	10,033	(479)	7,136,920	127,840	27,011	58,221	8,296
Operating Cash	77,599	-	-	-	-	-	-	54,961	1,383	1,105	1,023	1,114
Miscellaneous receivable	6,247	-	-	-	-	-	-	4,680	94	10	23	4
Total assets	1,802,433,837	53,555,414	24,518,286	85,804,965	28,838,281	43,059,552	4,418,381	1,350,971,209	25,184,826	2,902,550	6,449,418	3,674,197
Liabilities:												
Investment expenses payable	2,039,843	64,472	29,381	82,550	32,467	44,642	4,359	1,095,528	24,553	941	1,930	2,484
Securities lending collateral	-	-	-	-	-	-	-	12,070	360	-	-	42
Accounts payable	29,070	-	-	-	-	-	-	21,778	436	47	108	20
Accrued expenses	26,828	-	-	-	-	-	-	20,376	406	44	121	17
Miscellaneous payable	-	3,190	1,463	5,182	1,759	1,469	250	-	-	-	-	-
Due to other state agencies	612	-	-	-	-	-	-	458	9	1	2	-
Total liabilities	2,096,353	67,662	30,844	87,732	34,226	46,111	4,609	1,150,210	25,764	1,033	2,161	2,563
Net assets held in trust for external investment pool participants	$ 1,800,337,484	$ 53,487,752	$ 24,487,442	$ 85,717,233	$ 28,804,055	$ 43,013,441	$ 4,413,772	$ 1,349,820,999	$ 25,159,062	$ 2,901,517	$ 6,447,257	$ 3,671,634
Each participant unit is valued at $1.00												
Participant units outstanding	1,800,337,484	53,487,752	24,487,442	85,717,233	28,804,055	43,013,441	4,413,772	1,349,820,999	25,159,062	2,901,517	6,447,257	3,671,634

Insurance Pool Participants											Individual Investment Acct.		
Health Care Trust Fund	Cultural Endowment Fund	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n. of Counties Fund	ND Ass'n of Counties Program Savings	PERS Group Insurance	Budget Stabilization Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	DPI Board Certification Fund	PERS Retiree Health Credit Fund	Totals 2011	Totals 2010
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 34,084,756	$ 34,084,756	$ 25,388,750
-	148,223	1,286,697	1,365,059	725,948	-	-	-	260,765	16,617,584	-	-	1,411,952,870	1,091,570,903
-	-	-	-	-	-	-	-	-	-	-	22,935,906	22,935,906	19,519,126
-	101,224	2,775,427	2,238,740	815,286	-	-	279,396,241	571,226	16,490,787	-	-	2,005,016,528	1,923,597,381
-	14,799	-	-	-	-	-	-	-	-	-	-	196,439,719	148,110,369
-	-	-	-	-	-	-	-	-	-	-	-	67,591,681	67,644,154
2,321,739	7,986	218,371	111,576	82,300	-	5,589,665	43,988,795	43,994	336,828	501,441	-	116,312,551	92,525,463
2,321,739	272,232	4,280,495	3,715,375	1,623,534	-	5,589,665	323,385,036	875,985	33,445,199	501,441	57,020,662	3,854,334,011	3,368,356,146
-	7	74	79	37	-	-	-	10	921	-	-	13,600	18,459,367
-	(113)	48,614	5,960	2,007	-	-	2,342,261	1,476	7,229	-	66,816	12,821,803	13,506,243
901	263	1,211	988	-	-	-	12,907	-	-	269	-	153,724	83,285
8	1	15	13	-	-	-	1,135	-	-	2	-	12,232	11,556
2,322,648	272,390	4,330,409	3,722,415	1,625,578	-	5,589,665	325,741,339	877,471	33,453,349	501,712	57,087,478	3,867,335,370	3,400,416,597
-	316	3,945	3,754	1,850	-	-	61,935	821	43,709	-	34,220	3,573,700	3,488,775
-	7	74	79	37	-	-	-	10	921	-	-	13,600	18,459,367
18	5	71	61	-	-	-	2,670	-	-	4	-	54,288	83,430
141	4	65	56	-	-	-	3,539	-	-	4	-	51,601	44,721
-	-	-	-	250	-	250	-	250	2,041	-	1,987	18,091	17,007
1	-	1	1	-	-	-	111	-	-	-	-	1,196	2,254
160	332	4,156	3,951	2,137	-	250	68,255	1,081	46,671	8	36,207	3,712,476	22,095,554
$ 2,322,488	$ 272,058	$ 4,326,253	$ 3,718,464	$ 1,623,441	$ -	$ 5,589,415	$ 325,673,084	$ 876,390	$ 33,406,678	$ 501,704	$ 57,051,271	$ 3,863,622,894	$ 3,378,321,043
2,322,488	272,058	4,326,253	3,718,464	1,623,441	-	5,589,415	325,673,084	876,390	33,406,678	501,704	57,051,271	3,863,622,894	3,378,321,043

	Pension Pool Participants							Insurance Pool Participants				
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	Job Service of North Dakota	City of Fargo Employee Pension Plan	City of Grand Forks Employee Pension Plan	City of Grand Forks Park District	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund
Additions:												
Investment income:												
Net change in fair value of investments	$ 288,857,273	$ 7,976,275	$ 3,805,226	$ 10,200,840	$ 4,700,965	$ 6,821,525	$ 685,078	$ 119,651,617	$ 2,819,526	$ 59,619	$ 150,874	$ 205,758
Interest, dividends and other income	35,540,149	1,176,167	517,733	2,068,491	574,934	818,617	73,134	44,585,328	953,119	83,032	181,494	55,377
	324,397,422	9,152,442	4,322,959	12,269,331	5,275,899	7,640,142	758,212	164,236,945	3,772,645	142,651	332,368	261,135
Less investment expenses	6,420,831	206,459	93,931	277,752	109,591	153,222	16,348	4,749,092	69,740	3,584	7,672	4,543
Net investment income	317,976,591	8,945,983	4,229,028	11,991,579	5,166,308	7,486,920	741,864	159,487,853	3,702,905	139,067	324,696	256,592
Securities lending activity:												
Securities lending income	169,586	4,280	2,062	7,168	2,715	4,026	555	96,712	2,275	212	458	104
Less Securities lending expenses	(18,696)	(523)	(280)	(676)	(347)	(473)	(66)	(23,442)	(1,042)	89	192	(152)
Net securities lending income	188,282	4,803	2,342	7,844	3,062	4,499	621	120,154	3,317	123	266	256
Total Additions	318,164,873	8,950,786	4,231,370	11,999,423	5,169,370	7,491,419	742,485	159,608,007	3,706,222	139,190	324,962	256,848
Deductions:												
Administrative Expenses	483,809	-	-	-	-	-	-	342,676	7,263	994	1,808	1,078
Net change in net assets resulting from operations	317,681,064	8,950,786	4,231,370	11,999,423	5,169,370	7,491,419	742,485	159,265,331	3,698,959	138,196	323,154	255,770
Unit transactions at net asset value of $1 per unit:												
Purchase of units	-	-	-	-	-	3,888,967	265,536	11,000,000	-	-	-	2,500,000
Redemption of units	(27,350,000)	-	-	(3,932,376)	(900,000)	(3,282,102)	(164,603)	(31,500,000)	(4,900,000)	-	(500,000)	(3,200,000)
Net change in net assets and units resulting from unit transactions	(27,350,000)	-	-	(3,932,376)	(900,000)	606,865	100,933	(20,500,000)	(4,900,000)	-	(500,000)	(700,000)
Total change in net assets	290,331,064	8,950,786	4,231,370	8,067,047	4,269,370	8,098,284	843,418	138,765,331	(1,201,041)	138,196	(176,846)	(444,230)
Net assets:												
Beginning of year	1,510,006,420	44,536,966	20,256,072	77,650,186	24,534,685	34,915,157	3,570,354	1,211,055,668	26,360,103	2,763,321	6,624,103	4,115,864
End of year	$ 1,800,337,484	$ 53,487,752	$ 24,487,442	$ 85,717,233	$ 28,804,055	$ 43,013,441	$ 4,413,772	$ 1,349,820,999	$ 25,159,062	$ 2,901,517	$ 6,447,257	$ 3,671,634
	1,800,337,484	53,487,752	24,487,442	85,717,233	28,804,055	43,013,441	4,413,772	1,349,820,999	25,159,062	2,901,517	6,447,257	3,671,634

					Insurance Pool Participants						Individual Investment Acct.		
Health Care Trust Fund	Cultural Endowment Fund	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n of Counties Fund	ND Ass'n of Counties Program Savings	PERS Group Insurance	Budget Stabilization Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	DPI Board Certification Fund	PERS Retiree Health Credit Fund	Totals 2011	Totals 2010
$ -	$ 42,194	$ 395,152	$ 398,292	$ 201,705	$ -	$ -	$ 1,701,753	$ 82,130	$ 4,252,514	$ -	$ 8,481,511	$ 461,489,827	$ 282,514,400
7,374	8,608	158,783	132,097	56,013	-	32,357	10,618,859	35,011	961,003	1,594	1,439,530	100,078,804	95,866,949
7,374	50,802	553,935	530,389	257,718	-	32,357	12,320,612	117,141	5,213,517	1,594	9,921,041	561,568,631	378,381,349
-	959	10,350	9,334	5,432	-	1,000	234,275	3,411	104,374	-	132,724	12,614,624	12,410,744
7,374	49,843	543,585	521,055	252,286	-	31,357	12,086,337	113,730	5,109,143	1,594	9,788,317	548,954,007	365,970,605
-	18	410	338	130	-	-	-	86	2,151	-	-	293,286	332,215
-	(20)	6	(37)	(95)	-	-	-	(25)	(2,767)	-	-	(48,354)	(23,203)
-	38	404	375	225	-	-	-	111	4,918	-	-	341,640	355,418
7,374	49,881	543,989	521,430	252,511	-	31,357	12,086,337	113,841	5,114,061	1,594	9,788,317	549,295,647	366,326,023
987	393	1,193	1,056	-	-	-	55,236	-	-	749	-	897,242	557,361
6,387	49,488	542,796	520,374	252,511	-	31,357	12,031,101	113,841	5,114,061	845	9,788,317	548,398,405	365,768,662
-	-	-	-	796,655	-	190,223,732	-	-	4,000,000	-	2,320,000	214,994,890	355,812,725
-	(10,845)	-	-	(500,000)	(796,655)	(188,700,000)	(11,474,863)	(80,000)	(800,000)	-	-	(278,091,444)	(251,708,186)
-	(10,845)	-	-	296,655	(796,655)	1,523,732	(11,474,863)	(80,000)	3,200,000	-	2,320,000	(63,096,554)	104,104,539
6,387	38,643	542,796	520,374	549,166	(796,655)	1,555,089	556,238	33,841	8,314,061	845	12,108,317	485,301,851	469,873,201
2,316,101	233,415	3,783,457	3,198,090	1,074,275	796,655	4,034,326	325,116,846	842,549	25,092,617	500,859	44,942,954	3,378,321,043	2,908,447,842
$ 2,322,488	$ 272,058	$ 4,326,253	$ 3,718,464	$ 1,623,441	$ -	$ 5,589,415	$ 325,673,084	$ 876,390	$ 33,406,678	$ 501,704	$ 57,051,271	$ 3,863,622,894	$ 3,378,321,043
2,322,488	272,058	4,326,253	3,718,464	1,623,441	-	5,589,415	325,673,084	876,390	33,406,678	501,704	57,051,271	3,863,622,894	

	Pension Trust		Investment Trust	
	2011	2010	2011	2010
Salaries and wages:				
Salaries and wages	$609,564	$571,875	$409,882	$377,965
Fringe benefits	223,493	204,097	106,270	91,551
Total salaries and wages	833,057	775,972	516,152	469,516
Operating expenses:				
Information services	74,221	76,726	10,594	11,160
Intergovernmental services	5,644	4,907	2,087	1,815
Professional services	512,737	345,589	382,628	173,067
Rent of building space	55,018	55,147	21,086	21,086
Mailing services and postage	52,399	54,225	31,648	20,963
Travel and lodging	25,680	22,807	33,831	10,864
Printing	23,125	17,377	9,170	7,953
Office supplies	5,087	4,600	3,369	1,593
Professional development	11,201	6,671	3,173	815
Outside services	7,948	8,501	90,957	2,712
Small office equipment expense	10,900	158	2,115	75
Miscellaneous fees	3,000	3,249	3,867	2,264
Resource and reference materials	507	432	1,411	896
IT contractual services	102,492	110,991	1,982	2,105
Repairs - office equipment	68	0	25	0
Insurance	588	681	218	252
Total operating expenses	890,615	712,061	598,161	257,620
Pension trust portion of investment program expenses	217,070	169,775	(217,070)	(169,775)
Depreciation	62,963	244,988	-	-
Total administrative expenses	2,003,705	1,902,796	897,243	557,361
Less - nonappropriated items:				
Professional fees	512,737	345,589	382,628	173,067
Other operating fees paid under continuing appropriation	22,997	13,357	45,695	26,196
Depreciation	62,963	244,988	-	-
Accrual adjustments to employee benefits	15,457	920	6,295	(6,597)
Total nonappropriated items	614,154	604,854	434,618	192,666
Total appropriated expenditures	$ 1,389,551	$ 1,297,942	$ 462,625	$ 364,695

	Pension Trust		Investment Trust	
	2011	2010	2011	2010
Actuary fees:				
Gabriel, Roeder, Smith & Co.	$ 254,291	$ 196,990	$ -	$ -
Auditing fees:				
Eide Bailly, P.C.	46,768	44,699	23,882	23,001
CliftonGunderson LLC	24,379	-	53,271	-
Total Auditing Fees	71,147	44,699	77,153	23,001
Disability consulting fees:				
Dr. G.M. Lunn	500	300	-	-
Legal fees:				
Calhoun Law Group P.C.	16,348	10,258	-	-
K&L Gates LLP	136,904	71,753	261,400	136,619
Jenner & Block	13,268	-	25,102	-
ND Attorney General	20,279	21,589	18,973	13,447
Total legal fees:	186,799	103,600	305,475	150,066
Total consultant expenses	$ 512,737	$ 345,589	$ 382,628	$ 173,067

	Pension Trust		Investment Trust	
	2011	2010	2011	2010
Investment managers' fees:				
Domestic large cap equity managers	$ 2,137,914	$ 2,505,815	3,200,378	$ 3,656,352
Domestic small cap equity managers	1,224,383	1,115,847	1,701,887	1,703,243
International equity managers	1,354,642	1,074,828	1,401,715	1,208,085
Emerging markets equity managers	1,058,054	1,103,784	1,211,990	1,162,657
Domestic fixed income managers	1,511,673	2,860,668	5,264,491	8,514,977
High yield fixed income managers	2,783,656	2,078,546	2,483,649	1,806,843
Inflation protected assets managers	-	-	1,648,218	1,682,319
International fixed income managers	293,805	329,889	360,280	380,390
Real estate managers	1,952,869	1,900,082	2,224,531	1,713,622
Private equity managers	1,261,507	1,676,361	1,351,879	1,787,378
Enhanced cash managers	-	-	217,963	218,275
Cash & equivalents managers	24,577	16,281	38,069	13,361
Balanced account managers	-	-	224,707	174,464
Total investment managers' fees	13,603,080	14,662,101	21,329,758	24,021,966
Custodian fees	321,522	299,800	606,384	595,896
Investment consultant fees	150,457	87,328	229,819	200,526
SIB Service Fees	-	-	70,980	46,119
Total investment expenses	$ 14,075,059	$ 15,049,229	$ 22,236,940	$ 24,864,507
Securities lending fees	$ (56,544)	$ (87,999)	$ (48,354)	$ (23,203)

Reconciliation of Investment Expenses to Financial Statements

	2011	2010	2011	2010
Investment expenses as reflected in the financial statements	$ 6,430,327	$ 6,234,267	$ 12,614,624	$ 12,410,744
Plus investment management fees included in investment income				
Domestic large cap equity	445,019	817,707	708,369	1,057,567
Domestic small cap equity	858,551	948,784	986,777	1,019,320
International equity	234,358	209,403	275,330	255,569
Emerging markets equity	649,968	670,351	742,194	706,348
Domestic Fixed Income	910,025	2,245,704	2,314,772	5,667,804
High Yield	2,394,957	1,650,648	2,136,880	1,432,378
Inflation protected assets managers	-	-	451,705	221,682
Real Estate	1,020,107	925,840	661,497	562,124
Alternative investments	1,115,854	1,330,244	1,195,895	1,418,817
Enhanced cash managers	-	-	22,674	18,304
Cash equivalents	15,893	16,281	25,401	13,361
Balanced account managers	-	-	100,823	80,489
Investment expenses per schedule	$ 14,075,059	$ 15,049,229	$ 22,236,940	$ 24,864,507

	Approved 2009-2011 Appropriation	2009-2011 Appropriation Adjustment	Adjusted 2009-2011 Appropriation	Fiscal 2010 Expenses	Fiscal 2011 Expenses	Unexpended Appropriations
All Fund Types:						
Salaries and wages	$ 2,674,080	$ -	$ 2,674,080	$ 1,251,165	$ 1,327,457	$ 95,458
Operating expenses	949,570	-	949,570	411,472	442,719	95,379
Contingency	82,000	-	82,000	-	82,000	-
Total	$ 3,705,650	$ -	$ 3,705,650	$ 1,662,637	$ 1,852,176	$ 190,837

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

Reconciliation of Administrative Expenses to Appropriated Expenditures

	2010	2011
Administrative expenses as reflected in the financial statements	2,460,157	2,900,947
Less:		
Professional fees*	(518,657)	(895,365)
Other operating fees paid under continuing appropriations*	(39,552)	(68,691)
Depreciation expense	(244,988)	(62,963)
Changes in annual leave and FICA payments	5,677	(21,752)
Total appropriated expenses	$1,662,637	$1,852,176

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

EideBailly

CPAs & BUSINESS ADVISORS

Special Comments Requested by the Legislative Audit and Fiscal Review Committee
Year Ended June 30, 2011

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

Audit Report Communications

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

   Unqualified

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

   Yes

3. Was internal control adequate and functioning effectively?

   Yes

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

   No

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

   There were no prior year findings or recommendations.

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

   Yes, a separate management letter has been issued and is attached. There were not any recommendations included in the management letter.

1730 Burnt Boat Loop, Ste. 100 | P.O. Box 1914 | Bismarck, ND 58502-1914 | T 701.255.1091 | F 701.224.1582 | EOE

Audit Committee Communications

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

   None

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

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

3. Identify any significant audit adjustments.

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

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

   None

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

   None

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

   None

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

   None

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

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

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

Eide Bailly LLP

Bismarck, North Dakota
November 8, 2011