

**NORTH DAKOTA PUBLIC EMPLOYEES
RETIREMENT SYSTEM**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
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INDEPENDENT AUDITORS' REPORT

Governor Doug Burgum
The Legislative Assembly

Scott Miller, Executive Director
North Dakota Public Employees' Retirement System
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the proprietary fund and each of the individual fiduciary funds of the North Dakota Public Employees' Retirement System (the System), a department of the State of North Dakota, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the proprietary fund and the fiduciary net position of each of the individual fiduciary funds of the System as of June 30, 2018 and 2017, and the respective changes in financial and net position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the System are intended to present the financial position and the changes in financial position of only that portion of the State of North Dakota that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2018, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The schedules of investment expenses, administrative expenses and consulting expenses, and schedule of appropriations (supplementary information), as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2018 with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
November 28, 2018

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

Management's Discussion and Analysis (MD&A) of the North Dakota Public Employees Retirement System's (NDPERS) financial performance provides an overview of the agency's financial activities for the fiscal years ended June 30, 2018 and 2017. Please read it in conjunction with the basic financial statements, which follow this discussion.

NDPERS administers a total of seven fiduciary funds. This includes three defined benefit pension trust funds (PERS, Highway Patrol and Job Service), one defined contribution pension trust fund, the retiree health insurance credit trust fund, the deferred compensation trust fund and pretax benefits trust fund. NDPERS also administers one proprietary fund, the Uniform Group Insurance Program, which is an enterprise fund.

Financial Highlights – Pension and Other Employee Benefit Plans

- As of June 30, 2018 and 2017, the Plan Fiduciary Net Position (FNP) as a percentage of the Total Pension Liability (TPL) for each pension and OPEB fund is shown below:

	<u>2018</u>	<u>2017</u>
Public Employees Retirement System	63.5%	62.7%
Highway Patrolmen Retirement System	80.2%	78.0%
Retirement Plan for Employees of Job Service of ND	140.3%	152.9%
Retiree Health Insurance Credit Fund	61.9%	59.8%

The increase in the FNP as a percentage of the TPL for the Public Employees Retirement System, Highway Patrol Retirement System, and the Retiree Health Insurance Credit Fund was the result of positive investment earnings in the current year. The decrease in the FNP of Job Service of ND was due to changes in the investment return assumption.

- The net position for all trust funds administered by NDPERS increased \$273.5 million or 8.7% during the fiscal year ended June 30, 2018. This increase is primarily due to increased investment earnings as well as increased contributions from members and their employers.

<i>(in thousands)</i>	Change in Net Position
Public Employees Retirement System	\$ 242,345
Highway Patrolmen Retirement System	5,593
Retiree Health Insurance Credit Fund	10,312
Defined Contribution Retirement Fund	2,034
Pretax Benefits Fund	(346)
Deferred Compensation Plan	15,265
Retirement Plan for Employees of Job Service ND	(1,677)
Total Increase in Plan Net Position	<u>\$ 273,526</u>

Financial Highlights – Uniform Group Insurance Program

- Net position decreased by \$8.14 million or 18.6%. The decrease is primarily due to the buydown of premiums

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

Overview of the Financial Statements

The MD&A is intended to serve as an introduction and overview of the basic financial statements for NDPERS, which include the fund financial statements, notes to the financial statements, required supplementary information and other supplementary information.

Financial Statements

There are two financial statements presented for the fiduciary funds. The Statements of Fiduciary Net Position as of June 30, 2018 and 2017 indicate the net position available to pay future benefits and gives a snapshot at a particular point in time. The Statements of Changes in Fiduciary Net Position for the years ended June 30, 2018 and 2017 provide a view of the current year's additions and deductions to the individual trust funds.

There are three financial statements presented for the proprietary fund. The Statements of Net Position as of June 30, 2018 and 2017 provide a snapshot at a particular point in time of the net position available for use by this program. The Statements of Revenues, Expenses, and Changes in Fund Net Position for the years ended June 30, 2018 and 2017, provide a view of the current year's operating and non-operating revenues and expenses for the enterprise fund. The Statements of Cash Flows for the years ended June 30, 2018 and 2017 show the cash used and provided by operating activities as well as the net increase or decrease in cash due to operating and investing activities for the years presented.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 17-53 of this report.

Required supplementary information. The required supplementary information consists of a Schedule of Employer Contributions, Schedule of Changes to the Net Pension Liability and Related Ratios, and Schedule of Investment Returns for the defined benefit pension trust funds, Schedule of Net OPEB Liability and related ratios, Schedule of Employer Contributions and Schedule of Investment Returns for the retiree health insurance credit advance funded plan and a schedule of employer contributions.

Other supplementary schedules. The other supplementary schedules consist of a Schedule of Administrative Expenses, Schedule of Investment Expenses, Schedule of Consultant Expenses and Schedule of Appropriations.

Financial Analysis

The financial results for fiscal years 2018, 2017 and 2016 are summarized on page 5. The information in the tables on the following page are condensed from the Financial Statements.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

Statement of Fiduciary Plan Net Position (condensed, in thousands)

	June 30, 2018	% Change	June 30, 2017	% Change	June 30, 2016
Assets					
Cash	\$ 12,325	14.7%	\$ 10,748	-1.0%	\$ 10,855
Receivables	24,063	20.1%	20,032	-7.8%	21,730
Investments	3,366,923	8.6%	3,099,718	13.1%	2,740,379
Invested Securities Lending Collateral	8,902	-44.1%	15,936	-35.5%	24,703
Software & Equipment, Net of Accumulated Depreciation	1,707	-30.0%	2,437	-23.1%	3,168
Total Assets	3,413,920	8.4%	3,148,871	12.4%	2,800,835
Liabilities					
Long-Term Liabilities	158	-17.3%	191	7.9%	177
Other Liabilities	11,111	-43.2%	19,557	-30.9%	28,304
Total Liabilities	11,269	-42.9%	19,748	-30.7%	28,481
Fiduciary Net Position	\$ 3,402,651	8.7%	\$ 3,129,123	12.9%	\$ 2,772,354

The total assets for all fiduciary funds as of June 30, 2018 were \$3.41 billion and were comprised mostly of investments. For the fiscal year ended June 30, 2018 net position increased \$274 million. The increase was primarily due to financial market gains during the fiscal year. For the fiscal year ended June 30, 2017, net position increased by \$357 million. This increase was primarily due to contributions and financial market gains during the fiscal year.

Total liabilities as of June 30, 2018 decreased \$8.4 million due to a reduction in securities lending collateral. Total liabilities as of June 30, 2017 decreased \$8.8 million over the prior year due to decreases to securities lending collateral.

Statement of Changes in Fiduciary Plan Net Position (condensed, in thousands)

	June 30, 2018	% Change	June 30, 2017	% Change	June 30, 2016
Additions					
Contributions	\$ 193,038	2.7%	\$ 187,956	1.7%	\$ 184,807
Transfers In	2,103	-15.8%	2,498	-89.7%	24,301
Net Investment Income	277,427	-20.8%	350,441	2251.8%	14,901
Other	21,895	62.8%	13,448	27.9%	10,512
Total Additions	494,463	-10.8%	554,343	136.4%	234,521
Deductions					
Benefit Payments	204,373	11.6%	183,070	6.7%	171,585
Transfers Out	716	-6.4%	765	-96.9%	24,297
Refunds	11,250	25.3%	8,981	11.4%	8,060
Administrative Expenses	4,598	-3.4%	4,758	2.4%	4,645
Total Deductions	220,937	11.8%	197,574	-5.3%	208,587
Change in Fiduciary Net Position	\$ 273,526	-23.3%	\$ 356,769	1275.7%	\$ 25,934

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

Additions. Contributions, transfers in and earnings on invested funds are the primary additions that are accumulated and used to pay benefits for each of the plans. Contributions and transfers in, combined, increased by \$4.7 million for the year ended June 30, 2018 and decreased \$18.7 million for the year ended June 30, 2017. This was primarily due to a one-time election in 2016 that allowed participants of the defined contribution plan a three month window to transfer back into the defined benefit plan. The plans experienced positive investment earnings of \$277.4 million for the fiscal year ending June 30, 2018, positive investment earnings of \$350.4 million for the fiscal year ending June 30, 2017, and positive investment earnings of \$14.9 million in 2016. The change in Other Additions for June 30, 2018 and June 30, 2017 is primarily due to an increase in service purchase payments received during each fiscal year.

Deductions. Total deductions increased by \$23.3 million or 11.8% for the fiscal year ended June 30, 2018. Total deductions decreased by \$11.0 million or 5.3% for the fiscal year ended June 30, 2017. This increase was due to an increase in benefit payments, which reflects the increase in the total number of retirees who are receiving pension payments, as well as the significant increase in refunds/transfers. The decrease for the year ended June 30, 2017 in refunds/transfers was due to Senate Bill 2015, which allowed a one-time election for members of the defined contribution plan to move back into the PERS defined benefit plan.

Statement of Proprietary Fund Net Position (in thousands)

	June 30, 2018	% Change	June 30, 2017	% Change	June 30, 2016
Assets					
Cash & Investments	\$ 34,767	-25.7%	\$ 46,785	-2.6%	\$ 48,033
Receivables	5,900	-4.0%	6,145	1750.9%	332
Software	688	-30.0%	983	-23.0%	1,277
Total Assets	41,355	-23.3%	53,913	8.6%	49,642
Liabilities					
Long-Term Liabilities	69	-25.8%	93	2.2%	91
Other Liabilities	5,588	-44.0%	9,981	3.6%	9,638
Total Liabilities	5,657	-43.8%	10,074	3.5%	9,729
Net Position	\$ 35,698	-18.6%	\$ 43,839	9.8%	\$ 39,913

The net position for the proprietary fund decreased by \$8.14 million during the fiscal year ended June 30, 2018. The decrease is primarily due to the buydown of insurance premiums for the year. The net position for the proprietary fund increased by \$3.93 million during the fiscal year ended June 30, 2017. The increase is primarily due to the recognition of the estimated revenue resulting from the suspension of the Health Insurer Tax for the 2017 calendar year.

Total assets, as of June 30, 2018, were \$41.4 million and were comprised mainly of cash and investments. Total assets decreased by \$12.5 million from the prior fiscal year primarily due to the buydown of insurance premiums. Total assets, as of June 30, 2017, were \$53.9 million and were comprised mainly of cash and investments. Total assets increased by \$3.9 million from the prior fiscal year. The increase is primarily due to the recognition of the estimated revenue resulting from the suspension of the Health Insurer Tax for the 2017 calendar year.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

Total liabilities, as of June 30, 2018, were \$5.7 million, \$10.1 million as of June 30, 2017 and \$9.7 million as of June 30, 2016 and were comprised mostly of unearned premiums, which represent premiums received before they are due as well as a liability to Sanford Health Plan as further explained in Note 15. The 2018 liability reduction was primarily due to a \$3.0 million payment to Sanford Health Plan to recognize the at risk loss from the 2015-2017 biennium.

The net position of the proprietary fund consists primarily of cash and is to pay administrative expenses of the uniform group insurance program, reduce premium payments/increases, or increase insurance coverage.

Statement of Changes in Proprietary Fund Net Position (in thousands)

	June 30, 2018	% Change	June 30, 2017	% Change	June 30, 2016
Operating Revenues					
Premium Revenues	\$ 347,623	4.6%	\$ 332,458	-0.7%	\$ 334,889
Administrative Fee	1,100	-2.0%	1,123	-1.3%	1,138
Miscellaneous	(273)	105.7%	4,815	240.1%	(3,438)
Total Operating Revenues	<u>348,450</u>	3.0%	<u>338,396</u>	1.7%	<u>332,589</u>
Non-Operating Revenues					
Net Investment Income	<u>347</u>	250.5%	<u>99</u>	-83.9%	<u>616</u>
Total Revenues	<u>348,797</u>	3.0%	<u>338,495</u>	1.6%	<u>333,205</u>
Operating Expenses					
Premium Expenses	354,958	6.8%	332,393	-0.7%	334,834
Administrative Expenses	1,841	-9.7%	2,038	8.9%	1,871
Total Operating Expenses	<u>356,799</u>	6.7%	<u>334,431</u>	-0.7%	<u>336,705</u>
Non-Operating Expense					
Transfer In	-	-	-	-	1
Transfer Out	<u>138</u>	0.0%	<u>138</u>	-45.9%	<u>255</u>
Change in Net Position	<u>\$ (8,140)</u>	307.3%	<u>\$ 3,926</u>	204.6%	<u>\$ (3,754)</u>
Total Net Position	\$ 35,698	-18.6%	\$ 43,839	9.8%	\$ 39,913

The net position for the proprietary fund decreased by \$8.14 million during the fiscal year ended June 30, 2018. The decrease is primarily due to the buydown of insurance premiums for the year. The net position for the proprietary fund increased by \$3.93 million during the fiscal year ended June 30, 2017. The increase is primarily due to the recognition of the estimated revenue resulting from the suspension of the Health Insurer Tax for the 2017 calendar year. The net position for the proprietary fund decreased by \$3.75 million during the fiscal year ended June 30, 2016. The decrease was primarily due to operating expenses exceeding operating revenues as well as a settlement of ACA fees with Blue Cross Blue Shield of North Dakota.

Contacting NDPERS Financial Management

This financial report is designed to provide our members, annuitants, employers, business partners and the general public with a general overview of the System's financial activities. If you have questions about this report or need additional financial information, contact the North Dakota Public Employees Retirement System, PO Box 1657, Bismarck, ND 58502.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2018 AND 2017**

	Uniform Group Insurance Program	
	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,164,129	\$ 9,074,314
Invested Cash	1,718,681	1,772,954
Commingled Domestic Fixed Income Investments	29,883,918	35,938,094
Accounts Receivable	5,900,124	6,117,866
Due from Fiduciary Funds	-	27,612
Total Current Assets	40,666,852	52,930,840
NONCURRENT ASSETS		
Capital Assets (Net of Depreciation/Amortization)	688,116	982,693
Total Noncurrent Assets	688,116	982,693
Total Assets	41,354,968	53,913,533
LIABILITIES		
CURRENT LIABILITIES		
Salaries Payable	84,041	85,583
Accounts Payable	98,693	103,933
Due to Sanford Health Plan	-	3,000,000
Due to Blue Cross Blue Shield of ND	-	1,195,703
Due to Fiduciary Funds	17,589	49,490
Due to Other State Agencies	9,746	6,668
Unearned Premiums	5,371,844	5,532,355
Accrued Compensated Absences	6,328	7,395
Total Current Liabilities	5,588,241	9,981,127
NONCURRENT LIABILITIES		
Accrued Compensated Absences	68,741	92,938
Total Liabilities	5,656,982	10,074,065
NET POSITION		
Net Investment in Capital Assets	688,116	982,693
Restricted for Benefits	-	6,000,000
Unrestricted Net Position	35,009,870	36,856,775
Total Net Position	\$ 35,697,986	\$ 43,839,468

See accompanying notes to financial statements.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
YEARS ENDED JUNE 30, 2018 AND 2017**

	Uniform Group Insurance Program	
	2018	2017
OPERATING REVENUES		
Premium Revenues	\$ 347,622,544	\$ 332,458,367
Administrative Fee	1,099,541	1,122,554
Underwriting Gain (Loss)	(306,283)	4,813,487
Miscellaneous	32,500	732
Total Operating Revenues	348,448,302	338,395,140
OPERATING EXPENSES		
Premium Expenses	354,958,012	332,392,809
Salaries and Wages	984,320	951,768
Operating Expenses	339,152	495,618
Professional Fees	144,166	230,689
Data Processing	79,270	65,397
Amortization	294,577	294,577
Total Operating Expenses	356,799,497	334,430,858
Operating Income (Loss)	(8,351,195)	3,964,282
NON-OPERATING REVENUES AND EXPENSES		
Investment Income	387,835	205,720
Investment Expenses	(40,622)	(106,491)
Total Non-Operating Revenues and Expenses	347,213	99,229
INCOME (LOSS) BEFORE TRANSFERS	(8,003,982)	4,063,511
TRANSFERS OUT	137,500	137,500
Change in Net Position	(8,141,482)	3,926,011
Total Net Position - Beginning of Year	43,839,468	39,913,457
TOTAL NET POSITION - END OF YEAR	\$ 35,697,986	\$ 43,839,468

See accompanying notes to financial statements.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
YEARS ENDED JUNE 30, 2018 AND 2017**

	Uniform Group Insurance Program	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums Collected	\$ 347,622,544	\$ 332,458,367
Administrative Fees Collected	1,184,384	1,327,607
Payments to Suppliers	(1,792,354)	(474,495)
Premiums Paid	(354,958,012)	(332,392,809)
Payments to Employees	(1,011,126)	(940,314)
Underwriting Gain (Loss)	(3,306,283)	(1,188,559)
Miscellaneous Income	32,500	732
Net Cash Provided (Used) by Operating Activities	(12,228,347)	(1,209,471)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Purchase of Investments	6,054,176	(2,339,645)
Investment Income	387,835	205,720
Investment Expense	(40,622)	(106,491)
Net Cash Used by Investing Activities	6,401,389	(2,240,416)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers Out	(137,500)	(137,500)
Net Cash Used by Capital Financing Activities	(137,500)	(137,500)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(5,964,458)	(3,587,387)
Cash and Cash Equivalents - Beginning of Year	10,847,268	14,434,655
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,882,810	\$ 10,847,268
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (8,351,195)	\$ 3,964,282
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Amortization	294,577	294,577
Changes in Assets and Liabilities:		
Accounts Receivable	217,742	(5,799,369)
Due from Other Funds	27,612	(14,287)
Salaries Payable	(1,542)	8,673
Accrued Compensated Absences	(25,264)	2,781
Accounts Payable	(4,200,943)	632,748
Due to Fiduciary Funds	(31,901)	(310,889)
Due to Other State Agencies	3,078	(4,650)
Amounts Held in Custody for Others	(160,511)	16,663
Net Cash Provided (Used) by Operating Activities	\$ (12,228,347)	\$ (1,209,471)

See accompanying notes to financial statements.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Services North Dakota
ASSETS							
Cash	\$ 11,301,737	\$ -	\$ 526,059	\$ 125,905	\$ 138,135	\$ 228,794	\$ 4,132
Receivables:							
Contribution Receivable	14,193,652	559	1,107,605	103,758	503,151	1,595,964	2,430
Interest Receivable	6,296,252	168,481	35	-	-	-	434
Due from Other Fiduciary Funds	34,500	6,051	29,999	1,638	-	-	-
Due from Uniform Group Insurance Plan	17,589	-	-	-	-	-	-
Due from Other State Agencies	100	-	311	-	-	-	-
Total Receivables	<u>20,542,093</u>	<u>175,091</u>	<u>1,137,950</u>	<u>105,396</u>	<u>503,151</u>	<u>1,595,964</u>	<u>2,864</u>
Investments:							
External Investment Pool	2,939,020,149	78,746,199	-	-	-	-	-
Equities	-	-	76,081,795	-	-	-	30,038,541
Fixed Income	-	-	50,509,228	350,449	-	1,885,593	65,651,495
Mutual Funds	-	-	-	13,542,358	-	109,612,228	-
Invested Cash	-	-	14,147	141,938	-	1,328,716	-
Total Investments	<u>2,939,020,149</u>	<u>78,746,199</u>	<u>126,605,170</u>	<u>14,034,745</u>	<u>-</u>	<u>112,826,537</u>	<u>95,690,036</u>
Invested Securities Lending Collateral	8,669,464	232,284	-	-	-	-	-
Capital Assets (Net of Depreciation/Amortization)	<u>911,390</u>	<u>8,269</u>	<u>87,587</u>	<u>6,217</u>	<u>229,372</u>	<u>458,744</u>	<u>5,316</u>
Total Assets	<u>2,980,444,833</u>	<u>79,161,843</u>	<u>128,356,766</u>	<u>14,272,263</u>	<u>870,658</u>	<u>115,110,039</u>	<u>95,702,348</u>

See accompanying notes to financial statements.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Services North Dakota
LIABILITIES							
Salaries Payable	\$ 103,777	\$ -	\$ -	\$ -	\$ 20,855	\$ 37,344	\$ -
Accounts Payable	1,343,043	559	450,784	108	21,075	22,291	79,737
Due to Other Fiduciary Funds	37,688	-	-	-	-	-	34,500
Due to Uniform Group Insurance Plan	-	-	-	-	-	-	-
Due to Other State Agencies	14,053	-	-	99	2,793	5,305	-
Amounts Held in Custody for Others	-	-	-	-	-	35,514	-
Securities Lending Collateral	8,669,464	232,284	-	-	-	-	-
Accrued Compensated Absences	96,532	-	-	-	20,868	40,861	-
Total Liabilities	10,264,557	232,843	450,784	207	65,591	141,315	114,237
FIDUCIARY NET POSITION							
Restricted for Pensions	2,970,180,276	78,929,000	-	14,272,056	-	114,968,724	95,588,111
Restricted for Postemployment Healthcare Benefits	-	-	127,905,982	-	-	-	-
Restricted for Pretax Benefits	-	-	-	-	805,067	-	-
Total Fiduciary Net Position Held in Trust	\$ 2,970,180,276	\$ 78,929,000	\$ 127,905,982	\$ 14,272,056	\$ 805,067	\$ 114,968,724	\$ 95,588,111

See accompanying notes to financial statements.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Services North Dakota
ASSETS							
Cash	\$ 9,176,368	\$ -	\$ 873,447	\$ 96,893	\$ 398,792	\$ 198,573	\$ 4,420
Receivables:							
Contribution Receivable	11,982,917	2,911	920,743	88,061	496,062	862,936	2,909
Interest Receivable	5,163,165	139,681	21	-	-	-	178
Due from Other Fiduciary Funds	190,307	-	76,323	25,004	-	28,308	-
Due from Uniform Group Insurance Plan	49,490	-	-	-	-	-	-
Due from Other State Agencies	2,320	-	318	-	-	-	-
Total Receivables	<u>17,388,199</u>	<u>142,592</u>	<u>997,405</u>	<u>113,065</u>	<u>496,062</u>	<u>891,244</u>	<u>3,087</u>
Investments:							
External Investment Pool	2,702,830,591	73,219,962	-	-	-	-	-
Equities	-	-	70,214,197	-	-	-	29,008,736
Fixed Income	-	-	45,921,116	205,457	-	1,666,744	68,323,905
Mutual Funds	-	-	-	11,775,773	-	95,946,792	-
Invested Cash	-	-	15,613	60,017	-	529,302	-
Total Investments	<u>2,702,830,591</u>	<u>73,219,962</u>	<u>116,150,926</u>	<u>12,041,247</u>	<u>-</u>	<u>98,142,838</u>	<u>97,332,641</u>
Invested Securities Lending Collateral	15,515,708	420,268	-	-	-	-	-
Capital Assets (Net of Depreciation/Amortization)	<u>1,301,494</u>	<u>11,716</u>	<u>125,041</u>	<u>8,889</u>	<u>327,564</u>	<u>655,129</u>	<u>7,605</u>
Total assets	<u>2,746,212,360</u>	<u>73,794,538</u>	<u>118,146,819</u>	<u>12,260,094</u>	<u>1,222,418</u>	<u>99,887,784</u>	<u>97,347,753</u>

See accompanying notes to financial statements.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Services North Dakota
LIABILITIES							
Salaries Payable	\$ 108,984	\$ -	\$ -	\$ -	\$ 22,122	\$ 40,417	\$ -
Accounts Payable	2,499,120	559	376,785	21,603	18,937	46,923	77,180
Due to Other Fiduciary Funds	101,327	37,395	176,048	10	-	-	5,162
Due to Uniform Group Insurance Plan	27,316	-	296	-	-	-	-
Due to Other State Agencies	9,527	-	-	628	1,668	3,138	-
Amounts Held in Custody for Others	-	-	-	-	-	45,933	-
Securities Lending Collateral	15,515,708	420,268	-	-	-	-	-
Accrued Compensated Absences	114,789	-	-	-	28,563	47,798	-
Total Liabilities	18,376,771	458,222	553,129	22,241	71,290	184,209	82,342
FIDUCIARY NET POSITION							
Restricted for pensions	2,727,835,589	73,336,316	-	12,237,853	-	99,703,575	97,265,411
Restricted for Postemployment Healthcare Benefits	-	-	117,593,690	-	-	-	-
Restricted for Pretax Benefits	-	-	-	-	1,151,128	-	-
Total Fiduciary Net Position Held in Trust	\$ 2,727,835,589	\$ 73,336,316	\$ 117,593,690	\$ 12,237,853	\$ 1,151,128	\$ 99,703,575	\$ 97,265,411

See accompanying notes to financial statements.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Services North Dakota
ADDITIONS							
Contributions:							
From Employer	\$ 80,727,209	\$ 2,152,970	\$ 12,834,547	\$ 512,791	\$ -	\$ -	\$ -
From Employee	77,486,189	1,453,533	15,984	510,092	5,532,591	11,779,485	32,987
Transfers from Other Plans	-	-	-	53,227	-	662,500	-
From External Plans	-	-	-	2,345	-	1,385,416	-
Total Contributions	<u>158,213,398</u>	<u>3,606,503</u>	<u>12,850,531</u>	<u>1,078,455</u>	<u>5,532,591</u>	<u>13,827,401</u>	<u>32,987</u>
Investment Income:							
Net Change in Fair Value of Investments	190,968,511	5,146,945	5,447,995	518,566	-	9,100,025	416,382
Interest and Dividends	64,856,972	1,747,053	3,142,489	660,676	470	145,398	2,739,029
Less Investment Expense	<u>(6,881,838)</u>	<u>(183,453)</u>	<u>(379,586)</u>	<u>(9,325)</u>	-	-	<u>(236,826)</u>
Net Investment Income	<u>248,943,645</u>	<u>6,710,545</u>	<u>8,210,898</u>	<u>1,169,917</u>	<u>470</u>	<u>9,245,423</u>	<u>2,918,585</u>
Securities Lending Activity							
Securities Lending Income	221,536	5,980	-	-	-	-	-
Repurchase Service Credit	19,984,972	281,573	746,942	-	-	-	-
FICA Tax Savings	-	-	-	-	758,280	-	-
Transfer from Proprietary Fund	-	-	-	-	-	137,500	-
Miscellaneous Income (Expense)	<u>(24,440)</u>	<u>(187)</u>	<u>225</u>	<u>9,062</u>	-	<u>(94)</u>	-
Total Additions	<u>427,339,111</u>	<u>10,604,414</u>	<u>21,808,596</u>	<u>2,257,434</u>	<u>6,291,341</u>	<u>23,210,230</u>	<u>2,951,572</u>
DEDUCTIONS							
Benefits Paid to Participants	171,171,449	4,893,808	-	211,902	5,508,356	6,992,376	4,582,577
Refunds	11,159,487	87,569	2,685	-	-	-	-
Prefunded Credit Applied	-	-	11,013,375	-	-	-	-
Health Premium Paid	-	-	-	-	-	-	-
Transfers to Other Plans	190,727	-	-	-	525,000	-	-
	<u>182,521,663</u>	<u>4,981,377</u>	<u>11,016,060</u>	<u>211,902</u>	<u>6,033,356</u>	<u>6,992,376</u>	<u>4,582,577</u>
Administrative Expenses	2,472,761	30,353	480,244	11,329	604,046	952,705	46,295
Total Deductions	<u>184,994,424</u>	<u>5,011,730</u>	<u>11,496,304</u>	<u>223,231</u>	<u>6,637,402</u>	<u>7,945,081</u>	<u>4,628,872</u>
CHANGE IN FIDUCIARY NET POSITION	<u>242,344,687</u>	<u>5,592,684</u>	<u>10,312,292</u>	<u>2,034,203</u>	<u>(346,061)</u>	<u>15,265,149</u>	<u>(1,677,300)</u>
Net Position - Beginning of Year	2,727,835,589	73,336,316	117,593,690	12,237,853	1,151,128	99,703,575	97,265,411
FIDUCIARY NET POSITION - END OF YEAR	<u>\$ 2,970,180,276</u>	<u>\$ 78,929,000</u>	<u>\$ 127,905,982</u>	<u>\$ 14,272,056</u>	<u>\$ 805,067</u>	<u>\$ 114,968,724</u>	<u>\$ 95,588,111</u>

See accompanying notes to financial statements.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Services North Dakota
ADDITIONS							
Contributions:							
From Employer	\$ 78,933,571	\$ 2,155,944	\$ 12,575,627	\$ 446,771	\$ -	\$ -	\$ -
From Employee	76,007,456	1,455,540	16,173	433,298	5,591,603	10,300,452	39,417
Transfers from Other Plans	-	-	-	102,109	-	662,500	-
From External Plans	-	-	-	1	-	1,733,287	-
Total Contributions	<u>154,941,027</u>	<u>3,611,484</u>	<u>12,591,800</u>	<u>982,179</u>	<u>5,591,603</u>	<u>12,696,239</u>	<u>39,417</u>
Investment income:							
Net Change in Fair Value of Investments	259,040,633	7,062,272	10,061,109	(615,855)	-	11,388,136	3,337,293
Interest and Dividends	59,994,114	1,635,278	2,348,733	2,101,532	447	471	2,187,163
Less Investment Expense	<u>(7,492,083)</u>	<u>(203,156)</u>	<u>(335,760)</u>	<u>(6,822)</u>	<u>-</u>	<u>-</u>	<u>(285,579)</u>
Net Investment Income	<u>311,542,664</u>	<u>8,494,394</u>	<u>12,074,082</u>	<u>1,478,855</u>	<u>447</u>	<u>11,388,607</u>	<u>5,238,877</u>
Securities Lending Activity							
Securities Lending Income	218,199	5,958	-	-	-	-	-
Repurchase Service Credit	11,805,070	249,436	464,323	-	-	-	-
FICA Tax Savings	-	-	-	-	749,413	-	-
Transfer from Proprietary Fund	-	-	-	-	-	137,500	-
Miscellaneous Income	32,183	221	-	6,822	-	2,500	-
Total Additions	<u>478,539,143</u>	<u>12,361,493</u>	<u>25,130,205</u>	<u>2,467,856</u>	<u>6,341,463</u>	<u>24,224,846</u>	<u>5,278,294</u>
DEDUCTIONS							
Benefits Paid to Participants	153,811,029	4,768,596	-	1,348,222	5,624,239	2,972,177	4,534,153
Refunds	8,941,330	37,723	1,689	-	-	-	-
Prefunded Credit Applied	-	-	10,012,681	-	-	-	-
Health Premium Paid	-	-	-	-	-	-	-
Transfers to Other Plans	239,609	-	-	-	525,000	-	-
	<u>162,991,968</u>	<u>4,806,319</u>	<u>10,014,370</u>	<u>1,348,222</u>	<u>6,149,239</u>	<u>2,972,177</u>	<u>4,534,153</u>
Administrative Expenses	2,607,243	30,195	443,220	34,491	612,371	1,017,297	12,684
Total Deductions	<u>165,599,211</u>	<u>4,836,514</u>	<u>10,457,590</u>	<u>1,382,713</u>	<u>6,761,610</u>	<u>3,989,474</u>	<u>4,546,837</u>
CHANGE IN NET POSITION	<u>312,939,932</u>	<u>7,524,979</u>	<u>14,672,615</u>	<u>1,085,143</u>	<u>(420,147)</u>	<u>20,235,372</u>	<u>731,457</u>
Net Position - Beginning of Year	2,414,895,657	65,811,337	102,921,075	11,152,710	1,571,275	79,468,203	96,533,954
NET POSITION - END OF YEAR	<u>\$ 2,727,835,589</u>	<u>\$ 73,336,316</u>	<u>\$ 117,593,690</u>	<u>\$ 12,237,853</u>	<u>\$ 1,151,128</u>	<u>\$ 99,703,575</u>	<u>\$ 97,265,411</u>

See accompanying notes to financial statements.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Public Employees Retirement System (System) is an agency of the State of North Dakota, operating through the legislative authority of North Dakota Century Code 54-52-03. As a state agency, the System is considered to be a department of the State of North Dakota and is included in the State's Comprehensive Annual Financial Report as a pension trust fund, except for the uniform group insurance program, which is reported as a proprietary fund.

The System is governed by a nine-member board, five of the members are appointed and the remaining four are elected by the participants of the retirement plans.

The System administers three defined benefit pension plans and one defined contribution retirement plan. The System also manages and administers the retiree health insurance credit program, the uniform group insurance program, the deferred compensation program and the pretax benefits program.

For financial reporting purposes, the System has included all funds, and has considered all potential component units for which the System is financially accountable, and other organizations for which the nature and significance of their relationship with the System are such that exclusion would cause the System's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) 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 the System 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 the System.

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

Fund Financial Statements

The System's only non-fiduciary activity is the administration and management of the uniform group insurance program. This program is an enterprise fund that relies to a significant extent on fees and charges for support and is shown in the separate proprietary fund financial statements.

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities with the difference reported as net position. Net position is reported as restricted for benefits which result when constraints on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

All other activities of the system are pension and other employee benefit trust funds and are shown in the separate fiduciary fund financial statements.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the System 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 proprietary and fiduciary funds on the statements of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The proprietary fund is used to account for the operations of the Uniform Group Insurance Program. The System has been given the responsibility to manage this public entity risk pool. The Uniform Group Insurance Program is a risk sharing pool that provides the employees of the State of North Dakota, or any of its political subdivisions, institutions, departments, or agencies, economies of scale in purchasing health, life, dental, vision, and long-term care insurance.

The fiduciary funds consists of the pension and other employee benefit trust funds that are used to account for assets held by the department in a trust capacity. These include:

Public Employees Retirement System – a cost-sharing multiple-employer defined benefit retirement plan.

Highway Patrolmen’s Retirement System – a single-employer defined benefit retirement plan.

Defined Contribution Retirement Plan – an optional defined contribution retirement plan available to state employees.

Retiree Health Insurance Credit Fund – a cost-sharing multiple employer other post-employment benefit (OPEB) plan that offsets the members’ cost of health insurance during their retirement

Pretax Benefits Program – allows eligible employees to elect to reduce their salaries to pay for eligible dependent care and medical expenses.

Deferred Compensation Plan – voluntary, supplemental retirement plan provided in accordance with Section 457 of the Internal Revenue Code.

Retirement Plan for Employees of Job Service North Dakota – a single-employer defined benefit retirement plan.

The System follows the pronouncements of the GASB, which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America for governmental entities.

The proprietary fund is accounted for on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred, regardless of the timing of related cash flows. The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the proprietary fund are premiums and administrative fees charged to the participants in the Uniform Group Insurance Program and underwriting gains and losses. Operating expenses include premiums, salaries and wages, and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The fiduciary funds are accounted for on the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan 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 terms of each system.

Budgetary Process

The System operates through a biennial appropriation provided by the State Legislature. The System prepares a biennial budget on the modified accrual basis, which is included in the Governor's budget and presented to the General Assembly at the beginning of each legislative session. The General Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. Before signing the appropriation bills, the Governor has line item veto powers over legislation, subject to legislative override. Once passed and signed, the appropriation becomes the system's financial plan for the next two years. Changes to the appropriation are subject to approval by the Emergency Commission.

The Schedule of Appropriations has been prepared using the accrual basis of accounting. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under the North Dakota Century Code (NDCC), Section 54-44.1-11. Expenditures not subject to appropriation of a specific amount include premium expenses, professional fees, depreciation and amortization expense, benefits and refunds paid to participants, prefunded credits applied, and employee reimbursements in the Pretax Benefits Program.

There were no supplemental appropriations during the fiscal years ending June 30, 2018 and 2017. The legal level of budgetary control is at the appropriation and expenditure line item level, with administrative controls established at lower levels of detail in certain instances.

Investment Valuation and Income Recognition

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. Investments in the external investment pool are stated at fair value, which is the same as the value of the pool shares.

The net change in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment sold. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current fiscal year were included as a change in the fair value of investments reported in the prior year(s) and the current year. Unrealized gains and losses are computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 System’s investment policy allows 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 fiduciary net position.

Accounts Receivable and Credit Policy

Accounts receivable primarily include amounts due for contributions, insurance premiums, employee pretax benefit deductions, and accrued interest on investments. Management reviews all receivables at year-end and assesses collectability. All remaining receivables are considered collectible.

Capital Assets and Depreciation

Capital assets, which include equipment and intangibles (software) are presented in the accompanying financial statements at cost or estimated historical cost. Donated capital assets are stated at fair value at the time of donation. Capital assets acquired via lease agreements are capitalized at the inception of the agreement. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. For the years ending June 30, 2018 and 2017, the System capitalized equipment and software in accordance with Section 54-27-21 of the North Dakota Century Code.

The capital assets are depreciated on a straight-line basis over estimated useful lives ranging from five to 10 years.

Accrued Compensated Absences

Annual leave is a part of permanent employees’ compensation as set forth in Section 54-06-14 of the North Dakota Century Code. Employees are entitled to earn annual leave based on tenure of employment, within a range of a minimum of one working day per month of employment, to a maximum of two working days per month of employment, to be fixed by rules and regulations adopted by the employing unit. No more than 240 hours of annual leave may be carried forward beyond April 30th of each year. Employees are paid for unused annual leave upon termination or retirement. Permanent employees accrue sick leave from the first day of employment at the rate of eight hours per month with unlimited accumulation. Employees with at least 10 years of state employment are paid one-tenth of their accumulated sick leave under Section 54-06-14 of the North Dakota Century Code when the employee leaves the employ of the state.

The System’s liability for accumulated unpaid leave is reported in the applicable funds.

Amounts Held in Custody for Others

Amounts held in custody for others includes monies collected from participating employers for deferred compensation contributions that had not been forwarded to the investment provider company as of June 30.

Unearned Premiums

Unearned premiums include monies collected by the System from individuals or participating employers for insurance premiums before the premiums are due.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transfers to/from Other Plans

Transfers to/from other plans consist of monies transferred from the Public Employees Retirement System Defined Benefit Plan to the Defined Contribution Retirement Plan pursuant to Section 54-52.6 Subsection 3 of the North Dakota Century Code. Each eligible employee who elects to terminate membership in the Defined Benefit Plan has a lump sum amount transferred to the participating member's account under the Defined Contribution Retirement Plan. For new employees electing to transfer to the Defined Contribution Retirement Plan, the lump sum transferred is the actual employee and employer contributions plus interest. In 2018 and 2017, transfers to other plans also includes operating transfers from the pretax benefits program, retirement plan, and insurance plan to the deferred compensation plan to cover general administrative expenses.

Restricted Net Position

Net position restricted for benefits consists of funds on deposit with Sanford Health Plan to pay health care benefits in the event total claims incurred during the biennium exceed total premiums. See Note 15 for additional discussion on the status of open contracts.

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. The System 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 position.

Adoption of New Accounting Standard

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans other than Pension Plans, was issued and is effective for periods beginning after June 15, 2016. This statement establishes standard of financial reporting for separately issued financial reports and specifies the required approach to measuring the OPEB liability of employer and non-employer contributing entities for benefits provided through the OPEB plan (net OPEB liability). The System implemented GASB 74 for the fiscal year ended June 30, 2017.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 2 DEPOSITS AND INVESTMENTS

Fair Value Measurement

The System's investments in the Defined Contribution Retirement Plan and Deferred Compensation Plan are measured and reported at fair value, and are classified according to the following hierarchy:

Level 1 – Investments that represent unadjusted quoted prices for identical instruments in active markets

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

Level 3 – Investments are based on valuation techniques in which significant inputs are unobservable.

Defined Contribution Retirement Fund

		<u>June 30, 2018</u>			
		<u>June 30, 2018</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments at Fair Value					
Mutual Funds	\$ 13,542,358	\$ 13,542,358	\$ -	\$ -	
Investments at Contract Value					
Fixed Income	350,449				
Investments at Amortized Cost					
Invested Cash	141,938				
Total Investments	<u>\$ 14,034,745</u>				
		<u>June 30, 2017</u>			
		<u>June 30, 2017</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments at Fair Value					
Mutual Funds	\$ 11,775,773	\$ 11,775,773	\$ -	\$ -	
Investments at Contract Value					
Fixed Income	205,457				
Investments at Amortized Cost					
Invested Cash	60,017				
Total Investments	<u>\$ 12,041,247</u>				

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Deferred Compensation Plan

June 30, 2018				
	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments at Fair Value				
Mutual Funds	\$ 109,612,228	\$ 109,612,228	\$ -	\$ -
Investments at Contract Value				
Fixed Income	1,885,593			
Investments at Amortized Cost				
Invested Cash	1,328,716			
Total Investments	\$ 112,826,537			

June 30, 2017				
	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments at Fair Value				
Mutual Funds	\$ 95,946,792	\$ 95,946,792	\$ -	\$ -
Investments at Contract Value				
Fixed Income	1,666,744			
Investments at Amortized Cost				
Invested Cash	529,302			
Total Investments	\$ 98,142,838			

Investments Measured at the Net Asset Value – Proprietary Fund

	June 30, 2018
Commingled Domestic Fixed Income	\$ 29,883,918
	June 30, 2017
Commingled Domestic Fixed Income	\$ 35,938,094

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments Measured at the Net Asset Value – Fiduciary Funds

	June 30, 2018			
	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Retirement Plan for Employees of Job Services North Dakota
Commingled External Investment Pools	\$ 2,939,020,149	\$ 78,746,199	\$ -	\$ -
Commingled Equities	-	-	76,081,795	30,038,541
Commingled Fixed Income	-	-	50,509,228	65,651,495
Total Investments Measured at the Net Asset Value	<u>\$ 2,939,020,149</u>	<u>\$ 78,746,199</u>	<u>\$ 126,591,023</u>	<u>\$ 95,690,036</u>
	June 30, 2017			
	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Retirement Plan for Employees of Job Services North Dakota
Commingled External Investment Pools	\$ 2,702,830,591	\$ 73,219,962	\$ -	\$ -
Commingled Equities	-	-	70,214,197	29,008,736
Commingled Fixed Income	-	-	45,921,116	68,323,905
Total Investments Measured at the Net Asset Value	<u>\$ 2,702,830,591</u>	<u>\$ 73,219,962</u>	<u>\$ 116,135,313</u>	<u>\$ 97,332,641</u>

Net Asset Value Measurement

The System's investments in the Uniform Group Insurance Program are held in an external investment pool with the North Dakota Retirement and Investment Office and are valued at Net Asset Value (NAV). The System's investments in commingled cash are valued at amortized cost. There are no unfunded commitments and the plan may redeem investments daily with a one day redemption notice period.

The System's investments in the Public Employees Retirement System and Highway Patrol Retirement System are held in an external investment pool with the North Dakota Retirement and Investment Office and are valued at Net Asset Value (NAV). There are no unfunded commitments and the plan may redeem investments daily with a one day redemption notice period.

The System's investments in the Retiree Health Insurance Credit Fund are directly managed and held in an individual investment account with the North Dakota Retirement and Investment Office and are valued at NAV as of June 30, 2018 and 2017. There are no unfunded commitments and the plan may redeem investments daily with a one day redemption notice period. For the year ended June 30, 2018 and 2017, the Retirement Plan for Employees of Job Service of North Dakota's investments were held in an external investment pool with the North Dakota Retirement and Investment Office and are valued at Net Asset Value (NAV). There were no unfunded commitments and the plan may redeem investments daily with a one day redemption notice period.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits

According to North Dakota Century Code 21-04-01, the System is required to bank at the state-owned and operated Bank of North Dakota. The System receives interest for funds on deposit in all accounts.

Cash and cash equivalents for reporting purposes, includes cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes investments with original maturity of three months or less.

	<u>2018</u>	<u>2017</u>
Cash Deposits at the Bank of North Dakota Recorded as Cash and Cash Equivalents	\$ 13,151,543	\$ 11,784,029
Cash Deposits at State Treasury Recorded as Cash and Cash Equivalents	2,061,248	1,803,651
Cash Held by the North Dakota Retirement and Investment Office Recorded as Cash and Cash Equivalents	1,731,894	1,772,954
Guaranteed Investment Contract with Health Plan Provider Recorded as Cash and Cash Equivalents	<u>271,807</u>	<u>6,235,127</u>
Total Cash and Cash Equivalents	<u>\$ 17,216,492</u>	<u>\$ 21,595,761</u>

Custodial Risk

For deposits, custodial risk is the risk that in the event of the failure of a depository financial institution, the System will not be able to recover the deposits. The System does not have a formal policy that limits custodial risk for deposits. Deposits at the Bank of North Dakota and the State Treasury are uncollateralized but are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

At June 30, 2018 and 2017, the carrying amount of the System's cash deposits were \$47,100,410 and \$57,533,856, and the bank balances were \$47,059,234 and \$57,489,648. All of the System's deposits are uncollateralized and uninsured at June 30, 2018 and 2017.

Investments

Total investments of the fiduciary funds of the System as of June 30, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Equity Securities	\$ 1,768,215,753	\$ 1,644,548,349
Fixed Income Securities	828,957,587	747,408,730
Real Estate	523,555,401	504,434,723
Alternative Investments	96,041,062	83,862,751
Mutual Funds	123,154,586	107,722,565
Invested Cash	26,998,447	11,741,087
Invested Securities Lending Collateral	8,901,748	15,935,976
	<u>\$ 3,375,824,584</u>	<u>\$ 3,115,654,181</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

All investments of the fund, except for the Defined Contribution Retirement Plan and Deferred Compensation Plan, are to be made by the North Dakota State Investment Board (SIB). Chapter 21-10-07 of the North Dakota Century Code requires that all investments made by this state agency, be made using the prudent investor rule.

Investments of the Defined Contribution Retirement Plan and the Deferred Compensation Plan are participant directed and are held by TIAA.

The System's Board is responsible for establishing the investment policy for the fund assets, which includes setting investment goals and specifying the percentage of assets to be invested in various types of investments. The investment goals are viewed over the long term. The Board recognizes the plans' performance objectives, benefit projections, and capital market expectations when determining the asset allocation. The SIB is responsible for managing the System's investments in accordance with the investment policy. The following were the System's asset allocation policies for the Public Employees Retirement System, Highway Patrolmen's Retirement System, Retirement Plan for Employees of Job Service of North Dakota, and Retiree Health Insurance Credit Fund as of June 30, 2018 and 2017:

Asset Class	Target Allocation		
	PERS & HPRS	JSND	RHIC
Domestic Equities	30.00%	18.00%	46.00%
International Equities	21.00%	12.00%	14.00%
Private Equity	7.00%	6.00%	0.00%
Domestic Fixed Income	23.00%	64.00%	40.00%
International Fixed Income	0.00%	0.00%	0.00%
Global Real Assets	19.00%	0.00%	0.00%
Cash and Equivalents	0.00%	0.00%	0.00%
Total	100.00%	100.00%	100.00%

Rate of return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested. The annual money-weighted rate of return on pension plan investment, net of pension plan investment expense for the years ended June 30, 2018 and 2017 are:

	2018	2017
Public Employees Retirement System	9.21%	13.01%
Highway Patrolman's Retirement System	9.16%	12.93%
Job Service Plan	3.32%	5.85%
Retiree Health Insurance Credit Fund	7.01%	11.75%

Realized gains and losses — Realized gains and losses on sales of investments are components of net change in fair value of investments and are computed as described in Note 1.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

For the years ended June 30, 2018 and 2017, the following are the net realized gains (losses):

	2018	2017
Public Employees Retirement System	\$ 126,712,660	\$ 83,608,473
Highway Patrolmen's Retirement System	3,415,135	2,279,433
Retiree Health Insurance Credit Plan	6,678,355	2,107,471
Defined Contribution Plan	65,647	56,506
Deferred Compensation Plan	4,933,808	3,884,612
Job Service Plan	1,933,894	3,087,896

Investment expense of the fund, except for the Defined Contribution Retirement Plan and the Deferred Compensation Plan, consists of those administrative and investment expenses directly related to the RIO investment operations. Investment expense of the Defined Contribution Retirement Plan and the Deferred Compensation Plan consist of administrative expenses directly related to each plan. All expenses are paid out of plan assets.

Credit Risk

All investments of the Public Employees Retirement System, Highway Patrolmen's Retirement System, and Uniform Group Insurance Program are invested in an external investment pool managed by SIB. The pool is not rated. The System does not have a formal credit risk policy that limits the credit risk of the investments.

All investments of the Retirement Plan for Employees of Job Service of North Dakota and Retiree Health Insurance Credit Fund are managed and invested by the SIB in institutional equity and fixed income mutual funds. The fixed income funds are rated AA. The System does not have a formal credit risk policy that limits the credit risk of the investments.

Investments of the Defined Contribution Retirement Plan and the Deferred Compensation Plan are invested in mutual funds directed by the participants. The mutual funds are not rated. The System does not have a formal credit risk policy that limits the credit risk of the investments.

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 System 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. The SIB has chosen to use the Segmented Time Distribution disclosure method. Tables detailing the System's portion of the investment pool are reported on the next page. Readers may refer to the North Dakota Retirement and Investment Office financial statements regarding highly sensitive securities that are disclosed at the SIB level.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

PERS and HPRS Plan

Type (in thousands)	2018				
	Fair Value	Less Than 1			Over 10
		Year	1-6 Years	6-10 Years	
Domestic Fixed Income Pool	\$ 497,443	\$ 17,261	\$ 100,346	\$ 112,738	\$ 267,098
Below Investment Grade FI Pool	90,405	1,028	36,984	38,648	13,746
International Fixed Income Pool	-	-	-	-	-
Large Cap Domestic Equity Pool	62,205	299	19,808	1,431	40,667
Small Cap Domestic Equity Pool	51,323	260	17,569	1,803	31,692
Total Debt Securities	<u>\$ 701,376</u>	<u>\$ 18,848</u>	<u>\$ 174,707</u>	<u>\$ 154,620</u>	<u>\$ 353,203</u>

Note: Table above represents fixed income investments, as well as debt securities in underlying equity funds.

Type (in thousands)	2017				
	Fair Value	Less Than 1			Over 10
		Year	1-6 Years	6-10 Years	
Domestic Fixed Income Pool	\$ 377,435	\$ 2,792	\$ 81,247	\$ 66,437	\$ 226,960
Below Investment Grade FI Pool	93,740	2,384	41,699	31,692	17,964
International Fixed Income Pool	126,354	5,055	24,958	68,657	27,684
Large Cap Domestic Equity Pool	61,762	191	14,356	2,780	44,435
Small Cap Domestic Equity Pool	51,639	674	14,351	2,182	34,432
Total Debt Securities	<u>\$ 710,930</u>	<u>\$ 11,096</u>	<u>\$ 176,611</u>	<u>\$ 171,748</u>	<u>\$ 351,475</u>

Note: Table above represents fixed income investments, as well as debt securities in underlying equity funds.

Job Service Retirement Plan

Type (in thousands)	2018				
	Fair Value	Less Than 1			Over 10
		Year	1-6 Years	6-10 Years	
Pooled Investments	\$ 65,100	\$ -	\$ 41,250	\$ 23,850	\$ -

Note: Table above represents fixed income investments, as well as debt securities in underlying equity funds.

Type (in thousands)	2017				
	Fair Value	Less Than 1			Over 10
		Year	1-6 Years	6-10 Years	
Pooled Investments	67,661	-	42,548	25,113	-

Note: Table above represents fixed income investments, as well as debt securities in underlying equity funds.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Retiree Health Insurance Credit Fund

<u>Type (in thousands)</u>	<u>2018</u>				
	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-6 Years</u>	<u>6-10 Years</u>	<u>Over 10 Years</u>
Pooled Investments	\$ 50,509	\$ -	\$ 5,102	\$ 45,407	\$ -

Note: Table above represents fixed income investments, as well as debt securities in underlying equity funds.

<u>Type (in thousands)</u>	<u>2017</u>				
	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-6 Years</u>	<u>6-10 Years</u>	<u>Over 10 Years</u>
Pooled Investments	45,921	-	4,650	41,271	-

Note: Table above represents fixed income investments, as well as debt securities in underlying equity funds.

Securities Lending

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

Non-cash collateral cannot be pledged or sold unless the borrower defaults. All securities loans can be terminated on demand by either the lender or the borrower, although the average term of SIB loans was approximately 61 and 59 days as of June 30, 2018 and 2017, respectively. Cash open collateral is invested in a short term investment pool, which had an interest sensitivity of 3 days and 3 days as of June 30, 2018 and 2017. This pool is valued based on amortized cost. There were no violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent. There are no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month.

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

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 3 DUE TO/FROM AND TRANSFERS IN/OUT FIDUCIARY AND PROPRIETARY FUNDS AND STATE AGENCY TRANSACTIONS

The June 30, 2018 due from/to fiduciary and proprietary funds are summarized as follows:

Fund	Due From Fiduciary and Proprietary Funds	Due to Fiduciary and Proprietary Funds
Fiduciary		
Public Employees Retirement System	\$ 52,089	\$ 37,688
Highway Patrolmen's Retirement System	6,051	-
Retiree Health Insurance Credit Fund	29,999	-
Retirement Plan for Employees of Job Service North Dakota	-	34,500
Pretax Benefits Program	-	-
Deferred Compensation Plan	-	-
Defined Contribution Plan	1,638	-
Proprietary		
Uniform Group Insurance Program	-	17,589
	<u>\$ 89,777</u>	<u>\$ 89,777</u>

The June 30, 2017 due from/to fiduciary and proprietary funds are summarized as follows:

Fund	Due From Fiduciary and Proprietary Funds	Due to Fiduciary and Proprietary Funds
Fiduciary		
Public Employees Retirement System	\$ 239,797	\$ 128,643
Highway Patrolmen's Retirement System	-	37,395
Retiree Health Insurance Credit Fund	76,323	176,344
Retirement Plan for Employees of Job Service North Dakota	-	5,162
Pretax Benefits Program	-	-
Deferred Compensation Plan	28,308	-
Defined Contribution Plan	25,004	10
Proprietary		
Uniform Group Insurance Program	27,612	49,490
	<u>\$ 397,044</u>	<u>\$ 397,044</u>

These balances are a result of a time lag between the dates the expenditures are incurred, the allocations determined, and when the transactions are entered into the accounting system.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 3 DUE TO/FROM AND TRANSFERS IN/OUT FIDUCIARY AND PROPRIETARY FUNDS AND STATE AGENCY TRANSACTIONS (CONTINUED)

June 30, 2018 due from/to state agencies are summarized as follows:

Fund	Due From State Agencies	Due to State Agencies
Fiduciary		
Public Employees Retirement System		
ITD	\$ -	\$ 10,720
Attorney General	-	3,025
Central Duplicating	-	61
RIO	-	174
Central Supply	-	73
Various Seminar Billings	100	-
Total	<u>\$ 100</u>	<u>\$ 14,053</u>
Retiree Health Insurance Credit Fund		
Job Service	\$ 311	\$ -
Total	<u>\$ 311</u>	<u>\$ -</u>
Defined Contribution Plan		
Attorney General	\$ -	\$ 99
Total	<u>\$ -</u>	<u>\$ 99</u>
Pretax Benefits Program		
ITD	\$ -	\$ 2,148
Attorney General	-	607
Central Duplicating	-	5
Central Supply	-	33
Total	<u>\$ -</u>	<u>\$ 2,793</u>
Deferred Compensation Plan		
ITD	\$ -	\$ 4,052
Attorney General	-	1,214
Central Duplicating	-	5
Central Supply	-	34
Total	<u>\$ -</u>	<u>\$ 5,305</u>
Proprietary		
Uniform Group Insurance Program		
ITD	\$ -	\$ 7,844
Central Supply	-	60
ND State Board of Accountancy	-	34
Central Duplicating	-	22
Attorney General	-	1,821
Total	<u>\$ -</u>	<u>\$ 9,781</u>

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

**NOTE 3 DUE TO/FROM AND TRANSFERS IN/OUT FIDUCIARY AND PROPRIETARY FUNDS
AND STATE AGENCY TRANSACTIONS (CONTINUED)**

The June 30, 2017 due from/to state agencies are summarized as follows:

Fund	Due From State Agencies	Due to State Agencies
Fiduciary		
Public Employees Retirement System		
ITD	\$ -	\$ 6,246
Attorney General	-	1,261
Central Duplicating	-	1,127
Department of Transportation		76
RIO		508
Central Supply	-	309
Various Seminar Billings	2,320	-
Total	<u>\$ 2,320</u>	<u>\$ 9,527</u>
Retiree Health Insurance Credit Fund		
Job Service	\$ 318	\$ -
Total	<u>\$ 318</u>	<u>\$ -</u>
Defined Contribution Plan		
ITD	\$ -	\$ 98
Attorney General	-	530
Total	<u>\$ -</u>	<u>\$ 628</u>
Pretax Benefits Program		
ITD	\$ -	\$ 1,201
Attorney General	-	122
Central Duplicating	-	268
Central Supply	-	77
Total	<u>\$ -</u>	<u>\$ 1,668</u>
Deferred Compensation Plan		
ITD	\$ -	\$ 2,400
Attorney General	-	239
Department of Transportation		76
Central Duplicating	-	268
Central Supply	-	155
Total	<u>\$ -</u>	<u>\$ 3,138</u>
Proprietary		
Uniform Group Insurance Program		
ITD	\$ -	\$ 4,233
Central Supply	-	232
Central Duplicating	-	1,072
Attorney General	-	1,131
Total	<u>\$ -</u>	<u>\$ 6,668</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

**NOTE 3 DUE TO/FROM AND TRANSFERS IN/OUT FIDUCIARY AND PROPRIETARY FUNDS
AND STATE AGENCY TRANSACTIONS (CONTINUED)**

The June 30, 2018 operating transfers in/out are summarized as follows:

<u>Fund Type/Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Fiduciary Funds		
Defined Contribution Plan	\$ 53,227	\$ -
Deferred Compensation Plan	800,000	-
Pretax Benefit Program	-	525,000
Public Employee Retirement System	-	190,727
Proprietary Funds		
Uniform Group Insurance Program	-	137,500

The June 30, 2017 operating transfers in/out are summarized as follows:

<u>Fund Type/Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Fiduciary Funds		
Defined Contribution Plan	\$ 102,109	\$ -
Deferred Compensation Plan	800,000	-
Pretax Benefit Program	-	525,000
Public Employee Retirement System	-	239,609
Proprietary Funds		
Uniform Group Insurance Program	-	137,500

The transfer to the Defined Contribution Retirement Fund is for those employees electing to transfer from the PERS plan. The transfers to the Deferred Compensation Plan are to cover administrative expenses pursuant to NDCC 54-52-04 subsection 11.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 4 CAPITAL ASSETS

A statement of changes in equipment and accumulated depreciation for the System for the year ended June 30, 2018 and 2017 is as follows:

	Balance 7/1/2017	Additions	Deletions	Balance 6/30/2018
Proprietary Funds:				
Capital Assets Being Depreciated:				
Software	\$ 2,921,416			\$ 2,921,416
Less Accumulated Amortization for:				
Software	(1,938,723)	(294,577)		(2,233,300)
Total Capital Assets Being Depreciated, Net	<u>982,693</u>	<u>(294,577)</u>	-	<u>688,116</u>
Proprietary Funds Capital Assets, Net	<u>\$ 982,693</u>	<u>\$ (294,577)</u>	<u>\$ -</u>	<u>\$ 688,116</u>
Fiduciary Funds:				
Capital Assets Being Depreciated:				
Software	\$ 7,244,785			\$ 7,244,785
Total Capital Assets Being Depreciated	7,244,785	-	-	7,244,785
Less Accumulated Depreciation for:				
Software	(4,807,347)	(730,543)		(5,537,890)
Total Capital Assets Being Depreciated, Net	<u>2,437,438</u>	<u>(730,543)</u>	-	<u>1,706,895</u>
Fiduciary Funds Capital Assets, Net	<u>\$ 2,437,438</u>	<u>\$ (730,543)</u>	<u>\$ -</u>	<u>\$ 1,706,895</u>
	Balance 7/1/2016	Additions	Deletions	Balance 6/30/2017
Proprietary Funds:				
Capital Assets Being Depreciated:				
Software	\$ 2,921,416			\$ 2,921,416
Less Accumulated Amortization for:				
Software	(1,644,146)	(294,577)		(1,938,723)
Total Capital Assets Being Depreciated, Net	<u>1,277,270</u>	<u>(294,577)</u>	-	<u>982,693</u>
Proprietary Funds Capital Assets, Net	<u>\$ 1,277,270</u>	<u>\$ (294,577)</u>	<u>\$ -</u>	<u>\$ 982,693</u>
Fiduciary Funds:				
Capital Assets Being Depreciated:				
Software	\$ 7,244,785			\$ 7,244,785
Total Capital Assets Being Depreciated	7,244,785	-	-	7,244,785
Less Accumulated Depreciation for:				
Software	(4,076,803)	(730,544)		(4,807,347)
Total Capital Assets Being Depreciated, Net	<u>3,167,982</u>	<u>(730,544)</u>	-	<u>2,437,438</u>
Fiduciary Funds Capital Assets, Net	<u>\$ 3,167,982</u>	<u>\$ (730,544)</u>	<u>\$ -</u>	<u>\$ 2,437,438</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 5 LEASE OBLIGATIONS

Operating Lease

The system entered into an operating lease for office space until June 30, 2019. Expenditures for this lease were \$176,202 and \$171,307 for the years ended June 30, 2018 and 2017, respectively.

The system has also entered into an operating lease for office equipment, with expenditures totaling \$7,271 for the year ended June 30, 2018 and \$7,955 for the year ended June 30, 2017.

The lease contains clauses stating that renewal is dependent upon appropriation funding by the State Legislature. Lease obligations for operating and capital leases are payable from all funds of the System.

NOTE 6 CHANGE IN LONG-TERM LIABILITIES

	<u>Proprietary Fund</u> Accrued Compensated Absences	<u>Fiduciary Fund</u> Accrued Compensated Absences
Balance - June 30, 2016	97,552	177,280
Increases	62,269	118,632
Decreases	(59,488)	(104,763)
Balance - June 30, 2017	100,333	191,149
Increases	52,951	111,632
Decreases	(78,215)	(144,520)
Balance - June 30, 2018	<u>\$ 75,069</u>	<u>\$ 158,261</u>
Balance - Due Within One Year	\$ 6,328	\$ 13,341

For the government activities, the accrued annual compensated absences is generally liquidated by excess revenue in the Uniform Group Insurance Program and the Pension Trust Funds.

NOTE 7 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

All eligible employees of the System, except those electing to participate in the North Dakota Defined Contribution Retirement Plan, contribute to the North Dakota Public Employees Retirement System (PERS), a state-wide cost-sharing multiple-employer defined benefit pension plan, which is detailed in the notes that follow.

The System is required to contribute to PERS at a statutorily determined rate for permanent employees. The System's contributions to PERS for the years ended June 30, 2018 and 2017, were \$209,778 and \$219,291 which were equal to the required contributions for each year.

The System is required to contribute to the North Dakota Defined Contribution Retirement Plan at a statutorily determined rate for permanent employees who have elected to participate in this plan. The System's contributions to this plan for the years ended June 30, 2018 and 2017, were \$15,631 and \$13,959.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 8 DESCRIPTION OF PLANS

General

The System administers three defined benefit pension plans and a defined contribution plan. The Public Employees Retirement System (PERS) is a cost-sharing multiple-employer retirement plan. The PERS was established July 1, 1966 as a defined contribution plan and was changed to a defined benefit plan by the 1977 North Dakota Legislature. The PERS is administered in accordance with Chapter 54-52 of the North Dakota Century Code. The Highway Patrolmen's Retirement System (HPRS) was established July 1, 1949 and is administered in accordance with Chapter 39-03 of the North Dakota Century Code. The HPRS is a single-employer defined benefit plan. The North Dakota Defined Contribution Retirement Plan was established on January 1, 2000 and is administered in accordance with Chapter 54-52.6 of the North Dakota Century Code. The Retirement Plan for Employees of Job Service North Dakota is a single-employer defined benefit public employee retirement plan administered by the Agency. The plan is established under NDCC 52-11-01 with benefit provisions established through the plan document, as amended.

The costs of administering PERS, HPRS, and the Retirement Plan for Employees of Job Service North Dakota are financed through the contributions and investment earnings of each plan. The administrative costs of the Defined Contribution Plan are funded by forfeitures of non-vested employee contributions and administrative fees charged to individual participant accounts.

The following brief description of the PERS, HPRS, Defined Contribution Plan and the Retirement Plan for Employees of Job Service North Dakota is provided for general information purposes only. Participants should refer to the applicable chapters of the North Dakota Century Code for more complete information.

The PERS covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions (Main System). It also covers Supreme and District Court Judges, the National Guard Security Officers and Firefighters, peace officers and correctional officers employed by political subdivisions and as of August 1, 2017, firefighters employed by participating political subdivisions. Effective August 1, 2015, current and newly eligible members of the National Guard System were transferred to the Law Enforcement System. The HPRS covers substantially all sworn officers of the North Dakota Highway Patrol. An optional Defined Contribution Retirement Plan (DC Plan) was established effective January 1, 2000. The DC plan was available to state employees who are in positions not classified by the Human Resource Management Services division of the State of North Dakota. Employees under the judicial branch or the Board of Higher Education and State Institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Plan. The 2013 Legislative Assembly passed legislation to expand eligibility to the Plan to include all new state employees hired on or after October 1, 2013 through July 31, 2017. The Retirement Plan for Employees of Job Service North Dakota is limited to employees participating in the plan as of September 30, 1980.

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 8 DESCRIPTION OF PLANS (CONTINUED)

The plans are not subject to the provisions of the Employee Retirement Income Security Act of 1974. The number of participating political subdivisions in the PERS was:

	<u>2018</u>	<u>2017</u>
Cities	91	89
Counties	49	49
School Districts	126	124
Other	84	81
Total Participating Political Subdivisions	<u>350</u>	<u>343</u>

Employee membership data is as follows:

	<u>PERS</u>		<u>HPRS</u>		<u>Job Service</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Retirees and Beneficiaries						
Currently Receiving Benefits	11,704	11,103	127	127	196	199
Special Prior Service Retirees	-	-	-	-	-	-
Terminated Vested Participants	6,188	5,751	31	30	1	1
Inactive Participants	5,998	5,903	11	9	-	-
Active Plan Participants						
Vested	17,023	16,397	72	69	7	8
Nonvested	6,460	6,846	82	82	-	-
Total Plan Membership	<u>47,373</u>	<u>46,000</u>	<u>323</u>	<u>317</u>	<u>204</u>	<u>208</u>

The defined contribution plan had 108 and 104 participants as of June 30, 2018 and 2017, respectively.

BENEFITS

PERS

Benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the main system are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016, the Rule of 85 is replaced with the Rule of 90 with a minimum age of 60. The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The Plan permits early retirement at ages 55-64 with three or more years of service.

Supreme and District Court Judges are entitled to unreduced monthly pension benefits beginning at normal retirement age of (65) or the Rule of 85. The monthly pension benefit is equal to a percentage of average monthly salary using the highest 36 months out of the last 180 months of service. The percentage is equal to 3.50% of average monthly salary multiplied by the first ten years of service, plus 2.80% of the average monthly salary times the second ten years of service, plus 1.25% of average monthly salary times years of service in excess of twenty years. The judicial retirement formula is only applied to eligible judicial service. Non-judicial service benefits are calculated using the 2.00% multiplier. The Plan permits early retirement at ages 55-64 with five or more years of service.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 8 DESCRIPTION OF PLANS (CONTINUED)

Members of the National Guard System are entitled to unreduced monthly pension benefits at normal retirement age (55). Effective August 1, 2015, the National Guard System became part of the Law Enforcement System. Members of the Law Enforcement System are entitled to unreduced monthly pension benefits at normal retirement age (55) or the Rule of 85. The monthly pension benefit for the National Guard/Law Enforcement is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The Plan permits early retirement at ages 50-55 with three or more years of service.

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

HPRS

Benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members are entitled to unreduced pension benefits upon attainment of age 55 and 10 years of eligible employment or when the sum of age and years of credited service equals or exceeds 80. The annual pension benefit is equal to a percentage of average monthly salary using the highest 36 months out of the last 180 months of service. The percentage is equal to the sum of the first 25 years of service multiplied by 3.60% and 1.75% multiplied by years of service in excess of 25, if any. The Plan permits early retirement at ages 50-54, with ten or more years of service.

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

Defined Contribution Plan

Benefits are set by statute. Members are entitled to their vested account balance. A participating member is immediately 100% vested in the member's contributions. A participating member vests in the employer contributions made on the member's behalf as follows:

Upon completion of two years of service	50%
Upon completion of three years of service	75%
Upon completion of four years of service	100%

Members may elect to receive their account balance in a lump sum, lump sum direct rollover or periodic distribution. Legislation was passed during the 2015 session providing eligible members of the Defined Contribution Plan a special election period in which to elect to return to the PERS defined benefit plan.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 8 DESCRIPTION OF PLANS (CONTINUED)

Retirement Plan for Employees of Job Service North Dakota

Benefits are established through the plan document, as amended by the Board. The System provides a post-retirement cost-of living adjustment each year based on the Consumer Price Index. Employees are entitled to annual pension benefits beginning at normal retirement age (65). Employees may elect optional retirement eligibility at age 62 with 5 years of credited service, at age 60 with 20 years of credited service, or at age 55 with 30 years of credited service. Pension benefits are calculated based on the final average earnings (basic monthly earnings averaged over the highest three consecutive years of basic earnings) of the employee multiplied by the sum of:

- 1.5% times years of credited service up to five plus
- 1.75% times years of credited service between six and ten plus
- 2.0% times years of credited service in excess of ten years

Death and Disability Benefits

PERS

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

For Judges who have earned more than five years of credited service, the death benefit is the greater of (i) lump sum payment of accumulated contributions, or (ii) 100% of the members' accrued benefit (not reduced on account of age), payable for the spouse's lifetime.

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

For Judges only, the disability benefit formula is 70% of final average salary minus Social Security and Workers Compensation benefits.

HPRS

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 8 DESCRIPTION OF PLANS (CONTINUED)

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are up to 70% of their final average salary, reduced by worker's compensation, with a minimum benefit of \$100. To qualify under this section the member must meet the criteria established by the System for being totally disabled and apply for benefits within one year of termination.

Defined Contribution Plan

Death and disability benefits are set by statute. Upon the death of a participating member or former participating member, the vested account balance of that deceased participant is available to the participant's designated beneficiary(ies).

A member who becomes totally and permanently disabled while employed by the State is eligible to receive a distribution of the vested account balance. To qualify under this section, the member must meet the criteria established by the System for being totally disabled.

Retirement Plan for Employees of Job Service North Dakota

The plan document provides disability and death benefits. If the death of a participant occurs prior to his/her annuity starting date, the surviving spouse who has been married at least two years prior to the participant's death or, if married less than two years is a parent of a child of this marriage, then the spouse shall receive monthly benefits. The amount is the greater of the benefit had the participant retired on the day before he/she died and elected the Contingent Annuitant Option with 55% of his/her retirement benefit continued to his/her spouse or 55% of the smaller of 40% of the deceased participant's average monthly earnings or the deceased participant's normal retirement benefit obtained by increasing their credited service by the period of time between their date of death and the date they would have attained age 60. Upon remarriage of the surviving spouse before age 60, the death benefits will cease.

If a participant becomes totally disabled, he/she will be eligible for a monthly disability benefit that shall be equal to the greater of 40% of the participant's average annual earnings or the accrued benefit determined as their date of disability.

Refunds of Member Contributions

Upon termination, if a member of PERS or HPRS is not vested (is not 65 or does not have three years of service for the Main System and National Guard/Law Enforcement, or five years of service for the Supreme and District Court Judges, credited for the PERS, or is not 60 or does not have ten years of service credited for the HPRS), they will receive the accumulated member contributions plus interest, or may elect to receive this amount at a later date. If a member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Contributions

Contribution rates for PERS, HPRS, and the Defined Contribution Plan are set by state statute and are a percentage of salaries and wages. Contribution rates for the Job Service Retirement Plan are established in the plan document, as amended, which prescribes that they are actuarially determined using the frozen initial liability actuarial cost method which is the same as the aggregate cost method.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 8 DESCRIPTION OF PLANS (CONTINUED)

In 2011, the Legislative Assembly passed an increase in the employee and employer contribution rates for the PERS, Judges, Law Enforcement, Highway Patrol and Defined Contribution plans. Both the employee and employer contribution rates increased for each of the plans by an additional 1% (.5% for the Law Enforcement Plans for political subdivisions) effective January 2012 and January 2013. The 2013 Legislative Assembly also passed an increase in the employee and employer contribution rates for the PERS, Judges, National Guard, Law Enforcement, Highway Patrol and Defined Contribution plans. Effective January 2014, both the employee and employer contribution rates were increased for each of the plans by an additional 1% (.5% for the National Guard and Law Enforcement Plans for political subdivisions). Members that made a qualifying election under Senate Bill 2015 to move from the Defined Contribution Plan back to the Defined Benefit Plan have a 2% increase on employee contributions.

PERS

Member contributions are set by statute. During the 1983-1985 biennium the State and some of the participating political subdivisions implemented the employer pickup provision of the IRS code whereby a portion or all of the required member contributions are made by the employer. The State is paying 4% of the member contribution. Some of the political subdivisions are paying all or part of the member contributions. Employer contributions are set by statute except the contribution rates for the National Guard/Law Enforcement Plans which are set by the Board.

Contribution rates are established as a percent of covered compensation as follows:

	Member Contributions	Employer Contributions
Public Employees Retirement System*	7.00%	7.12%
Judges Retirement System	8.00%	17.52%
Law Enforcement with Previous Service		
State - BCI Plan	6.00%	9.81%
State - National Guard	5.50%	9.81%
Political Subdivisions	5.50%	9.81%
Law Enforcement without Previous Service	5.50%	7.93%

* Members making the election to move from the Defined Contribution Plan back to the Defined Benefit Plan as a result of Senate Bill 2015 pay a 9% employee contribution

The entry age normal cost method determines the amount of contributions necessary to fund; (a) the current service cost, which represents the estimated amount necessary to pay for benefits earned by employees during the current service year and, (b) the prior service cost, which represents the amount necessary to pay for benefits earned prior to the effective date of the plan.

Except for Supreme and District Court Judges, the member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 8 DESCRIPTION OF PLANS (CONTINUED)

The minimum member contribution is \$25 and the maximum may not exceed the following:

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

An open period of 20 years to fund accrued liabilities for the Public Employees Retirement System and the Supreme and District Court Judges has been adopted for the July 1, 1996 valuation and adopted for the National Guard Security Officers and Firefighters for the July 1, 1998 valuation. Currently, the present rate of contributions for the PERS plan is not sufficient to meet the actuarially determined requirement for 2017-2018.

HPRS

Member and employer contributions are set by statute as a percent of covered compensation. The state is paying 4.0% of the member contribution. The member contribution rate is 13.3% and the employer rate is 19.7%.

The entry age normal cost method determines the amount of contributions necessary to fund; (a) the current service cost, which represents the estimated amount necessary to pay for benefits earned by employees during the current service year and, (b) the prior service cost, which represents the amount necessary to pay for benefits earned prior to the effective date of the plan.

An open period of 20 years to fund accrued liabilities for the Highway Patrolmen's Retirement System has been adopted for the July 1, 1996 valuation. Currently, the present rate of contributions is not sufficient to meet the actuarially determined requirement for 2017-2018.

Defined Contribution Plan

Member and employer contributions are set by statute as a percent of covered compensation. The state is paying 4% of the member contribution. The member contribution rate is 7.00% and the employer rate is 7.12%.

Retirement Plan for Employees of Job Service North Dakota

Employees' contributions are established at 7.0% of total compensation. The funding policy of the plan provides for employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

Effective July 1, 1999, the "scheduled contribution" will be zero as long as the plan's actuarial value of assets exceeds the actuarial present value of projected benefits. The "scheduled contribution" and amortization will be determined when the plan is not in surplus and will be based on a funding policy adopted by the Employer.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 9 NET PENSION LIABILITY OF THE PLANS

The components of the net pension liability (asset) of the Plans at June 30, 2018 and 2017, are as follows:

<u>2018</u>	<u>PERS</u>	<u>HPRS</u>	<u>JSND</u>
Total Pension Liability	\$ 4,675,581,755	\$ 98,385,960	\$ 68,129,211
Plan Fiduciary Net Position	<u>2,970,180,276</u>	<u>78,929,000</u>	<u>95,588,111</u>
Net Pension Liability (Asset)	<u>\$ 1,705,401,479</u>	<u>\$ 19,456,960</u>	<u>\$ (27,458,900)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	63.53%	80.22%	140.30%
<u>2017</u>	<u>PERS</u>	<u>HPRS</u>	<u>JSND</u>
Total Pension Liability	\$ 4,354,371,690	\$ 94,047,078	\$ 63,629,469
Plan Fiduciary Net Position	<u>2,727,835,589</u>	<u>73,336,316</u>	<u>97,265,411</u>
Net Pension Liability (Asset)	<u>\$ 1,626,536,101</u>	<u>\$ 20,710,762</u>	<u>\$ (33,635,942)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	62.65%	77.98%	152.86%

The plan provisions used in the measurement of the total pension liability are the same as those used in the PERS, HPRS and JSND Actuarial Valuation and Reviews as of July 1, 2018 and 2017.

Actuarial Assumptions

The actuarial assumptions used in the June 30, 2018 and June 30, 2017 valuations were based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014 as adopted by the Board.

PERS and HPRS

The total pension liability was determined by an actuarial valuation as of July 1, 2018 and 2017, using the following actuarial assumptions, applied to all periods included in the measurement (unless noted otherwise):

Inflation	For June 30, 2018 and June 30, 2017, 2.5%.	
Salary Increase (Payroll Growth)	For June 30, 2018 and June 30, 2017 Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
Age*		
	Under 36	8.00%
	36 - 40	7.50%
	41 - 49	6.00%
	50+	5.00%

*Age-based salary increase rates apply for employees with three or more years of service

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 9 NET PENSION LIABILITY OF THE PLANS (CONTINUED)

Investment Rate of Return	For June 30, 2018 and June 30, 2017, 7.75%, net of investments expense, including inflation.
Mortality Rates	For June 30, 2018 and June 30, 2017, mortality rates for active members, inactive members and healthy retirees were based on the RP-2000 Combined Healthy Mortality Table, set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table, set back one year for males (no setback for females) multiplied by 125%.
Discount Rates	<p>For PERS: Projected benefit payments are required to be discounted to their actuarial present values using a Single Discount Rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year mixed maturity general obligation bonds with an average Standard & Poor's Corp.'s AA credit rating (which is published by Fidelity) as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).</p> <p>For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62% (based on the most recent date available on or before the measurement date of the "20-year Municipal GO Index" from Fidelity); and the resulting Single Discount Rate is 6.32% for June 30, 2018.</p> <p>For the June 30, 2017 valuation, the expected rate of return on pension plan investments was 7.75%, the municipal bond rate was 3.56%, and the resulting Single Discount Rate was 6.44%</p> <p>For HPRS: For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56% (based on the most recent date available on or before the measurement date of the "20-year Municipal GO Index" from Fidelity); and the resulting Single Discount Rate is 7.75% for June 30, 2017.</p>

JSND

The total pension liability was determined by an actuarial valuation as of July 1, 2018 and 2017, using the following actuarial assumptions, applied to all periods included in the measurement (unless noted otherwise):

Inflation	For June 30, 2018 and June 30, 2017, 2.5%.
Salary Increase (Payroll Growth)	For June 30, 2018 and June 30, 2017, 3.5% per annum
Investment Rate of Return	For June 30, 2018, 4.75%, net of investment expense, including inflation. For June 30, 2017, 5.70%, net of investment expense, including inflation.
Cost of Living Adjustment	For June 30, 2018, 2.50% per annum. For June 30, 2017, 3.50% per annum
Mortality Rates	For June 30, 2018 and June 30, 2017, mortality rates for active members, inactive members and healthy retirees were based on the RP-2000 Combined Healthy Mortality Table, set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table, set back one year for males, (no setback for females) multiplied by 125%.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 9 NET PENSION LIABILITY OF THE PLANS (CONTINUED)

Investment Rate of Return

The long-term expected investment rate of return assumption for PERS, HPRS, and JSND was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the pension plan's target asset allocation as of July 1, 2018 are summarized in the following tables:

PERS and HPRS

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	6.05%
International Equity	6.71%
Private Equity	10.20%
Domestic Fixed Income	1.45%
International Fixed Income	0.00%
Global Real Assets	5.11%
Cash Equivalents	0.00%

JSND

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	4.75%
Core Fixed Income	1.91%
Limited Duration Fixed Income	1.13%
Global Equity	5.31%
Diversified Short-Term Fixed Income	1.66%
Short-Term Corporate Fixed Income	0.49%
US High Yield	3.49%
Emerging Market Debt	4.68%

Discount Rate

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 9 NET PENSION LIABILITY OF THE PLANS (CONTINUED)

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%. For the June 30, 2017 valuation, the expected rate of return on pension plan investments was 7.75%, the municipal bond rate was 3.56%, and the resulting Single Discount Rate was 6.44%

For HPRS, the discount rate used to measure the total pension liability was 7.75% as of June 30, 2018 and June 30, 2017.

For JSND, the discount rate was 4.75% as of June 30, 2018 and 5.7% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed plan member and employer contributions will be made at rates equal to those based on the July 1, 2018 and July 1, 2017 Actuarial Valuation Reports. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions (for JSND it is assumed no future contribution will be made), the pension plans' fiduciary net position were projected to be available to make all projected future benefit payments for current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018 and 2017.

Sensitivity of Net Pension Liability (Asset)

The following presents the net pension liability (asset) of the Plans as of June 30, 2018, calculated using the discount rate of 6.32% for PERS (6.44% as of June 30, 2017), 7.75% for HPRS and 4.75% for JSND (5.7% as of June 30, 2017), as well as what the Plan's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 9 NET PENSION LIABILITY OF THE PLANS (CONTINUED)

Net Pension Liability (Asset) as of June 30, 2018	1% Decrease (5.32%)	Current Discount (6.32%)	1% Increase (7.32%)
PERS	\$ 2,329,779,172	\$ 1,705,401,479	\$ 1,184,631,808
	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
HPRS	32,041,790	19,456,960	8,997,526
Net Pension Liability (Asset) as of June 30, 2018	1% Decrease (3.75%)	Current Discount (4.75%)	1% Increase (5.75%)
JSND	\$ (20,228,759)	\$ (27,458,900)	\$ (33,588,893)
Net Pension Liability (Asset) as of June 30, 2017	1% Decrease (5.44%)	Current Discount (6.44%)	1% Increase (7.44%)
PERS	\$ 2,218,162,831	\$ 1,626,536,101	\$ 1,134,481,805
	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
HPRS	32,746,885	20,710,762	10,712,591
Net Pension Liability (Asset) as of June 30, 2017	1% Decrease (4.70%)	Current Discount (5.70%)	1% Increase (6.70%)
JSND	\$ (27,182,597)	\$ (33,635,942)	\$ (39,131,324)

NOTE 10 RETIREE HEALTH INSURANCE CREDIT (RHIC) FUND

The Retiree Health Insurance Credit Fund, a cost-sharing multiple-employer other post-retirement benefit (OPEB) plan, is administered by the System to provide members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Employee membership data is as follows:

	<u>2018</u>	<u>2017</u>
Retired Participants, Receiving Benefits	11,823	11,232
Active Participants, Not Receiving Benefits	23,747	23,497
	<u>35,570</u>	<u>34,729</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 10 RETIREE HEALTH INSURANCE CREDIT (RHIC) FUND (CONTINUED)

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the pension trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

NOTE 11 NET OPEB LIABILITY OF THE RHIC FUND

The components of the net OPEB liability of the RHIC Plan at June 30, 2018 and June 30, 2017 are as follows:

2018	RHIC
Total OPEB Liability	\$ 206,662,795
RHIC Fiduciary Net Position	127,905,982
Net OPEB Liability (Asset)	\$ 78,756,813
RHIC Fiduciary Net Position as a Percentage of the Total OPEB Liability	61.89%
2017	RHIC
Total OPEB Liability	\$ 196,694,770
RHIC Fiduciary Net Position	117,593,690
Net OPEB Liability (Asset)	\$ 79,101,080
RHIC Fiduciary Net Position as a Percentage of the Total OPEB Liability	59.78%

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 11 NET OPEB LIABILITY OF THE RHIC FUND (CONTINUED)

Actuarial Assumptions

Inflation	For June 30, 2018 and June 30, 2017, 2.5%.
Salary Increase (Payroll Growth)	Not Applicable
Investment Rate of Return	For June 30, 2018 and June 30, 2017, 7.50%, net of investments expense, including inflation.
Mortality Rates	For June 30, 2018 and June 30, 2017, mortality rates for active members, inactive members and healthy retirees were based on the RP-2000 Combined Healthy Mortality Table, set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table, set back one year for males (no setback for females) multiplied by 125%.

Other Notes: There were no benefit changes during the year.

Investment return assumption was lowered from 8.00 percent to 7.50 percent. All other actuarial assumptions were adopted by the Board and are based on an experience study covering the period July 1, 2009, through June 30, 2014.

The employer rate to the System is the statutory contribution rate of 1.14% of payroll.

Investment Rate of Return

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic Equities	5.80%
Small Cap Domestic Equities	7.05%
International Equities	6.20%
Core-Plus Fixed Income	1.46%

Discount Rate

The discount rate used to measure the total OPEB liability was 7.5%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 11 NET OPEB LIABILITY OF THE RHIC FUND (CONTINUED)

Sensitivity of Net OPEB Liability (Asset)

The following presents the net OPEB liability of the Plans as of June 30, 2018 and June 30, 2017, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

Net OPEB Liability (Asset) as of June 30, 2018	1% Decrease (6.50%)	Current Discount (7.50%)	1% Increase (8.50%)
RHIC	\$ 99,646,206	\$ 78,756,813	\$ 60,849,154
Net OPEB Liability (Asset) as of June 30, 2017	1% Decrease (6.50%)	Current Discount (7.50%)	1% Increase (8.50%)
RHIC	\$ 99,024,934	\$ 79,101,080	\$ 62,022,814

The benefit provided by the North Dakota Retiree Health Insurance Credit Fund is a fixed dollar subsidy and is not affected by healthcare cost trend. Therefore, a healthcare cost trend rate was not performed.

NOTE 12 IMPLICIT SUBSIDY UNFUNDED PLAN

The Implicit Subsidy Unfunded Plan provides health care coverage to eligible retirees who are not eligible for Medicare. The premiums for this coverage are set under North Dakota Century Code Chapter 54-52.1-02 as a percent of the active member single and family plan rates and are paid by the retiree. The premiums for this coverage are not age-rated. Currently, the premiums for this group do not cover the costs of the coverage; therefore, the costs of this group are being subsidized through the active group rates. This subsidy is not funded in advance and there is no guarantee that the subsidy for the 2017-19 biennium will continue in the future.

A retiree must be receiving a retirement allowance from NDPERS, ND TFFR or TIAA-CREF to be eligible for the retiree health care coverage. Effective July 1, 2015, eligibility for this coverage is limited to employees who retired prior to July 2015 and/or former Legislators.

The premiums for this plan are reported as premium revenue on the Statement of Revenues, Expenses, and Changes in Fund Net Position in the Uniform Group Insurance Plan. The full amount of the premiums collected are expended each year and are reported as premium expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Position in the Uniform Group Insurance Plan.

Total OPEB Liability

The total net OPEB liability of the plan as of June 30, 2018, determined using a June 30, 2017 measurement date, is \$4,297,160 and the effect of this liability will be recognized on the State of North Dakota Comprehensive Annual Financial Report (CAFR) in accordance with GASB Statement No 75.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 12 IMPLICIT SUBSIDY UNFUNDED PLAN (CONTINUED)

Significant actuarial assumptions employed by the actuary for funding purposes as of the June 30, 2017 actuarial valuation, the date of the latest actuarial valuation, include:

- Mortality Rates:** For June 30, 2017, RP-2014 using mortality improvement scale MP-2017
Rates of withdrawal from active service before retirement for reasons other than death, rates of disability and expected retirement ages developed on the basis of an investigation of actual plan experience.
- Withdrawal Rates:** actual plan experience.
- Interest Rate:** 6.56% per annum, net of investment expenses
- Inflation:** 3% per annum
- Expenses:** Prior year expenses, adjusted for inflation

NOTE 13 DEFERRED COMPENSATION PLAN FOR PUBLIC EMPLOYEES

The System was given the authority by Chapter 54-52.2 to administer an employee deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan allows employees of the State of North Dakota or any of its political subdivisions, institutions, departments, or agencies to participate, providing that the employee has signed a participant agreement, which permits them to defer a portion of their salary until future years. Each participant may defer the lesser of \$18,500 for calendar year 2018 (\$18,000 for 2017) or 100% of gross annual compensation. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive use of the employee or their beneficiary.

The deferred compensation plan had 13,188 and 12,581 participants as of June 30, 2018 and 2017, respectively.

The related investment are reported at fair value as follows:

	2018		2017	
Investment Balance by:				
State of North Dakota	\$ 99,851,591	89%	\$ 87,905,420	90%
Other Jurisdictions	12,974,946	11%	10,237,418	10%
Total Investments	\$ 112,826,537	100%	\$ 98,142,838	100%

NOTE 14 FEDERAL INCOME TAX STATUS

The System is qualified under Section 401(a) of the Internal Revenue Code (IRC) and is exempt from the payment of any federal income taxes under Section 501(a) of the IRC and by virtue of being an agency of the state of North Dakota.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 15 UNIFORM GROUP INSURANCE PROGRAM SURPLUS

The Uniform Group Insurance Program, a proprietary fund, contracted with Sanford Health Plan to provide health care insurance to the employees of the State of North Dakota, or any of its political subdivisions, institutions, departments or agencies. The contract for the 2015-2017 biennium provides for an accounting of premiums paid and claims incurred during the biennium. The final gain or loss is determined two years after the end of the biennium, which for the 2015-2017 biennium will on June 30, 2019. For this period, The System was at risk for \$3.0 million and because it was reasonably assured that claims will exceed premiums, the risk was recorded as an underwriting loss in 2016.

The System entered into a similar contract with Sanford Health Plan for the 2017-2019 biennium. The contract for the 2017-2019 biennium provides for an accounting of premiums paid and claims incurred during the biennium. The final gain or loss is determined two years after the end of the biennium, which for the 2017-2019 biennium will occur in 2021. In the event of a loss, the system does not have any risk. No other insurance contracts have a gain sharing provision.

The accumulated surplus and other invested funds in the amount of \$34.8 million are shown as cash, invested cash and commingled domestic fixed income investments on the Statement of Net Position.

NOTE 16 RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the state for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees and the University System. All state agencies participate in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The System also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The agency pays an annual premium to the Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 120-month period. The State Bonding Fund currently provides the agency with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The System participates in the North Dakota Workforce Safety, an Enterprise Fund of the State of North Dakota. Workforce Safety is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 17 RELATED PARTIES

As stated in Note 1 of these financial statements, the System is a state agency of the state of North Dakota, as such, the other state agencies of the state and political subdivisions are related parties.

NOTE 18 RECLASSIFICATION

Certain amounts from the prior year financial statements have been reclassified to conform to the presentation of the current year financial statements.

NOTE 19 SUBSEQUENT EVENTS

The System evaluated subsequent events through November 20, 2017, which is the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2018, but prior to November 28, 2018 that provided additional evidence about conditions that existed at June 30, 2018, have been recognized in the financial statements for the year ended June 30, 2018. Events or transactions that provided evidence about conditions that did not exist at June 30, 2018, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2018.

NOTE 20 CONTINGENCY

The State Investment Board has been named as a defendant in two cases, arising out of the Tribune and General Motors bankruptcy proceedings, relating to securities that were purchased by external investment managers in one or more portfolios held by the SIB on behalf of its investment client funds. Outside counsel has been retained for both cases, in addition to assistance received from the ND Office of Attorney General. As of June 30, 2018, no liability has been recorded for the General Motors bankruptcy proceedings as it is too early in the litigation process to reasonably determine whether any payments will be required, but mediation efforts remain on-going. The claim against the SIB in the Tribune bankruptcy litigation has been dismissed, but a final order has not been entered because the Court has yet to decide the remaining claims in the case against unrelated defendants; however, the U.S. District Court has stayed the Trustee's request to amend the complaint to add a constructive fraudulent transfer claim pending the Second Circuit's disposition of the unrelated defendant's claims in light of the U.S. Supreme Court's decision in Merit Management. Any final judgment (including with respect to the claim against the SIB) is subject to appeal. Accordingly, no liability has been recorded at this time.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES TO THE NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED JUNE 30**

Public Employees Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability					
Service Cost	\$ 164,018,071	\$ 113,148,379	\$ 126,443,929	\$ 104,158,320	\$ 94,611,357
Interest	279,835,016	269,769,850	243,284,784	236,419,648	218,719,441
Change of Benefit Terms	-	-	-	2,615	-
Differences Between Expected and Actual Experience	(65,345,796)	(3,612,020)	15,914,938	4,395,805	25,782,859
Changes of Assumptions	125,224,437	741,491,982	108,139,418	(76,152,255)	-
Benefit Payments, Including Refund of Employee Contributions	(182,521,663)	(162,991,968)	(149,664,141)	(134,929,737)	(119,886,323)
Net Change in Total Pension Liability	<u>321,210,065</u>	<u>957,806,223</u>	<u>344,118,928</u>	<u>133,894,396</u>	<u>219,227,334</u>
Total Pension Liability (Asset) - Beginning	<u>4,354,371,690</u>	<u>3,396,565,467</u>	<u>3,052,446,539</u>	<u>2,918,552,143</u>	<u>2,699,324,809</u>
Total Pension Liability (Asset) - Ending (a)	<u><u>\$ 4,675,581,755</u></u>	<u><u>\$ 4,354,371,690</u></u>	<u><u>\$ 3,396,565,467</u></u>	<u><u>\$ 3,052,446,539</u></u>	<u><u>\$ 2,918,552,143</u></u>
Plan Fiduciary Net Position					
Contributions - Employer	\$ 80,727,209	\$ 78,933,571	\$ 77,080,576	\$ 70,842,535	\$ 61,661,050
Contributions - Employee	77,486,189	76,007,456	74,218,276	68,392,061	59,394,200
Service Credit Repurchase	19,984,972	11,805,070	9,179,163	6,651,879	8,325,140
Net Investment Income	249,165,180	311,760,863	11,333,836	81,536,565	316,629,563
Transfers and Other Income	(24,440)	32,183	23,574,937	-	-
Benefit Payments, Including Refund of Employee Contributions	(182,521,663)	(162,991,968)	(149,664,141)	(134,929,737)	(119,886,324)
Administrative Expense	(2,472,761)	(2,607,243)	(2,537,799)	(2,365,357)	(2,210,792)
Net Change in Plan Fiduciary Net Position	<u>242,344,686</u>	<u>312,939,932</u>	<u>43,184,848</u>	<u>90,127,946</u>	<u>323,912,837</u>
Plan Fiduciary Net Position - Beginning	<u>2,727,835,589</u>	<u>2,414,895,657</u>	<u>2,371,710,809</u>	<u>2,281,582,863</u>	<u>1,957,670,026</u>
Plan Fiduciary Net Position - Ending (B)	<u><u>2,970,180,275</u></u>	<u><u>2,727,835,589</u></u>	<u><u>2,414,895,657</u></u>	<u><u>2,371,710,809</u></u>	<u><u>2,281,582,863</u></u>
Net Pension Liability (Asset) - Ending (A)-(B)	<u><u>\$ 1,705,401,480</u></u>	<u><u>\$ 1,626,536,101</u></u>	<u><u>\$ 981,669,810</u></u>	<u><u>\$ 680,735,730</u></u>	<u><u>\$ 636,969,280</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.53%	62.65%	71.10%	77.70%	78.18%
Covered Payroll	\$ 1,075,957,954	\$ 1,063,371,798	\$ 1,048,548,467	\$ 973,536,402	\$ 888,452,060
Plan Net Pension Liability (Asset) as a Percentage of Covered Payroll	158.50%	152.96%	93.62%	69.92%	71.69%

*Complete data for this schedule is not available prior to 2014.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES TO THE NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED JUNE 30**

Highway Patrolmen's Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability					
Service Cost	\$ 2,738,268	\$ 2,701,326	\$ 2,226,286	\$ 2,038,291	\$ 1,894,183
Interest	7,203,350	6,951,177	6,311,403	6,007,875	5,750,017
Change of Benefit Terms	-	-	-	-	-
Differences Between Expected and Actual Experience	(621,359)	21,564	39,748	984,241	(299,964)
Changes of Assumptions	-	1,257,370	3,945,801	394,419	-
Benefit Payments, Including Refund of Employee Contributions	(4,981,377)	(4,806,319)	(4,713,495)	(4,745,510)	(3,784,735)
Net Change in Total Pension Liability	<u>4,338,882</u>	<u>6,125,118</u>	<u>7,809,743</u>	<u>4,679,316</u>	<u>3,559,501</u>
Total Pension Liability (Asset) - Beginning	<u>94,047,078</u>	<u>87,921,960</u>	<u>80,112,217</u>	<u>75,432,901</u>	<u>71,873,400</u>
Total Pension Liability (Asset) - Ending (a)	<u>\$ 98,385,960</u>	<u>\$ 94,047,078</u>	<u>\$ 87,921,960</u>	<u>\$ 80,112,217</u>	<u>\$ 75,432,901</u>
Plan Fiduciary Net Position					
Contributions - Employer	\$ 2,152,970	\$ 2,155,944	\$ 2,127,355	\$ 2,002,291	\$ 1,864,632
Contributions - Employee	1,453,533	1,455,540	1,436,236	1,351,798	1,243,520
Service Credit Repurchase	281,573	249,436	-	96,429	87,418
Net Investment Income	6,716,525	8,500,352	316,963	2,334,780	9,239,929
Transfers and Other Income	(187)	221	-	-	-
Benefit Payments, Including Refund of Employee Contributions	(4,981,377)	(4,806,319)	(4,713,495)	(4,745,510)	(3,784,735)
Administrative Expense	(30,353)	(30,195)	(31,450)	(30,925)	(27,983)
Net Change in Plan Fiduciary Net Position	<u>5,592,684</u>	<u>7,524,979</u>	<u>(864,391)</u>	<u>1,008,863</u>	<u>8,622,781</u>
Plan Fiduciary Net Position - Beginning	<u>73,336,316</u>	<u>65,811,337</u>	<u>66,675,728</u>	<u>65,666,865</u>	<u>57,044,084</u>
Plan Fiduciary Net Position - Ending (B)	<u>78,929,000</u>	<u>73,336,316</u>	<u>65,811,337</u>	<u>66,675,728</u>	<u>65,666,865</u>
Net Pension Liability (Asset) - Ending (A)-(B)	<u>\$ 19,456,960</u>	<u>\$ 20,710,762</u>	<u>\$ 22,110,623</u>	<u>\$ 13,436,489</u>	<u>\$ 9,766,036</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.22%	77.98%	74.85%	83.23%	87.05%
Covered Payroll	\$ 10,737,297	\$ 10,629,403	\$ 10,526,791	\$ 10,145,713	\$ 9,348,386
Plan Net Pension Liability (Asset) as a Percentage of Covered Payroll	181.21%	194.84%	210.04%	132.44%	104.47%

*Complete data for this schedule is not available prior to 2014.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES TO THE NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED JUNE 30**

Retirement Plan for Employees of Job Service North Dakota

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability					
Service Cost	\$ 80,344	\$ 55,500	\$ 71,420	\$ 127,734	\$ 87,668
Interest	3,500,344	4,130,232	4,281,440	5,026,167	5,107,459
Change of Benefit Terms	-	-	-	-	-
Differences Between Expected and Actual Experience	(310,124)	(1,648,283)	(2,006,791)	(1,806,271)	(1,607,033)
Changes of Assumptions	5,811,755	4,421,401	69,885	(309,878)	-
Benefit Payments, Including Refund of Employee Contributions	<u>(4,582,577)</u>	<u>(4,534,153)</u>	<u>(4,601,196)</u>	<u>(4,694,171)</u>	<u>(4,594,462)</u>
Net Change in Total Pension Liability	<u>4,499,742</u>	<u>2,424,697</u>	<u>(2,185,242)</u>	<u>(1,656,419)</u>	<u>(1,006,368)</u>
Total Pension Liability (Asset) - Beginning	<u>63,629,469</u>	<u>61,204,772</u>	<u>63,390,014</u>	<u>65,046,433</u>	<u>66,052,801</u>
Total Pension Liability (Asset) - Ending (a)	<u>\$ 68,129,211</u>	<u>\$ 63,629,469</u>	<u>\$ 61,204,772</u>	<u>\$ 63,390,014</u>	<u>\$ 65,046,433</u>
Plan Fiduciary Net Position					
Contributions - Employer	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions - Employee	32,987	39,417	44,178	50,142	55,748
Service Credit Repurchase	-	-	-	-	-
Net Investment Income	2,918,585	5,238,877	4,840,333	3,260,507	11,887,840
Transfers and Other Income	-	-	-	-	-
Benefit Payments, Including Refund of Employee Contributions	(4,582,577)	(4,534,153)	(4,601,196)	(4,694,171)	(4,594,462)
Administrative Expense	(46,295)	(12,684)	(32,253)	(30,214)	(31,455)
Net Change in Plan Fiduciary Net Position	<u>(1,677,300)</u>	<u>731,457</u>	<u>251,062</u>	<u>(1,413,736)</u>	<u>7,317,671</u>
Plan Fiduciary Net Position - Beginning	<u>97,265,411</u>	<u>96,533,954</u>	<u>96,282,892</u>	<u>97,696,628</u>	<u>90,378,957</u>
Plan Fiduciary Net Position - Ending (B)	<u>95,588,111</u>	<u>97,265,411</u>	<u>96,533,954</u>	<u>96,282,892</u>	<u>97,696,628</u>
Net Pension Liability (Asset) - Ending (A)-(B)	<u>\$ (27,458,900)</u>	<u>\$ (33,635,942)</u>	<u>\$ (35,329,182)</u>	<u>\$ (32,892,878)</u>	<u>\$ (32,650,195)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	140.30%	152.86%	157.72%	151.89%	150.20%
Covered Employee Payroll	\$ 416,652	\$ 498,564	\$ 564,684	\$ 790,649	\$ 842,601
Plan Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	(6,590.37)%	(6,746.56)%	(6,256.45)%	(4,160.24)%	(3,874.93)%

*Complete data for this schedule is not available prior to 2014.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES TO THE NET OTHER POST EMPLOYMENT BENEFIT LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED JUNE 30**

Retiree Health Insurance Credit Fund

	<u>2018</u>	<u>2017</u>
Total OPEB Liability		
Service Cost	\$ 3,766,661	\$ 3,430,578
Interest	14,485,170	14,327,443
Change of Benefit Terms	-	-
Differences Between Expected and Actual Experience	2,732,254	(2,231,206)
Changes of Assumptions	-	8,860,723
Benefit Payments, Including Refund of Employee Contributions	(11,016,060)	(10,014,370)
Net Change in Total OPEB Liability	<u>9,968,025</u>	<u>14,373,168</u>
Total OPEB Liability (Asset) - Beginning	<u>196,694,770</u>	<u>182,321,602</u>
Total OPEB Liability (Asset) - Ending (a)	<u><u>\$ 206,662,795</u></u>	<u><u>\$ 196,694,770</u></u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 12,834,547	\$ 12,575,627
Contributions - Employee	15,984	16,173
Service Credit Repurchase	746,942	464,323
Net Investment Income	8,210,898	12,074,082
Transfers and Other Income	-	-
Benefit Payments, Including Refund of Employee Contributions	(11,016,060)	(10,014,370)
Administrative Expense	(480,244)	(443,220)
Other	225	-
Net Change in Plan Fiduciary Net Position	<u>10,312,292</u>	<u>14,672,615</u>
Plan Fiduciary Net Position - Beginning	<u>117,593,690</u>	<u>102,921,075</u>
Plan Fiduciary Net Position - Ending (B)	<u><u>127,905,982</u></u>	<u><u>117,593,690</u></u>
Net OPEB Liability (Asset) - Ending (A)-(B)	<u><u>\$ 78,756,813</u></u>	<u><u>\$ 79,101,080</u></u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	61.89%	59.78%
Covered Employee Payroll	\$ 1,094,216,775	\$ 1,081,841,008
Plan Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	7.20%	7.31%

*Complete data for this schedule is not available prior to 2017.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEARS ENDED JUNE 30
(IN THOUSANDS)**

Public Employees Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarially Determined Contribution	125,714	116,564	124,336	107,514	107,864	97,985	91,458	82,910	54,158	40,327
Contributions in Relation to the Actuarially Determined Contribution	<u>80,727</u>	<u>78,934</u>	<u>77,081</u>	<u>70,843</u>	<u>61,661</u>	<u>48,847</u>	<u>38,006</u>	<u>32,278</u>	<u>30,253</u>	<u>27,705</u>
Contribution Deficiency (Excess)	<u>44,987</u>	<u>37,630</u>	<u>47,255</u>	<u>36,671</u>	<u>46,203</u>	<u>49,138</u>	<u>53,452</u>	<u>50,632</u>	<u>23,905</u>	<u>12,622</u>
Covered Payroll	1,075,958	1,063,372	1,048,548	973,536	888,452	800,878	804,169	769,710	697,737	640,685
Contributions as a Percentage of Covered Payroll	7.50%	7.42%	7.35%	7.28%	6.94%	6.10%	4.73%	4.19%	4.34%	4.32%

Highway Patrolmen's Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarially Determined Contribution	2,949	3,060	2,307	2,201	2,348	2,191	2,171	1,744	1,313	1,026
Contributions in Relation to the Actuarially Determined Contribution	<u>2,153</u>	<u>2,156</u>	<u>2,127</u>	<u>2,002</u>	<u>1,865</u>	<u>1,586</u>	<u>1,423</u>	<u>1,286</u>	<u>1,197</u>	<u>1,123</u>
Contribution Deficiency (Excess)	<u>796</u>	<u>904</u>	<u>180</u>	<u>199</u>	<u>483</u>	<u>605</u>	<u>748</u>	<u>458</u>	<u>116</u>	<u>(97)</u>
Covered Payroll	10,737	10,629	10,527	10,146	9,348	8,167	8,002	7,738	7,009	6,509
Contributions as a Percentage of Covered Payroll	20.05%	20.28%	20.21%	19.73%	19.95%	19.42%	17.78%	16.62%	17.08%	17.25%

Retirement Plan for Employees of Job Service North Dakota

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarially Determined Contribution	-	-	-	-	-	-	-	-	-	-
Contributions in Relation to the Actuarially Determined Contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution Deficiency (Excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered Payroll	417	499	565	791	843	1,011	1,163	1,266	1,487	1,613
Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Retiree Health Insurance Credit Plan

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarially Determined Contribution	12,252	11,696	7,544	6,439	7,014	7,411	7,263	7,053	7,199	5,805
Contributions in Relation to the Actuarially Determined Contribution	<u>12,835</u>	<u>12,575</u>	<u>12,350</u>	<u>11,479</u>	<u>10,710</u>	<u>9,960</u>	<u>9,388</u>	<u>8,930</u>	<u>8,393</u>	<u>6,772</u>
Contribution Deficiency (Excess)	<u>(583)</u>	<u>(879)</u>	<u>(4,806)</u>	<u>(5,040)</u>	<u>(3,696)</u>	<u>(2,549)</u>	<u>(2,125)</u>	<u>(1,877)</u>	<u>(1,194)</u>	<u>(967)</u>
Covered Payroll	1,094,217	1,081,841	1,142,375	1,052,657	1,001,204	914,368	824,855	828,978	793,634	719,812
Contributions as a Percentage of Covered Payroll	1.17%	1.16%	1.08%	1.09%	1.07%	1.09%	1.14%	1.08%	1.06%	0.94%

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018**

PERS

Benefit Changes: There were no changes made in the plan provisions since the prior valuation

Changes of Assumptions: There were no changes made actuarial assumptions since the July 1, 2017 valuation

HPRS

Benefit Changes: There were no changes made in the plan provisions since the prior valuation

Changes of Assumptions: There were no changes made actuarial assumptions since the July 1, 2017 valuation

JSND

Benefit Changes: There were no changes made in the plan provisions since the prior valuation

Changes of Assumptions: The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2018 actuarial valuation:

- The investment return assumption was lowered from 5.7 to 4.75 percent for the July 1, 2018 valuation

All other actuarial assumptions used in the July 1, 2018 are the same as the last actuarial valuation as of July 1, 2017.

RHIC

Benefit Changes: There were no changes made in the plan provisions since the prior valuation

Changes of Assumptions: There were no changes made actuarial assumptions since the July 1, 2017 valuation

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

Schedule of Employer Contributions

Valuation date Actuarially determined contribution rates are calculated as of June 30, 12 months prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to establish “actuarially determined contribution” rates for PERS, HPRS, and RHIC:

Actuarial cost method	Entry Age Normal Method. Entry Age is the age at the time the participant commenced employment. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salary.
Amortization Method	Level percent of payroll, Open Period
Remaining amortization period	20 years open, assuming 3.75% (3.25% for Judges) of payroll growth per annum
Asset valuation method	5-Year smoothed market

Methods and assumptions used to establish “actuarially determined contribution” rates for JSND:

Actuarial cost method	Frozen Initial Liability Cost Method. The “annual contribution” under this method is the normal cost plus the payment required to amortize the unfunded initial actuarial accrued liability over a selected period of years. The normal cost is determined by calculating the total value of all future benefits, subtracting the outstanding balance (if any) of the unfunded initial actuarial accrued liability, subtracting the actuarial value of assets, and determining payments (not less than zero) that are a level percent of pay over the future working lifetime of all participants. In the absence of an unfunded initial actuarial accrued liability, the Frozen Initial Liability Actuarial Cost Method is the same as the Aggregate Cost Method. The plan has assets in excess of the present value of future benefits. Therefore, no contribution is being made.
Asset valuation method	5-Year smoothed market.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF INVESTMENT RETURNS
 FOR THE YEARS ENDED JUNE 30**

**Schedule of Investment Returns
 For the Years Ended June 30**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Public Employees Retirement	9.21%	13.01%	0.49%	3.61%	16.29%	13.52%
Highway Patrolmen's Retirement	9.16%	12.93%	0.48%	3.66%	16.20%	13.38%
Retirement Plan for Employees						
Job Service North Dakota	3.32%	5.85%	5.14%	3.41%	13.46%	12.07%
Retiree Health Insurance Credit Fund	7.01%	11.75%	0.83%	-	-	-

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
SUPPLEMENTAL INFORMATION
SCHEDULE OF INVESTMENT EXPENSES
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan
Payments to State Investment Board:							
Investment Fees	\$ 6,387,955	\$ 170,146	\$ 379,586	\$ -	\$ -	\$ -	\$ 236,826
Administrative Expenses	493,883	13,307	-	-	-	-	-
	<u>6,881,838</u>	<u>183,453</u>	<u>379,586</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>236,826</u>
Payments to Providers:							
Investment Fees (Net of Plan Servicing Credits)	-	-	-	9,325	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,325</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investment Expenses	<u>\$ 6,881,838</u>	<u>\$ 183,453</u>	<u>\$ 379,586</u>	<u>\$ 9,325</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 236,826</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
SUPPLEMENTAL INFORMATION
SCHEDULE OF INVESTMENT EXPENSES
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan
Payments to State Investment Board:							
Investment Fees	\$ 7,099,590	\$ 192,464	\$ 335,760	\$ -	\$ -	\$ -	\$ 285,579
Administrative Expenses	392,493	10,692	-	-	-	-	-
	<u>7,492,083</u>	<u>203,156</u>	<u>335,760</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>285,579</u>
Payments to Providers:							
Investment Fees (Net of Plan Servicing Credits)	-	-	-	6,822	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,822</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investment Expenses	<u>\$ 7,492,083</u>	<u>\$ 203,156</u>	<u>\$ 335,760</u>	<u>\$ 6,822</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 285,579</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
SUPPLEMENTAL INFORMATION
SCHEDULE OF ADMINISTRATIVE EXPENSES
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**SCHEDULE OF ADMINISTRATIVE EXPENSES
Fiduciary Funds
For the Fiscal Year Ended June 30, 2018**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan
Personnel Services:							
Salaries	\$ 851,963	\$ 5,817	\$ 65,326	\$ 2,142	\$ 179,669	\$ 335,062	\$ 3,212
Social Security	61,943	423	4,692	154	12,895	24,333	231
Retirement	98,042	669	7,572	248	20,571	39,045	372
Insurance	218,335	1,491	15,177	498	39,959	66,611	746
Total Personnel Services	1,230,283	8,400	92,767	3,042	253,094	465,051	4,561
Professional Services:							
Actuarial	67,850	13,150	19,900	-	-	-	34,500
Audit	43,162	295	20,584	101	11,235	21,728	152
Data Processing	287,906	1,966	22,210	1,916	67,030	132,349	1,093
Consulting	139,467	952	27,869	100	12,115	17,844	1,008
Legal Counsel	25,596	175	1,687	2,028	4,524	6,958	83
Misc Outside Services	22,682	154	237,035	58	102,768	10,030	1,658
Total Professional Services	586,663	16,692	329,285	4,203	197,672	188,909	38,494
Communication:							
Printing	11,099	76	848	28	1,155	1,155	43
Postage	37,477	256	3,547	148	5,101	5,125	106
Telephone	8,697	59	610	20	1,557	2,392	30
Total Communication	57,273	391	5,005	196	7,813	8,672	179
Rentals:							
Equipment Rent	1,792	12	142	5	451	902	4
Office Rent	68,694	469	5,454	179	17,291	34,330	268
Total Rentals	70,486	481	5,596	184	17,742	35,232	272
Miscellaneous:							
Depreciation/Amortization	390,104	3,447	37,454	2,672	98,192	196,385	2,289
Dues & Prof Development	13,996	96	579	619	592	1,366	29
Insurance	371	3	29	1	92	189	1
Repairs and Maintenance	2,119	14	168	6	533	1,069	8
Supplies	106,903	730	8,495	378	26,828	53,757	418
Travel	14,563	99	866	28	1,488	2,075	44
Total Miscellaneous	528,056	4,389	47,591	3,704	127,725	254,841	2,789
Total Administrative Expenses	\$ 2,472,761	\$ 30,353	\$ 480,244	\$ 11,329	\$ 604,046	\$ 952,705	\$ 46,295

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
SUPPLEMENTAL INFORMATION
SCHEDULE OF ADMINISTRATIVE EXPENSES
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**SCHEDULE OF ADMINISTRATIVE EXPENSES
Fiduciary Funds
For the Fiscal Year Ended June 30, 2017**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan
Personnel Services:							
Salaries	\$ 877,336	\$ 6,034	\$ 76,524	\$ 3,518	\$ 187,696	\$ 363,557	\$ 3,298
Social Security Retirement	64,091	441	5,562	256	13,642	26,561	240
Insurance	102,873	708	8,996	414	21,663	41,934	388
	195,691	1,346	15,927	732	37,318	65,788	686
Total Personnel Services	1,239,991	8,529	107,009	4,920	260,319	497,840	4,612
Professional Services:							
Actuarial	182,194	12,750	12,000	-	-	-	-
Audit	80,503	554	4,259	208	7,613	14,672	184
Data Processing	286,130	1,968	25,520	2,366	71,134	134,250	1,100
Consulting	75,629	520	2,850	21,596	1,823	38,285	620
Legal Counsel	20,708	142	2,256	1,066	3,661	7,129	743
Misc Outside Services	24,156	172	224,798	320	102,038	10,120	1,971
Total Professional Services	669,320	16,106	271,683	25,556	186,269	204,456	4,618
Communication:							
Printing	24,438	168	2,082	96	4,163	4,102	90
Postage	63,782	439	5,954	274	14,378	14,435	257
Telephone	8,838	61	708	33	1,563	2,418	31
Total Communication	97,058	668	8,744	403	20,104	20,955	378
Rentals:							
Equipment Rent	2,288	16	208	10	576	1,152	9
Office Rent	66,370	456	6,043	278	16,707	33,188	260
Total Rentals	68,658	472	6,251	288	17,283	34,340	269
Miscellaneous:							
Depreciation/Amortization	390,104	3,447	37,454	2,672	98,192	196,385	2,289
Dues & Prof Development	13,033	90	745	34	947	2,514	32
Insurance	382	3	35	2	96	192	2
Repairs and Maintenance	2,713	20	247	11	683	1,366	11
Supplies	113,211	772	10,336	572	28,298	56,955	442
Travel	12,773	88	716	33	180	2,294	31
Total Miscellaneous	532,216	4,420	49,533	3,324	128,396	259,706	2,807
Total Administrative Expenses	\$ 2,607,243	\$ 30,195	\$ 443,220	\$ 34,491	\$ 612,371	\$ 1,017,297	\$ 12,684

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
SUPPLEMENTAL INFORMATION
SCHEDULE OF CONSULTANT EXPENSES
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan
Actuary Fees:							
Gabriel Roeder Smith & Co	\$ 67,850	\$ 13,150	\$ 19,900	\$ -	\$ -	\$ -	\$ 34,500
Audit/Accounting Fees:							
CliftonLarsonAllen LLP	43,162	295	20,584	101	11,235	21,728	152
Disability Consulting Fees:							
Mid Dakota Clinic	7,050	-	-	-	-	-	-
IT Consulting:							
Sagitec Solution LLC	179,127	1,226	14,260	468	45,088	90,177	701
Agency MABU	487	-	-	-	122	243	-
Miscellaneous Consulting Fees:							
Gabriel Roeder Smith & Co	99,857	952	27,869	100	2,700	7,529	1,008
Groom Law	1,300	-	-	-	1,600	2,500	-
EFL Associates	31,260	-	-	-	7,815	7,815	-
Ice Miller, LLP	192	2	92	3	50	97	5
ND Attorney General	25,404	173	1,595	2,025	4,474	6,862	78
Totals	<u>\$ 455,689</u>	<u>\$ 15,798</u>	<u>\$ 84,300</u>	<u>\$ 2,697</u>	<u>\$ 73,084</u>	<u>\$ 136,951</u>	<u>\$ 36,444</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
SUPPLEMENTAL INFORMATION
SCHEDULE OF CONSULTANT EXPENSES
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**Schedule of Consultant Expenses
Fiduciary Funds
For the Fiscal Year Ended June 30, 2017**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan
Actuary Fees:							
Gabriel Roeder Smith & Co	\$ 118,031	\$ 12,750	\$ 12,000	\$ -	\$ -	\$ -	\$ -
The Segal Company	64,163	-	-	-	-	-	-
Audit/Accounting Fees:							
CliftonLarsonAllen LLP	80,503	554	4,259	208	7,613	14,672	184
Disability Consulting Fees:							
Mid Dakota Clinic	9,000	-	-	-	-	-	-
IT Consulting:							
Sagitec Solution LLC	175,439	1,336	17,684	813	44,194	88,388	762
Agency MABU	18,784	-	-	-	4,696	9,392	-
Miscellaneous Consulting Fees:							
Gabriel Roeder Smith & Co	53,227	520	2,850	-	1,823	15,878	620
The Segal Company	10,168	-	-	21,596	-	22,407	-
Callan Associates, Inc.	3,234	-	-	-	-	-	-
Ice Miller, LLP	478	3	360	17	-	-	16
ND Attorney General	20,231	139	1,896	1,050	3,661	7,129	728
Totals	<u>\$ 553,258</u>	<u>\$ 15,302</u>	<u>\$ 39,049</u>	<u>\$ 23,684</u>	<u>\$ 61,987</u>	<u>\$ 157,866</u>	<u>\$ 2,310</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF APPROPRIATIONS
FOR THE YEAR ENDED JUNE 30, 2018**

	Approved 2017-2019	2018 Expenditures	Unexpended
ALL FUND TYPES			
Salaries and Wages	6,316,169	3,099,669	3,216,500
Accrued Leave payments	0	0	0
Operating Expenses	2,692,221	1,271,096	1,421,125
Contingency	250,000	0	250,000
	<u>9,258,390</u>	<u>4,370,765</u>	<u>4,887,625</u>

Reconciliation of Administrative Expenses to Appropriated Expenditures

Administrative expenses as reflected in the financial statements	<u>2018</u>
Pension trust funds	4,597,733
Enterprise funds - Group Insurance	<u>356,794,785</u>
Total administrative expenses	361,392,518
Adjustments:	
Change in accrued compensated absences	58,152
Professional Fees, premiums and benefits paid pursuant to NDCC54-52-04(6)	(356,054,816)
Amortization Expense	(1,025,120)
Contribution/premium over & short	<u>31</u>
	<u><u>4,370,765</u></u>



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

Governor Doug Burgum
The Legislative Assembly

Scott Miller, Executive Director
North Dakota Public Employees Retirement System
Bismarck, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the proprietary fund and each of the individual fiduciary funds of the North Dakota Public Employees Retirement System (the System), a department of the State of North Dakota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated November 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

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

CliftonLarsonAllen LLP

Baltimore, Maryland
November 28, 2018

**Special Comments Requested by the Legislative Audit
and Fiscal Review Committee
Year Ended June 30, 2018**

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

Audit Report Communications

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

Yes.

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

Yes

Contribution Rates

Contributions to ND PERS are based on fixed statutory rates. The cumulative contribution deficiency over the past 10 years between the actuarially determined contributions and the contributions in relation to the actuarially determined contributions for ND PERS' Public Employees Retirement System plan (also referred to as the Main System) was \$402,495,000 as documented below in the schedule of employer contributions which is located in the required supplementary information section of the financial statements.

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially Determined Contribution	125,714	116,564	124,336	107,514	107,864	97,985	91,458	82,910	54,158	40,327
Contributions in Relation to the Actuarially Determined Contribution	80,727	78,934	77,081	70,843	61,661	48,847	38,006	32,278	30,253	27,705
Contribution Deficiency (Excess)	44,987	37,630	47,255	36,671	46,203	49,138	53,452	50,632	23,905	12,622

The Main System's Plan Fiduciary Net Position as a Percentage of the Total Pension Liability has decreased from 78.18% in 2014 to 63.53% in 2018 as presented in the Schedule of Changes to the Net Pension Liability and Related Ratios which is also located in the required supplementary information section of the financial statements. One of the contributing factors to this decrease is the contribution deficiency.

ND PERS' actuary, GRS, noted the following in their actuarial valuation as of July 1, 2018 for the Main System:

"Based on the current actuarial valuation and the current actuarial assumptions and methods and benefit provisions, the current total statutory contribution rate of 14.12% for the Main System is not expected to ever amortize the unfunded liability. The Main System funded ratio is projected to ultimately decrease from the current funded ratio of about 72 percent. We recommend an increase to the Main System total statutory contribution rate (to at least 16.69%) such that the unfunded liability is amortized over a period of no longer than 30 years and the Main System funded ratio will increase toward 100%."

We recommend that management continue to monitor the impact of the current statutory contribution rates on the funding of the Main System and continue to work toward adjusting those rates in accordance with the actuary's recommendations above.

Management's Response

For the 2019 legislative session, NDPERS will be introducing three bills to help the funding of the retirement plan. These include:

1. The final year of the four-year recovery plan – with 1% employer and 1% employee contribution increases becoming effective January 1, 2020
2. Eliminate the Retiree Health Insurance Credit benefit for new hires after December 31, 2019 and redirect the employer contribution into the retirement fund
3. Reduce the multiplier from 2% to 1.75% for new hires after December 31, 2019

The passage of the last year of the recovery plan will increase contributions to 16.12%, which is very close to the recommendation of the actuary. In addition, passage of the benefit reductions and related redirection of contributions into the retirement plan, together with the contribution increase, would significantly accelerate the timeframe in which the plan is projected to become 100% funded.

Information Security

An internal vulnerability assessment (IVA) or penetration test (PEN) has not been performed since 2015. The North Dakota Information Technology Department (ND ITD) contracts with an external third party vendor biennially to perform scanning for ND ITD's environment, but there is no follow up with individual agencies or departments to determine whether open action items from the ND ITD summary report have been mitigated or remediated. Additionally, ND PERS has not performed an internal vulnerability assessment (IVA) or penetration test at the agency level, which presents the risk of unknown vulnerabilities with reference to IT systems, applications and data. We recommend ND PERS consider the utilization of an independent third party to perform an IVA and PEN test to evaluate internal and external vulnerabilities and threats to the organization.

ND PERS management does not actively obtain, review and document their review of the service organization control (SOC) reports from either ADP, or ND ITD to show they have reviewed exceptions noted within the report or mapped complimentary user entity controls (CUEC's) to existing internal controls. While a SOC 3 report was made available by ND ITD to ND PERS while CLA was on-site, the report does not provide detail of testing performed or controls identified. The SOC 3 report also does not provide clarity on the scope or extent of the report to the reader, and is only conducted every two years. ND PERS does not have access or insight to assess CUEC items or carve out activity, as another organization handles intrusion detection and monitoring. We recommend ND PERS obtain and review the SOC reports annually for both ADP and ND ITD and examine the reports for controls tested, any exceptions noted that may impact services that are provided to ND ITD. ND PERS should also document the review of the SOC and map complimentary user entity controls (CUEC's) for which the organization is responsible for implementing to existing internal controls.

Management's Response

Management agrees with this assessment and will be doing the following:

1. Meet with ITD to discuss the status of open action items from internal vulnerability assessments and penetration testing, to determine if they have been mitigated or remediated. In addition, we will request that ITD provide an update on timing and frequency of future vulnerability and penetration testing.
2. Establish a SOC review committee to document and discuss the SOC reports from all our third party administrators.
3. Funding for an IT risk assessment has been included in the agency's budget request submitted for the 2019-21 biennium. This would include an independent penetration test as well as an overall assessment of our IT environment. The outcome of this funding request will not be known until agency appropriations have been passed by the 2019 Legislative Assembly.

IT Risk Assessment

The IT Risk Assessment for ND PERS has not been updated since 2016 and does not include factors regarding ND ITD, including any exceptions noted or complimentary user entity control considerations (CUEC's) from the ND ITD SOC report. The risk assessment also does not appear to evidence whether the risks are specifically monitored or updated with stakeholders, IT, etc. We recommend ND PERS perform annual updates of the IT Risk Assessment to incorporate and update new and existing risks within the assessment. Additionally, factors regarding ND ITD, including any exceptions noted or CUEC's from the ND ITD SOC report. ND PERS should periodically conduct discussions with stakeholders, IT, etc. to ensure risks identified are being monitored and mitigated by responsible business areas.

Management's Response

Management agrees with this assessment and will be reviewing and updating the NDPERS IT Risk Assessment before the end of fiscal year 2019 and establishing a process to review and update the assessment on a more frequent basis.

Audit Committee Communications

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

There were no significant changes in accounting policies, conflicts of interest, contingent liabilities, or significant unusual transactions.

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

The fair value of alternative investments, including private equity and real estate investments, are a management estimate that is primarily based upon net asset values reported by the investment managers. The fair values for these investments are reported based upon the most recent financial data available and are adjusted for cash flows through June 30, 2018. Our audit procedures validated this approach through the use of confirmations sent directly to a sample of investment managers and the review of the most recent audited financial statements for these sampled funds. Furthermore, we reviewed management's estimate and found it to be reasonable in relation to the financial statements taken as a whole.

The actuarial valuations include management estimates that were based on the actuarial assumptions and methods adopted by the Board, including an actuarial expected investment rate of return of 7.75% for the Public Employees Retirement System (PERS), Highway Patrolmen's Retirement System (HPRS), 7.50% for the Retiree Health Insurance Credit Fund (RHIC) and 4.75% for the Retirement Plan for Employees of Job Services North Dakota (JSD).

The discount rate used for HPRS, RHIC and JSD was equal to their respective expected investment rate of return.

The discount rate for PERS was a Single Discount Rate (SDR) of 6.32%. The SDR is required when assets are not projected to be sufficient to meet future benefit obligations. The SDR reflects (1) the expected investment rate of return on pension plan investments during the period in which the fiduciary net position is projected to be sufficient to pay benefits and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (3.62%), to the extent that the contributions for use with the long-term expected rate of return are not met.

In accordance with GASB 67, the total pension liability of the PERS, HPRS and JSD were calculated with an actuarial valuation and measurement date of June 30, 2018. In accordance with GASB 74, the total OPEB liability of the RHIC was calculated with an actuarial valuation and measurement date of June 30, 2018. We evaluated the key factors and assumptions used to develop the estimate of the total pension and OPEB liabilities in determining that they are reasonable in relation to the financial statements taken as a whole.

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

Based on the audit procedures performed, the System's critical information technology system is PERSLink. There were no exceptions identified that were directly related to this application.

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

CliftonLarsonAllen LLP

Baltimore, Maryland
November 28, 2018