NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
BISMARCK, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Governor Jack Dalrymple
The Legislative Assembly

Sparb Collins, Executive Director
North Dakota Public Employees Retirement System

We have audited the accompanying financial statements of the business-type activities and fiduciary funds of the North Dakota Public Employees Retirement System, a department of the State of North Dakota, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the North Dakota Public Employees Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of the North Dakota Public Employees Retirement System are intended to present the financial position, the changes in financial position, the cash flows and the change in net plan assets of only that portion of the business-type activities and fiduciary funds of the State of North Dakota that is attributable to the transactions of the North Dakota Public Employees Retirement System. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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The actuary for the North Dakota Public Employees Retirement System has determined that the Fund's unfunded actuarial accrued liability is approximately $873 and $689 million at June 30, 2012 and 2011, respectively. Also, the actuary for the Highway Patrolmen's Retirement System has determined that the Fund's unfunded actuarial accrued liability is approximately $20 and $17 million at June 30, 2012 and 2011. The funding for the actuarial accrued liabilities is predicated on employer and employee funding rates mandated by North Dakota statutes. The actuary has determined that the current statutory contribution rates are insufficient to meet the actuarially determined requirement. If unchanged, this difference will further increase the actuarial contribution requirement in future valuations.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the plan net assets of the North Dakota Public Employees Retirement System as of June 30, 2012 and 2011, and the respective changes in net plan assets, changes in financial position and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 15 to the financial statements, the North Dakota Public Employees Retirement System was recognizing financial activity in its proprietary fund that was disclosed only in the Statement of Net Assets in the prior year.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 16, 2012, on our consideration of the North Dakota Public Employees Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Dakota Public Employees Retirement System's basic financial statements. The Schedule of Investment Expenses and Administrative Expenses-Fiduciary Funds and the Statement of Appropriations are presented for the purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

November 16, 2012

Our discussion and analysis of the North Dakota Public Employees Retirement System financial performance provides an overview of the agency's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the basic financial statements, which follow this discussion.

NDPERS administers a total of eight fiduciary funds. This includes four defined benefit pension trust funds (PERS, Highway Patrol, Job Service and OASIS), 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, 2012 and 2011, the funding ratio (actuarial value of assets divided by actuarial accrued liability) for each of the funds is shown below:

	2012	2011
Public Employees Retirement System	65.1%	70.5%
Highway Patrolmen Retirement System	70.3%	73.7%
Retirement Plan for Employees of Job Service of ND	105.2%	110.0%
Retiree Health Insurance Credit Fund	51.9%	49.6%

NDPERS' funding objective is to meet long-term benefit promises through contributions and investment income. The funding ratio listed above gives an indication of how well this objective has been met to date. The higher the funding ratio, the better the plan is funded. The funding ratios for the Public Employees, Highway Patrolmen and Job Service retirement systems decreased from the previous fiscal year as a result of the recognition of previous years' investment losses.

- Plan net assets for all trust funds administered by NDPERS decreased $17.3 million or .85% during the fiscal year ended June 30, 2012. The change in net assets is primarily due to gains and losses in the financial markets during the fiscal year.

	(in thousands)
Public Employees Retirement System	$ (24,017)
Highway Patrolmen Retirement System	(1,462)
Retiree Health Insurance Credit Fund	5,163
Defined Contribution Retirement Fund	1,410
Pretax Benefits Fund	(32)
Deferred Compensation Plan	2,683
Retirement Plan for Employees of Job Service ND	(1,013)
Total decrease in plan net assets	$ (17,268)

- As of June 30, 2012, an additional $49,000 in software development costs were incurred and capitalized and are shown as Software on the Statement of Plan Net Assets for each fund. The total costs capitalized as of June 30, 2012 are $7.1 million, of which $6.9 million is software that has been placed into production.

Financial Highlights – Uniform Group Insurance Program

- Net assets increased by $419,906 or 4%. This is due to the receipt of additional revenue under the pre-Medicare retiree reinsurance provision of the federal health care reform bill.

- As of June 30, 2012, an additional $19,000 in software development costs were incurred and capitalized and are shown as Software on the Statement of Net Assets for the Proprietary Fund. The total costs capitalized as of June 30, 2012 are $2.86 million of which $2.78 million is software that has been placed into production.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the basic financial statements for NDPERS, which include the fund financial statements, notes to the financial statements, required supplementary information and other supplementary information.

Fund financial statements. There are two financial statements presented for the fiduciary funds. The Statement of Fiduciary Net Assets as of June 30, 2012, indicates the net assets available to pay future payments and gives a snapshot at a particular point in time. The Statement of Changes in Fiduciary Net Assets for the year ended June 30, 2012, provides 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 Statement of Net Assets as of June 30, 2012, provides a snapshot at a particular point in time of the net assets available for use by this program. The Statement of Revenues, Expenses, and Changes in Fund Net Assets for the year ended June 30, 2012, provides a view of the current year's operating and non-operating revenues and expenses for the enterprise fund. The Statement of Cash Flows for the year ended June 30, 2012 shows the cash used by operating activities as well as the net increase in cash due to operating and investing activities.

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 include information on the funding status, funding progress and actuarial assumptions and methods for each of the defined benefit pension trust funds and the retiree health insurance credit advance funded and implicit subsidy unfunded plans. The notes to the financial statements can be found on pages 17-59 of this report.

Required supplementary information. The required supplementary information consists of a Schedule of Employer Contributions and a Schedule of Funding Progress for the defined benefit pension trust funds, the retiree health insurance credit advance funded plan and implicit subsidy unfunded plan. These schedules provide historical trend information, which contributes to understanding the changes in the funded status of the funds over time.

Other supplementary schedules. The Schedule of Investment and Administrative Expenses and Statement of Appropriations are presented for the purpose of additional analysis.

Financial Analysis

The financial results for fiscal years 2012 and 2011 are summarized below. The information in the tables below is condensed from the Financial Statements.

Statement of Fiduciary Net Assets (in thousands)

	June 30, 2012	% Change	June 30, 2011	% Change	June 30, 2010
Assets					
Cash	$ 4,140	29.9%	$ 3,188	31.7%	$ 2,421
Receivables	11,707	15.4%	10,144	14.9%	8,825
Investments, at fair value	1,981,045	-1.0%	2,000,908	19.4%	1,676,069
Securities Lending Collateral	-	NA	-	-100.0%	9,913
Prepaid expenses	527	7.3%	491	NA	-
Software & Equipment, net of accum depr.	5,882	-9.8%	6,522	7.4%	6,074
Total assets	2,003,301	-0.9%	2,021,253	18.7%	1,703,302
Liabilities					
Long-term liabilities outstanding	141	-4.7%	148	10.4%	134
Other liabilities	3,230	-17.3%	3,907	-70.8%	13,375
Total liabilities	3,371	-16.9%	4,055	-70.0%	13,509
Net assets available for benefits	$ 1,999,930	-0.9%	$ 2,017,198	19.4%	$ 1,689,793

The total assets for all fiduciary funds as of June 30, 2012 were $2 billion and were comprised mainly of investments. For the fiscal year ended June 30, 2012, plan assets decreased by $18 million. This decrease was primarily due to losses in the financial markets during the fiscal year. For the fiscal year ended June 30, 2011, plan assets increased by $317.9 million, due to financial market gains. During fiscal year 2011, the securities lending program was terminated so there was no invested securities lending collateral as of June 30, 2011 and 2012.

Total liabilities as of June 30, 2012 were $3.4 million, a decrease of $.7 million from the previous fiscal year. Total liabilities decreased $9.5 million for the fiscal year ended June 30, 2011 as a result of changes in securities lending collateral. There was no securities lending collateral as of June 30, 2011 and 2012 because the securities lending program was terminated.

Statement of Changes in Fiduciary Net Assets (in thousands)

	June 30, 2012	% Change	June 30, 2011	% Change	June 30, 2010
Additions					
Contributions	$ 105,968	14.6%	$ 92,457	5.4%	$ 87,718
Investment income	2,065	-99.4%	350,417	75.5%	199,619
Other	7,862	58.9%	4,949	-2.9%	5,097
Total additions	115,895	-74.1%	447,823	53.1%	292,434
Deductions					
Benefit payments	124,464	11.1%	111,984	8.3%	103,445
Refunds/Transfers	5,422	0.7%	5,382	20.0%	4,484
Administrative expenses	3,277	7.4%	3,052	47.5%	2,069
Total deductions	133,163	10.6%	120,418	9.5%	109,998
Changes in net assets available for benefits	$ (17,268)	-105.3%	$ 327,405	79.5%	$ 182,436

Additions. Contributions and returns on invested funds are the primary additions that are accumulated and used to pay benefits for each of the plans. Contributions increased $13.5 million and $4.7 million for the years ended June 30, 2012 and 2011, respectively. The increases in the employee and employer contribution rates to the pension plans, which became effective January 1, 2012, are reflected in the increase for June 30, 2012. The plans experienced positive investment earnings of $2.1 million and $350.4 million for the fiscal years ending June 30, 2012 and June 30, 2011. The increase in Other Additions for June 30, 2012 is primarily due to an increase in service purchase payments during the fiscal year.

Deductions. Deductions include benefit payments, refunds/transfers, and administrative expenses. Deductions for the year ended June 30, 2012 totaled $133.2 million, an increase of $12.7 million over 2011. Of the total increase, $12.5 million was due to the increase in the number of benefit recipients and $.2 million was an increase in administrative expenses. The increase in administrative expenses is attributable to there being a full year of amortization expense on the software that was put into production during fiscal year 2011. Expenses for the year ended June 30, 2011 totaled $120.4 million which is an increase of 9.5% from 2010.

Statement of Proprietary Fund Net Assets (in thousands)

	June 30, 2012	% Change	June 30, 2011	% Change	June 30, 2010
Assets					
Cash	$ 13,805	8.7%	$ 12,701	14.2%	$ 11,126
Receivables	404	-6.9%	434	478.7%	75
Software	2,372	-9.8%	2,630	7.3%	2,450
Total assets	16,581	5.2%	15,765	15.5%	13,651
Liabilities					
Long-term liabilities outstanding	69	4.5%	66	17.9%	56
Other liabilities	5,608	7.5%	5,215	23.0%	4,240
Total liabilities	5,677	7.5%	5,281	22.9%	4,296
Net assets	$ 10,904	4.0%	$ 10,484	12.1%	$ 9,355

As of June 30, 2012, total assets increased by $.42 million or 4.0%, which is a combination of an increase in cash, offset by a decrease in software due to amortization. Cash increased in both 2012 and 2011 due to payments received in each year through the pre-Medicare retiree reinsurance provision created under the health care reform bill, which is further explained in Note 11.

As of June 30, 2012, total liabilities increased by $.4 million or 7.5%, and as of June 30, 2011, total liabilities increased by $.99 million or 12.1%. The main component of liabilities is deferred premiums which represents premiums received before they are due.

The net assets of the proprietary fund consist primarily of cash and are to be used for the following:

- To pay the administrative expenses of the uniform group insurance program
- To reduce premium payments or premium increases, or
- To increase insurance coverage

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

	June 30, 2012	% Change	June 30, 2011	% Change	June 30, 2010
Operating Revenues					
Claim reimbursements	$ 987	-42.7%	$ 1,724	255.2%	$ 65
Administrative Fee	1,000	3.8%	963	1.5%	949
Total Operating Revenues	1,987	-26.1%	2,687	165.0%	1,014
Non-Operating Revenues					
Net Investment income	55	-25.7%	74	-30.8%	107
Total revenues	2,042	-26.0%	2,761	146.3%	1,121
Operating Expenses					
Insurance Benefits	45	-73.7%	171	NA	-
Administrative expenses	1,353	12.8%	1,199	26.5%	948
Total Operating Expenses	1,398	2.0%	1,370	44.5%	948
Non-Operating Expense					
Transfer Out	224	-14.5%	262	26.6%	207
Change in net assets	$ 420	-62.8%	$ 1,129	342.1%	$ (34)

Net assets decreased by $.7 million for the fiscal year ended June 30, 2012 primarily due to the payment received through the pre-Medicare retiree reinsurance program being less than what was received in 2011. Net assets increased by $1.2 million for the fiscal year ended June 30, 2011. This reflects an increase due to the retiree reinsurance program payment, offset by activity related to the software development project.

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
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012 AND 2011

	Uniform Group Insurance Program	
	2012	**Restated 2011**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,805,168	$ 12,701,211
Accounts receivable	349,826	296,346
Due from fiduciary funds	53,245	135,456
Due from other state agencies	1,315	1,315
Total current assets	14,209,554	13,134,328
Capital assets:		
Software (net of amortization)	2,295,009	2,573,270
Software (not in production)	76,626	57,017
Total capital assets	2,371,635	2,630,287
Total assets	16,581,189	15,764,615
LIABILITIES		
Current liabilities:		
Salaries payable	55,121	55,132
Accounts payable	341,587	235,191
Due to fiduciary funds	462,804	279,391
Due to other state agencies	15,278	13,226
Accrued compensated absences	4,268	3,598
Deferred premiums	4,729,052	4,628,099
Total current liabilities	5,608,110	5,214,637
Noncurrent liabilities:		
Accrued compensated absences	69,185	65,990
Total liabilities	5,677,295	5,280,627
NET ASSETS		
Invested in capital assets	2,371,635	2,630,287
Restricted for benefits	5,727,424	4,726,189
Unrestricted net assets	2,804,835	3,127,512
Total net assets	$ 10,903,894	$ 10,483,988

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

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	Uniform Group Insurance Program	
	2012	**Restated 2011**
OPERATING REVENUES:		
Administrative fee	$ 1,000,083	$ 962,657
Claim reimbursements	987,129	1,723,732
Total operating revenues	1,987,212	2,686,389
OPERATING EXPENSES:		
Insurance benefits	44,394	170,643
Salaries and wages	632,844	610,025
Operating expenses	289,475	177,655
Professional fees	108,338	145,697
Data processing	44,556	56,493
Amortization	278,261	208,644
Total operating expenses	1,397,868	1,369,157
Operating income	589,344	1,317,232
NON-OPERATING REVENUES AND EXPENSES:		
Investment income	55,652	74,617
Investment expenses	(1,000)	(1,000)
Total non-operating revenues and expenses	54,652	73,617
INCOME BEFORE TRANSFERS	643,996	1,390,849
TRANSFERS OUT	224,090	261,531
Change in net assets	419,906	1,129,318
Total net assets - beginning of year before restatement	10,483,988	828,853
Prior period adjustment - Note 15	-	8,525,817
Total net assets - beginning of year, as restated	10,483,988	9,354,670
Total net assets - end of year	$ 10,903,894	$ 10,483,988

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

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	Uniform Group Insurance Program	
	2012	**Restated 2011**
Cash Flows From Operating Activities:		
Premiums collected	$ 249,466,608	$ 227,420,933
Administrative fees collected	1,129,767	1,545,609
Payments to suppliers	(245,904)	(161,978)
Premiums paid	(248,234,748)	(225,867,844)
Payments to employees	(628,989)	(598,313)
Net Cash Provided By Operating Activities	1,486,734	2,338,407
Cash Flows From Investing Activities:		
Investment income	55,652	74,617
Investment expense	(1,000)	(1,000)
Net cash provided by investing activities	54,652	73,617
Cash Flows Used By Capital and Related Financing Activities:		
Acquisition and construction of capital assets/software	(213,339)	(575,766)
Cash Flows from Noncapital Financing Activities:		
Transfers out	(224,090)	(261,531)
Net Change in Cash and Cash Equivalents	1,103,957	1,574,727
Cash and Cash Equivalents Balance - Beginning of Year	12,701,211	11,126,484
Cash and Cash Equivalents Balance - End of Year	$ 13,805,168	$ 12,701,211
Reconciliation of Operating Income to Net Cash Provided		
Operating Income (Loss)	$ 589,344	$ 1,317,232
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By Operating Activities:		
Amortization	278,261	208,644
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(53,480)	(290,682)
(Increase) Decrease in Due From Other Funds	82,211	(66,104)
(Increase) Decrease in Due From Other State Agencies	-	(1,315)
Increase (Decrease) in Salaries Payable	(11)	1,556
Increase in Accrued Compensated Absences	3,865	10,156
Increase (Decrease) in Accounts Payable	300,126	(64,686)
Increase in Due to Fiduciary Funds	183,413	279,391
Increase (Decrease) in Due to Other State Agencies	2,052	3,162
Increase in Deferred Premiums	100,953	941,053
Total Adjustments	897,390	812,531
Net Cash Provided By Operating Activities	$ 1,486,734	$ 2,338,407

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

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF PLAN NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	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 Service North Dakota
ASSETS:							
Cash	$ 3,703,624	$ -	$ 37,158	$ 80,724	$ 214,422	$ 104,069	$ 176
Receivables:							
Contribution receivable	6,587,177	-	711,331	155,579	550,377	-	6,341
Interest receivable	2,618,666	77,746	67,527	-	-	-	63,276
Due from fiduciary funds	239,522	1,111	115,854	-	14,452	22,085	12,956
Due from proprietary funds	42,455	-	420,349	-	-	-	
Due from other state agencies	90	-	-	-	-	-	-
Total receivables	9,487,910	78,857	1,315,061	155,579	564,829	22,085	82,573
Investments, at fair value:							
Domestic equities	574,705,859	17,091,035	28,098,301	-	-	-	27,764,604
International equities	290,235,153	8,631,231	8,033,187	-	-	-	6,543,586
International fixed income	88,232,357	2,623,920	-	-	-	-	4,066,109
Domestic fixed income	304,882,279	9,066,819	25,920,425	794,568	-	-	46,031,127
Real estate	334,476,268	9,946,907	-	-	-	-	-
Mutual funds	-	-	-	21,781,144	-	40,023,768	-
Annuities	-	-	-	-	-	83,974	-
Alternative investments	100,252,385	2,981,381	-	-	-	-	-
Invested cash	27,671,620	822,919	-	-	-	-	284,806
Total investments	1,720,455,921	51,164,212	62,051,913	22,575,712	-	40,107,742	84,690,232
Prepaid expenses	707	-	525,768	-	177	354	-
Software (not in production)	102,024	1,796	10,160	664	25,542	51,084	530
Software (net of amortization)	3,038,444	25,618	291,713	21,047	765,003	1,530,006	18,031
Total assets	1,736,788,630	51,270,483	64,231,773	22,833,726	1,569,973	41,815,340	84,791,542

	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 Service North Dakota
LIABILITIES:							
Salaries payable	71,568	-	-	-	20,837	31,828	-
Accounts payable	2,444,323	-	39,229	-	11,202	15,532	77,024
Due to fiduciary funds	126,783	27,368	240,372	5,506	-	-	5,952
Due to proprietary funds	-	-	51,219	-	-	-	2,026
Due to other state agencies	22,268	-	-	-	4,665	9,047	-
Deferred contributions	-	-	-	-	-	14,575	-
Accrued compensated absences	83,792	-	-	-	26,605	39,366	-
Total liabilities	2,748,734	27,368	330,820	5,506	63,309	110,348	85,002
NET ASSETS:							
Held in trust for pension benefits	1,734,039,896	51,243,115	-	22,828,220	-	41,704,992	84,706,540
Held in trust for postemployment healthcare benefits	-	-	63,900,953	-	-	-	-
Held in trust for pretax benefits	-	-	-	-	1,506,664	-	-
Total net assets held in trust	$ 1,734,039,896	$ 51,243,115	$ 63,900,953	$ 22,828,220	$ 1,506,664	$ 41,704,992	$ 84,706,540

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

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF PLAN NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	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 Service North Dakota
ASSETS:							
Cash	$ 2,808,985	$ -	$ 62,269	$ 3,270	$ 195,982	$ 116,685	$ 597
Receivables:							
Contribution receivable	4,688,613	173,431	845,245	103,704	551,875	1,921	7,751
Interest receivable	2,666,991	79,891	66,816	-	-	-	169,686
Due from fiduciary funds	276,846	-	101,995	4,278	39,931	68,953	12,879
Due from proprietary funds	-		275,141	-	-	4,250	
Due from other state agencies	3,350	-	-	-	-	-	-
Total receivables	7,635,800	253,322	1,289,197	107,982	591,806	75,124	190,316
Investments, at fair value:							
Domestic equities	703,847,078	21,133,697	26,273,887	-	-	-	26,324,273
International equities	262,381,505	7,878,261	7,810,869	-	-	-	7,720,826
Commingled managed pool	-	-	-	2,476,058	-	-	-
International fixed income	85,111,321	2,555,551	-	-	-	-	4,295,369
Domestic fixed income	510,392,764	15,325,042	22,935,906	-	-	-	47,017,066
Real estate	98,906,281	2,969,758	-	-	-	-	-
Mutual funds	-	-	-	18,832,541	-	37,253,362	-
Annuities	-	-	-	-	-	81,156	-
Alternative investments	61,304,374	1,840,724	-	-	-	-	-
Invested cash	25,206,160	756,840	-	-	-	-	277,745
Total investments	1,747,149,483	52,459,873	57,020,662	21,308,599	-	37,334,518	85,635,279
Prepaid expenses	-	-	490,798	-	-	-	-
Software (not in production)	76,022	1,485	7,560	500	19,006	38,011	400
Software (net of amortization)	3,406,843	28,685	326,875	23,585	857,757	1,715,513	20,206
Total assets	1,761,077,133	52,743,365	59,197,361	21,443,936	1,664,551	39,279,851	85,846,798

	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 Service North Dakota
LIABILITIES:							
Salaries payable	81,293	-	-	-	20,549	32,494	-
Accounts payable	2,719,014	-	36,207	-	74,668	148,091	92,042
Due to fiduciary funds	116,601	37,944	302,611	18,223	-	-	29,501
Due to proprietary funds	1,634	-	120,907	7,092	-	-	5,823
Due to other state agencies	19,451	-	-	-	3,781	7,084	-
Deferred contributions	-	-	-	-	-	23,966	-
Accrued compensated absences	82,542	-	-	-	26,967	46,574	-
Total liabilities	3,020,535	37,944	459,725	25,315	125,965	258,209	127,366
NET ASSETS:							
Held in trust for pension benefits	1,758,056,598	52,705,421	-	21,418,621	-	39,021,642	85,719,432
Held in trust for postemployment healthcare benefits	-	-	58,737,636	-	-	-	-
Held in trust for pretax benefits	-	-	-	-	1,538,586	-	-
Total net assets held in trust	$ 1,758,056,598	$ 52,705,421	$ 58,737,636	$ 21,418,621	$ 1,538,586	$ 39,021,642	$ 85,719,432

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

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN PLAN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	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 Service North Dakota
ADDITIONS:							
Contributions:							
From employer	$ 38,005,854	$ 1,423,154	$ 9,388,040	$ 756,229	$ -	$ -	$ -
From employee	36,095,927	893,784	6,248,541	736,573	6,237,746	5,365,541	83,351
Transfers from other plans	-	-	-	188,904	-	425,000	-
From external plans	-	-	-	-	-	119,785	-
Total contributions	74,101,781	2,316,938	15,636,581	1,681,706	6,237,746	5,910,326	83,351
Investment income:							
Net change in fair value of investments	(38,969,879)	(1,168,833)	163,508	(346,694)	-	(677,974)	456,149
Interest and dividends	41,845,593	1,255,072	1,587,362	718,571	832	1,312,914	2,908,939
Less investment expense	(6,359,713)	(190,880)	(146,395)	(8,453)	-	(62,828)	(264,891)
Net investment income	(3,483,999)	(104,641)	1,604,475	363,424	832	572,112	3,100,197
Securities lending activity:							
Securities lending income	9,843	295	-	-	-	-	436
Less securities lending expenses-net of rebates	1,461	44	-	-	-	-	73
Net securities lending income	11,304	339	-	-	-	-	509
Repurchase service credit	6,503,853	13,911	423,449	-	-	-	-
FICA tax savings	-	-	-	-	675,046	-	-
Transfer from proprietary fund	-	-	-	-	-	224,090	-
Miscellaneous income	8,700	68	-	12,518	-	215	-
Total additions	77,141,639	2,226,615	17,664,505	2,057,648	6,913,624	6,706,743	3,184,057
DEDUCTIONS:							
Benefits paid to participants	94,083,387	3,661,649	-	630,885	6,306,230	3,283,524	4,170,969
Refunds	4,805,045	598	2,071	-	-	-	-
Prefunded credit applied	-	-	6,092,429	-	-	-	-
Health premiums paid	-	-	6,235,295	-	-	-	-
Transfers to other plans	412,994	-	-	-	200,910	-	-
	99,301,426	3,662,247	12,329,795	630,885	6,507,140	3,283,524	4,170,969
Administrative expenses	1,856,915	26,674	171,393	17,164	438,406	739,869	25,980
Total deductions	101,158,341	3,688,921	12,501,188	648,049	6,945,546	4,023,393	4,196,949
Change in net assets	(24,016,702)	(1,462,306)	5,163,317	1,409,599	(31,922)	2,683,350	(1,012,892)
Net assets - beginning of year	1,758,056,598	52,705,421	58,737,636	21,418,621	1,538,586	39,021,642	85,719,432
Net assets - end of year	$ 1,734,039,896	$ 51,243,115	$ 63,900,953	$ 22,828,220	$ 1,506,664	$ 41,704,992	$ 84,706,540

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

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN PLAN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	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 Service North Dakota	Oasis Trust Fund
ADDITIONS:								
Contributions:								
From employer	$ 32,278,056	$ 1,285,699	$ 8,929,903	$ 673,943	$ -	$ -	$ -	$ -
From employee	30,479,702	793,028	6,173,575	654,386	6,215,977	4,028,777	97,591	-
Transfers from other plans	-	-	-	3,156	-	668,469	-	-
From external plans	-	-	-	16,867	-	157,414	-	-
Total contributions	62,757,758	2,078,727	15,103,478	1,348,352	6,215,977	4,854,660	97,591	-
Investment income:								
Net change								
in fair value of investments	280,371,430	8,485,843	8,481,511	3,697,836	-	6,183,393	10,200,838	-
Interest and dividends	34,500,138	1,044,143	1,440,099	379,385	1,266	792,375	2,068,491	-
Less investment expense	(6,701,848)	(202,792)	(132,724)	(13,797)	-	(96,510)	(277,752)	-
Net investment income	308,169,720	9,327,194	9,788,886	4,063,424	1,266	6,879,258	11,991,577	-
Securities lending activity:								
Securities lending income	164,604	4,982	-	-	-	-	7,168	-
Less securities lending expenses-net of rebates	18,147	549	-	-	-	-	676	-
Net securities lending income	182,751	5,531	-	-	-	-	7,844	-
Repurchase service credit	3,797,333	46,844	166,962	-	-	-	-	-
FICA tax savings	-	-	-	-	663,024	-	-	-
Transfer from proprietary fund	-	-	-	-	-	261,531	-	-
Miscellaneous income	2,129	4	-	11,459	100	-	2	-
Total additions	374,909,691	11,458,300	25,059,326	5,423,235	6,880,367	11,995,449	12,097,014	-
DEDUCTIONS:								
Benefits paid to participants	84,307,028	3,531,145	-	583,352	5,931,663	1,671,278	4,012,707	-
Refunds	4,669,072	37,156	1,745	-	-	-	-	-
Prefunded credit applied	-	-	5,789,371	-	-	-	-	-
Health premiums paid	-	-	6,157,983	-	-	-	-	-
Transfer to general fund	-	-	-	-	-	-	-	2,402
Transfers to other plans	264,688	-	-	-	406,937	-	-	-
	89,240,788	3,568,301	11,949,099	583,352	6,338,600	1,671,278	4,012,707	2,402
Administrative expenses	1,797,287	22,734	151,388	18,719	394,740	640,532	26,368	-
Total deductions	91,038,075	3,591,035	12,100,487	602,071	6,733,340	2,311,810	4,039,075	2,402
Change in net assets	283,871,616	7,867,265	12,958,839	4,821,164	147,027	9,683,639	8,057,939	(2,402)
Net assets - beginning of year	1,474,184,982	44,838,156	45,778,797	16,597,457	1,391,559	29,338,003	77,661,493	2,402
Net assets - end of year	$ 1,758,056,598	$ 52,705,421	$ 58,737,636	$ 21,418,621	$ 1,538,586	$ 39,021,642	$ 85,719,432	$ -

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

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.

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

The System administers four 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 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 nonfiduciary activity is the administration and management of the uniform group insurance program. This program is a business-type activity that relies to a significant extent on fees and charges for support and is shown in the separate proprietary fund financial statements.

The State of Net Assets presents the reporting entity's non-fiduciary assets and liabilities with the difference reported as net assets. Net assets are reported in three categories:

> Invested in capital assets, net of related debt consists of capital assets, net of accumulated amortization and reduced by outstanding balances for debt that are attributed to the acquisition, construction or improvement of those assets.
>
> Restricted net assets result when constraints on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
>
> Unrestricted net assets consist of net assets that do not meet the definition of the two proceeding categories.

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

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 assets. 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 an insurance purchasing pool which 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. Since there is no pooling of risk, the disclosures relating to public entity risk pools are not applicable. Accordingly, this proprietary fund reports administrative revenue and expenses and insurance contributions and benefits.

The fiduciary fund 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 covering specified employee positions in the State of North Dakota.

Retiree Health Insurance Credit Fund – an advance funded plan to offset the member's cost of health insurance during their retirement and a plan to provide health care coverage to eligible retiree's who are not yet eligible for Medicare.

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.

Oasis Trust Fund – a cost-sharing multiple employer defined benefit retirement plan.

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

In accordance with GASB Statement No. 20, the System follows all applicable GASB pronouncements as well as private-sector standards of accounting and financial reporting issued on or before November 30, 1989 unless those standards conflict with GASB pronouncements. The System also has the option of following subsequent private-sector guidance for business-type activities and enterprise funds, subject to this same limitation.

Proprietary Funds are 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 enterprise fund are administrative fees charged to the participants in the Uniform Group Insurance Program. Operating expenses include insurance benefits paid to participants, salaries and wages and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The fiduciary fund is 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 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 Statement 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 professional fees, depreciation 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 year ending June 30, 2012 and 2011.

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.

Investments

Investments are reported at fair value. Quoted market prices, when available, have been used to value investments. The market values for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that value. International securities are valued based upon quoted foreign market prices and translated into U.S. dollars at the exchange rate in effect at June 30. In general, corporate debt securities have been valued at quoted market prices or, if not available, values are based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investment securities 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 increase (decrease) in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment sold. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current fiscal year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

Unrealized increase or decrease is computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis.

Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

Securities Lending

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

The System did not have a securities lending program in place during the fiscal year ended June 30, 2012. Income and expenses from securities lending activity appearing on the financial statements represent final activity from June 2011, not recorded until July 2011.

Derivative Securities

The System's investment policy allows investment managers to use derivative securities. Managers are specifically permitted to use Treasury futures and options, S & P 500 index futures and options, and currency forwards and futures to hedge portfolio risk, but not to speculate or to leverage the portfolio. Managers may use their discretion to use other derivatives to enhance returns, reduce risk, or facilitate the management of index funds. The System's policy with respect to these derivatives is that their use may not increase the credit, market or legal risk level associated with a fully invested portfolio of common stocks or fixed income obligations, depending on the manager's designated role.

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), and software not in production, are presented in the accompanying financial statements at cost or estimated historical cost. Donated capital assets are stated at fair market 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, 2012 and 2011 the System capitalized equipment and software in accordance with Section 54-27-21 of the North Dakota Century Code. Software not in production is not depreciated.

The capital assets are depreciated on a straight-line basis over estimated useful lives ranging from 5 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.

Deferred Contributions / Premiums

Deferred contributions consist of monies collected from participating employers for deferred compensation contributions that had not been forwarded to the investment provider company as of June 30. Deferred premiums consist of monies collected by the System from individuals or participating employers, for insurance premiums, before the premiums are due.

Transfers To Other Plans

Transfers to 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 2012 and 2011, transfers to other plans also includes operating transfers from the retirement plan and pretax benefits program to the deferred compensation plan to cover general administrative expenses and software development costs.

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 assets.

NOTE 2 DEPOSITS AND INVESTMENTS

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. Investments are stated at fair value.

	2012	2011
Cash Deposits at the Bank of North Dakota recorded as Cash and Cash Equivalents	$ 4,651,335	$ 3,761,482
Cash Deposits at State Treasury recorded as Cash and Cash Equivalents	456,797	554,204
Cash held by the North Dakota Retirement and Investment Office recorded as Cash and Cash Equivalents	6,966,111	5,667,265
Guaranteed Investment Contract with Blue Cross Blue Shield recorded as Cash and Cash Equivalents	5,871,098	5,906,048
	$ 17,945,341	$ 15,888,999

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, 2012 and 2011 the carrying amount of the System's cash deposits were $17,945,341 and $15,888,999, and the bank balances were $18,005,082 and $15,924,986. All of the System's deposits are uncollateralized and uninsured at June 30, 2012 and 2011.

Investments

Total investments of the System at fair value as of June 30, 2012 and 2011 consisted of the following:

	2012	2011
Equity Securities	$ 961,102,956	$ 1,063,370,396
Bonds and notes	481,617,604	687,633,019
Real estate	344,423,175	101,876,039
Alternative investments	103,233,766	63,145,098
Mutual funds	21,781,144	18,832,541
Commingled managed pool	-	2,476,058
Invested cash	28,779,345	26,240,745
Deferred compensation plans:		
Annuities	83,974	81,156
Mutual funds	40,023,768	37,253,362
	$ 1,981,045,732	$ 2,000,908,414

The calculation of realized gains and losses is independent of the calculation of net increase (decrease) in the fair value of plan investments and unrealized gains and losses on investments sold in the current year that had been held for more than one year and were included in the net increase (decrease) reported in the prior year(s) and the current year.

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-CREF (Fidelity Investments prior to November 1, 2011).

Credit Risk

All investments of the fund, except for the Defined Contribution Retirement Plan and the Deferred Compensation Plan 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.

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.

Investments of the Defined Contribution Retirement Plan include investments in the commingled managed pool, which is an external investment pool for fiscal year 2011 managed by Fidelity Investments. The pool is 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 below. Readers may refer to the North Dakota Retirement and Investment Office financial statements regarding highly sensitive securities that are disclosed at the SIB level.

PERS and HPRS Plan

	2012				
Type (In Thousands)	**Fair Value**	**Less Than 1 Year**	**1-6 Years**	**6-10 Years**	**Over 10 Years**
Asset Backed Securities	$ 1,788	$ -	$ 79	$ 188	$ 1,521
Commercial Mortgage-Backed	2,702	-	-	-	2,702
Corporate Bonds	57,529	971	19,522	14,942	22,094
Corporate Convertible Bonds	12,457	2,600	3,881	2,514	3,462
Government Agencies	9,297	956	1,962	4,851	1,528
Government Bonds	49,330	4,735	9,227	15,563	19,805
Gov't Mortgage and Commericial	149,464	-	558	6,726	142,180
Guaranteed Fixed Income	365	365	-	-	-
Hedge Multi-Strategy	-	-	-	-	-
Index Linked Government Bonds	533	-	-	-	533
Municipal/Provincial Bonds	5,172	418	3,078	-	1,676
Non-Government Backed CMOs	6,420	-	1,358	2,040	3,022
Other Fixed Income	931	-	931		-
Pooled Investments	137,660	30,754	60,376	46,530	-
Short Term Bills and Notes	5,471	5,471	-	-	-
Total Debt Securities	$ 439,119	$ 46,270	$ 100,972	$ 93,354	$ 198,523

PERS and HPRS Plan

	2011				
Type (In Thousands)	**Fair Value**	**Less Than 1 Year**	**1-6 Years**	**6-10 Years**	**Over 10 Years**
Asset Backed Securities	$ 3,501	$ -	$ 767	$ 529	$ 2,205
Commercial Mortgage-Backed	5,196	-	-	-	5,196
Corporate Bonds	108,670	967	35,585	34,705	37,413
Corporate Convertible Bonds	28,675	1,006	17,764	2,435	7,470
Government Agencies	24,726	57	16,937	5,693	2,039
Government Bonds	68,752	1,139	23,010	19,973	24,630
Gov't Mortgage and Commericial	60,838	-	1,124	4,170	55,544
Guaranteed Fixed Income	578	64	514	-	-
Index Linked Government Bonds	843	-	-	-	843
Municipal/Provincial Bonds	7,434	91	5,115	65	2,163
Non-Government Backed CMOs	16,759	-	-	4,874	11,885
Other Fixed Income	117	117	-	-	-
Pooled Investments	123,149	-	69,783	53,366	-
Short Term Bills and Notes	1,105	1,105	-	-	-
Total Debt Securities	$ 450,343	$ 4,546	$ 170,599	$ 125,810	$ 149,388

Job Service Retirement Plan

Type (In Thousands)	2012 Fair Value	Less Than 1 Year	1-6 Years	6-10 Years	Over 10 Years
Asset Backed Securities	$ 80	$ -	$ 3	$ 11	$ 66
Commercial Mortgage-Backed	116	-	-	-	116
Corporate Bonds	3,936	65	1,271	1,047	1,553
Corporate Convertible Bonds	859	109	295	191	264
Government Agencies	675	66	156	313	140
Government Bonds	5,020	212	1,060	1,906	1,842
Gov't Mortgage and Commercial	20,633	-	23	994	19,616
Guaranteed Fixed Income	64	64	-	-	-
Index Linked Government Bonds	41	-	-	-	41
Municipal/Provincial Bonds	230	16	138	-	76
Non-Government Backed CMOs	278	-	61	87	130
Other Fixed Income	42	-	42	-	-
Pooled Investments	17,971	5,363	10,528	2,080	-
Short Term Bills and Notes	515	515	-	-	-
Total Debt Securities	$ 50,460	$ 6,410	$ 13,577	$ 6,629	$23,844

Job Service Retirement Plan

Type (In Thousands)	2011 Fair Value	Less Than 1 Year	1-6 Years	6-10 Years	Over 10 Years
Asset Backed Securities	$ 184	$ -	$ 23	$ 24	$ 137
Commercial Mortgage-Backed	163	-	-	-	163
Corporate Bonds	6,002	45	1,851	1,932	2,174
Corporate Convertible Bonds	1,589	55	917	123	494
Government Agencies	1,120	3	798	235	84
Government Bonds	3,365	55	1,099	957	1,254
Gov't Mortgage and Commercial	2,069	-	33	132	1,904
Guaranteed Fixed Income	27	3	24	-	-
Index Linked Government Bonds	53	-	-	-	53
Municipal/Provincial Bonds	345	4	237	3	101
Non-Government Backed CMOs	737	-	-	148	589
Other Fixed Income	3	3	-	-	-
Pooled Investments	25,373	-	2,971	22,402	-
Short Term Bills and Notes	51	51	-	-	-
Total Debt Securities	$ 41,081	$ 219	$ 7,953	$ 25,956	$ 6,953

Retiree Health Insurance Credit Fund

All securities subject to interest rate risk disclosure in the Retiree Health Insurance Credit Fund are pooled investments. The market value of these securities maturing in 1-6 years is $2.728 million and maturing in 6-10 years is $23.256 million for a total market value of $25.984 million.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The System does not have a formal investment policy governing foreign currency risk. The System is invested in an external investment pool managed by SIB. A table detailing the exposure to foreign currency through the System's portion of the investment pool is reported below.

PERS and HPRS Plan

	2012			
Currency (In thousands)	**Short term**	**Debt**	**Equity**	**Total**
Australian dollar	$ (5,818)	$ 5,622	$ 4,742	$ 4,546
Brazilian real	103	2,556	-	2,659
British pound sterling	3,157	3,561	24,430	31,148
Canadian dollar	17	594	1,285	1,896
Chilean peso	1,501	-	-	1,501
Israeli shekel	9	-	332	341
Danish krone	11	-	502	513
Euro	(3,174)	1,274	39,326	37,426
Hong Kong dollar	14	-	2,414	2,428
Hungarian forint	-	1,887	-	1,887
Iceland krona	14	-	-	14
Japanese yen	(1,426)	-	17,138	15,712
Malaysian ringgit	-	2,010	-	2,010
Mexican peso	-	5,931	-	5,931
New Zealand dollar	(1,331)	1,573	-	242
Norwegian krone	104	-	1,764	1,868
Philippine peso	-	1,075	-	1,075
Polish zloty	-	2,736	-	2,736
Singapore dollar	17	-	1,080	1,097
South African rand	-	1,818	-	1,818
South Korean won	-	2,109	-	2,109
Swedish krona	25	-	2,371	2,396
Swiss franc	-	-	6,709	6,709
Turkish lira	-	2,012	-	2,012
International commingled funds (various currencies)	-	45,116	135,553	180,669
	$ (6,777)	$ 79,874	$ 237,646	$ 310,743

PERS and HPRS Plan-Continued

	2011			
Currency (In thousands)	**Short term**	**Debt**	**Equity**	**Total**
Australian dollar	$ (4,740)	$ 5,172	$ 4,025	$ 4,457
Brazilian real	(1,792)	3,055	-	1,263
British pound sterling	4,445	4,077	19,160	27,682
Canadian dollar	(923)	3,439	1,169	3,685
Chinese yukan renminbi	1,901	-	-	1,901
Israeli shekel	2	-	493	495
Danish krone	12	-	412	424
Euro	555	672	31,534	32,761
Hong Kong dollar	-	-	1,788	1,788
Hungarian forint	-	1,246	-	1,246
Iceland krona	13	-	-	13
Indian rupee	-	302	-	302
Indonesian rupiah	-	3,830	-	3,830
Japanese yen	(577)	-	13,004	12,427
Malaysian ringgit	-	2,224	-	2,224
Mexican peso	-	3,281	-	3,281
New Zealand dollar	(1,572)	1,697	-	125
Norwegian krone	41	1,984	3,887	5,912
Philippine peso	-	852	-	852
Polish zloty	-	2,904	-	2,904
Singapore dollar	1,097	-	627	1,724
South African rand	-	1,428	-	1,428
South Korean won	-	3,273	-	3,273
Swedish krona	4	-	1,388	1,392
Swiss franc	56	-	4,959	5,015
Turkish lira	1,935	-	-	1,935
International commingled funds (various currencies)	-	-	92,616	92,616
	$ 457	$ 39,436	$ 175,062	$ 214,955

Job Service Retirement Plan

	2012			
Currency (In thousands)	**Short term**	**Debt**	**Equity**	**Total**
Australian dollar	$ (241)	$ 275	$ 133	$ 167
Brazilian real	5	148	-	153
British pound sterling	156	159	847	1,162
Canadian dollar	1	45	36	82
Chilean peso	67	-	-	67
Israeli shekel	-	-	9	9
Danish krone	-	-	14	14
Euro	(136)	97	1,285	1,246
Hong Kong dollar	-	-	68	68
Hungarian forint	-	84	-	84
Iceland krona	1	-	-	1
Japanese yen	(40)	-	480	440
Malaysian ringgit	-	90	-	90
Mexican peso	-	303	-	303
New Zealand dollar	(60)	70	-	10
Norwegian krone	3	-	66	69
Philippine peso	-	82	-	82
Polish zloty	-	122	-	122
Singapore dollar	-	-	30	30
South African rand	-	81	-	81
South Korean won	-	94	-	94
Swedish krona	1	-	66	67
Swiss franc	-	-	188	188
Turkish lira	-	90	-	90
International commingled funds (various currencies)	-	2,019	1,967	3,986
	$ (243)	$ 3,759	$ 5,189	$ 8,705

Job Service Retirement Plan-Continued

	2011			
Currency (In thousands)	**Short term**	**Debt**	**Equity**	**Total**
Australian dollar	$ (232)	$ 266	$ 181	$ 215
Brazilian real	(88)	181	-	93
British pound sterling	210	200	834	1,244
Canadian dollar	(45)	185	53	193
Chinese yuan renminbi	93	-	-	93
Israeli shekel	-	-	22	22
Danish krone	1	-	18	19
Euro	3	51	1,361	1,415
Hong Kong dollar	-	-	80	80
Hungarian forint	-	61	-	61
Iceland krona	1	-	-	1
Indian rupee	-	23	-	23
Indonesian rupiah	-	250	-	250
Japanese yen	(26)	-	584	558
Malaysian ringgit	-	109	-	109
Mexican peso	-	189	-	189
New Zealand dollar	(77)	83	-	6
Norwegian krone	2	97	160	259
Philippine peso	-	65	-	65
Polish zloty	-	142	-	142
Singapore dollar	53	-	28	81
South African rand	-	70	-	70
South Korean won	-	194	-	194
Swedish krona	-	-	62	62
Swiss franc	3	-	223	226
Turkish lira	95	-	-	95
	$ (7)	$ 2,166	$ 3,606	$ 5,765

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

The June 30, 2012 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	$ 281,977	$ 126,783
Highway Patrolmen's Retirement System	1,111	27,368
Retiree Health Insurance Credit Fund	536,203	291,591
Retirement Plan for Employees of Job Service North Dakota	12,956	7,978
Pretax Benefits Program	14,452	-
Deferred Compensation Plan	22,085	-
Defined Contribution Plan	-	5,505
Proprietary		
Uniform Group Insurance Program	53,245	462,804
	$ 922,029	$ 922,029

The June 30, 2011 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	$ 276,845	$ 118,236
Highway Patrolmen's Retirement System	-	37,944
Retiree Health Insurance Credit Fund	377,136	423,518
Retirement Plan for Employees of Job Service North Dakota	12,879	35,324
Pretax Benefits Program	39,931	-
Deferred Compensation Plan	73,203	-
Defined Contribution Plan	4,278	25,315
Proprietary		
Uniform Group Insurance Program	135,456	279,391
	$ 919,728	$ 919,728

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

June 30, 2012 due from/to state agencies are summarized as follows:

Fund	Due From State Agencies	Due To State Agencies
Fiduciary		
Public Employees Retirement System		
ITD	$ -	$ 5,836
Attorney General	-	554
Office of Management and Budget	-	15,878
State Fair Association	90	-
Total	$ 90	$ 22,268
Pretax Benefits Program		
ITD	$ -	931
Attorney General	-	139
Office of Management and Budget	-	3,595
Total	$ -	$ 4,665
Deferred Compensation Plan		
ITD	$ -	$ 1,583
Attorney General	-	277
Office of Management and Budget	-	7,187
Total	$ -	$ 9,047
Proprietary		
Uniform Group Insurance Program		
State Fair Association	$ 197	$ -
Office of Management and Budget	1,111	10,782
ITD	-	3,795
Attorney General	7	701
Total	$ 1,315	$ 15,278

The June 30, 2011 due from/to state agencies are summarized as follows:

Fund	Due From State Agencies	Due To State Agencies
Fiduciary		
Public Employees Retirement System		
State Auditor's Office	$ 100	$ -
State Tax Department	40	-
ND Supreme Court	80	-
Health Department	260	-
Department of Human Services	880	-
Job Service	420	-
Insurance Department	20	-
Industrial Commission	40	-
Department of Labor	80	-
Workforce Safety and Insurance	60	-
Highway Patrol	80	-
Department of Corrections	80	-
Adjutant General	200	-
Department of Commerce	140	-
Department of Agriculture	40	-
State Fair Association	90	-
Game and Fish	40	-
Water Commission	20	-
Department of Transportation	500	371
ITD	-	8,198
Attorney General	80	330
Office of Management and Budget	100	10,471
Secretary of State	-	81
Total	$ 3,350	$ 19,451
Pretax Benefits Program		
Secretary of State	$ -	$ 20
ITD	-	1,070
Attorney General	-	82
Office of Management and Budget		2,609
Total	$ -	$ 3,781
Deferred Compensation Plan		
ITD	$ -	$ 1,646
Attorney General	-	163
Office of Management and Budget	-	5,218
Department of Transporation	-	16
Secretary of State	-	41
Total	$ -	$ 7,084
Proprietary		
Uniform Group Insurance Program		
Department of Transportation	$ -	$ 99
Office of Management and Budget	1,111	7,827
ITD	-	4,945
Attorney General	7	294
Secretary of State	-	61
State Fair Association	197	-
Total	$ 1,315	$ 13,226

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.

The June 30, 2012 transfers in/out are summarized as follows:

Fund Type/Fund	Transfers In	Transfers Out
Fiduciary Funds		
Defined Contribution Retirement Fund	$ 188,904	$ -
Pretax Benefit Program	-	200,910
Deferred Compensation Plan	649,090	-
Public Employees Retirement System	-	412,994
Proprietary Funds		
Uniform Group Insurance Program	-	224,090

The June 30, 2011 operating transfers in/out are summarized as follows:

Fund Type/Fund	Transfers In	Transfers Out
Fiduciary Funds		
Defined Contribution Retirement Fund	$ 3,156	$ -
Pretax Benefit Program	-	406,937
Deferred Compensation Plan	930,000	-
Public Employees Retirement System	-	264,688
Proprietary Funds		
Uniform Group Insurance Program	-	261,531

The transfer to the Defined Contribution Retirement Fund is for those employees electing to transfer from the defined benefit plan. The transfers to the Deferred Compensation Plan are to cover administrative expenses with FICA savings earned in the Pretax Benefit Program and additional transfers were made from the retirement and group insurance funds to cover software development costs.

NOTE 4 CAPITAL ASSETS

A statement of changes in equipment and accumulated depreciation for the System for the year ended June 30, 2012 and 2011 is as follows:

	Balance 7/1/2011	Additions	Deletions	Balance 6/30/2012
Proprietary Funds:				
Capital assets not being depreciated:				
Software (not in production)	$ 57,017	$ 19,609	$ -	$ 76,626
Capital assets being depreciated:				
Software	2,781,913	-	-	2,781,913
Less: Accumulated amortization for:				
Software	(208,643)	(278,261)	-	(486,904)
Total capital assets being depr., net	2,573,270	(278,261)	-	2,295,009
Proprietary Funds capital assets, net	$ 2,630,287	$ (258,652)	$ -	$ 2,371,635
Fiduciary Funds:				
Capital assets not being depreciated:				
Software (not in production)	$ 142,984	$ 48,816	$ -	$ 191,800
Capital assets being depreciated:				
Software	6,896,716	-	-	6,896,716
Equipment	11,527	-	-	11,527
Total capital assets being depreciated	6,908,243	-	-	6,908,243
Less: Accumulated amort/depr. for:				
Equipment	(11,527)	-	-	(11,527)
Software	(517,252)	(689,902)	-	(1,207,154)
Total capital assets being depr. net	6,379,464	(689,902)	-	5,689,562
Fiduciary Funds capital assets, net	$ 6,522,448	$ (641,086)	$ -	$ 5,881,362

	Balance 7/1/2010	Additions	Deletions	Balance 6/30/2011
Proprietary Funds:				
Capital assets not being depreciated:				
Software (not in production)	$ 2,449,576	$ 389,354	$2,781,913	$ 57,017
Capital assets being depreciated:				
Software	-	2,781,913	$ -	2,781,913
Less: Accumulated amortization for:				
Software	-	(208,643)	-	(208,643)
Total capital assets being depr., net	-	2,573,270	$ -	2,573,270
Proprietary Funds capital assets, net	$ 2,449,576	$ 2,962,624	$2,781,913	$ 2,630,287
Fiduciary Funds:				
Capital assets not being depreciated:				
Software (not in production)	$ 6,072,754	$ 966,946	$6,896,716	$ 142,984
Capital assets being depreciated:				
Software	-	6,896,716	-	6,896,716
Equipment	11,527	-	-	11,527
Total capital assets being depreciated	11,527	6,896,716	-	6,908,243
Less: Accumulated amort/depr. for:				
Equipment	(10,606)	(921)	-	(11,527)
Software	-	(517,252)	-	(517,252)
Total capital assets being depr. net	921	6,378,543	-	6,379,464
Fiduciary Funds capital assets, net	$ 6,073,675	$ 7,345,489	$6,896,716	$ 6,522,448

NOTE 5 LEASE OBLIGATIONS

Operating Lease

The department has entered into an operating lease for office space until June 30, 2013. Expenditures for this lease were $124,356 and $113,868 for the years ended June 30, 2012 and 2011, respectively. The future minimum lease payment for the fiscal year ending June 30, 2013 is $124,356.

The department has also entered into an operating lease for office equipment until February 28, 2014. Expenditures for this lease were $2,561 and $854 for the years ended June 30, 2012 and 2011, respectively. The future minimum lease payments for the fiscal years ending June 30, 2013 and 2014 are $2,561 and $1,707, respectively.

The leases contain 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

	Proprietary Fund		Fiduciary Fund	
	Accrued Compensated Absences		Accrued Compensated Absences	
Balance - June 30, 2010	$	59,433	$	141,687
Increases		39,999		89,717
Decreases		(29,844)		(75,321)
Balance - June 30, 2011		69,588		156,083
Increases		42,369		86,386
Decreases		(38,504)		(92,706)
Balance - June 30, 2012	$	73,453	$	149,763
Balance - due within one year	$	4,268	$	8,701

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 an actuarially determined rate for permanent employees. The System's contributions to PERS for the years ended June 30, 2012, 2011 and 2010, were $129,748, $113,315 and $119,404 equal to the required contributions for each year.

There were no contributions to the North Dakota Defined Contribution Retirement Plan as none of the eligible employees of the System have elected to participate in this plan.

NOTE 8 DESCRIPTION OF PLANS

General

The System administers four 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 OASIS (Old-Age and Survivor Insurance System) is a cost-sharing, multi-employer defined benefit public retirement plan. The trust fund was established effective July 1, 1947 by NDCC 52-09. The last beneficiary of the OASIS plan deceased during fiscal year 2011, therefore, no further benefits are payable under the plan. Remaining assets of approximately $2,400 were transferred to the General Fund in 2011.

The costs of administering the plans are financed through the contributions and investment earnings of each plan.

The following brief description of the PERS and the HPRS, the Defined Contribution Plan, the Retirement Plan for Employees of Job Service North Dakota and OASIS 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 and the National Guard Security Officers and Firefighters and as of August 1, 2003, peace officers and correctional officers employed by political subdivisions. The HPRS covers substantially all sworn officers of the North Dakota Highway Patrol. The Defined Contribution Plan covers state employees who elect to participate in the plan and who are in positions not classified by the central personnel division of the State of North Dakota. Employees of 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 Defined Contribution Plan. The Retirement Plan for Employees of Job Service North Dakota is limited to employees participating in the plan as of September 30, 1980. Participation in the OASIS plan is limited to eligible employees and their beneficiaries as of April 23, 1957.

The systems 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:

	2012	2011
Cities	81	81
Counties	49	49
School Districts	114	114
Other	73	70
Total Participating Political Subdivisions	317	314

Employee membership data is as follows:

	PERS		HPRS		Job Service	
	2012	2011	2012	2011	2012	2011
Retirees and beneficiaries currently receiving benefits	8,303	7,821	116	115	212	213
Special prior service retirees	13	14	-	-	-	-
Terminated vested participants	3,624	3,558	9	5	3	4
Inactive participants	3,542	3,138	6	4	-	-
Active plan participants						
Vested	15,632	15,478	67	65	19	23
Nonvested	5,459	5,217	78	68	-	-
Total plan membership	36,573	35,226	276	257	234	240

Every permanent state employee who is at least 18 years old and who is in a position not classified by the central personnel division of the State of North Dakota may be eligible to participate in a defined contribution pension plan administered by the North Dakota Public Employees Retirement System. Employees of 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 defined contribution plan had 283 and 287 participants as of June 30, 2012 and 2011, respectively.

Investments—Current investment guidelines set by the System's Board specify the percentage of assets to be invested in various types of investments (equities, fixed income securities, real estate, private equity and cash). The overall long-term investment objective for the System's plans is to match or exceed the expected rate of return (7.5% - 8.0%), but at a minimum that is not less than the actuarially determined percentage required to pay future benefits. Long-term performance goals are set and evaluated by the boards of SIB and the System for each type of investment.

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

For the years ended June 30, 2012 and 2011, the following are the net realized gains (losses):

	2012	2011
Public Employees Retirement	$ 14,286,633	$ 101,917,138
Highway Patrolmen's Retirement	428,503	3,084,668
Retiree Health Insurance Credit	889,953	1,001,928
Defined Contribution	737,164	181,115
Deferred Compensation	1,171,556	109,709
Job Service Plan	2,769,328	4,379,813

Investment expense of the fund, except for the Defined Contribution Retirement Plan and the Deferred Compensation Plan consists of those administrative 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.

Pension 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). 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.

Members of the National Guard System are entitled to unreduced monthly pension benefits at normal retirement age (55). 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, level social security, 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 ten 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

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.

Retirement Plan for Employees of Job Service North Dakota

Benefits are established through the plan document, as amended. 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 5 plus
- 1.75% times years of credited service between 6 and 10 plus
- 2.0% times years of credited service in excess of 10

OASIS

Benefits are set by statute. On a biennial basis, legislation has been introduced to the North Dakota legislature to increase the primary benefit amount in (c) below. Eligible individuals are entitled to primary insurance benefits at normal retirement age of 65. The primary insurance benefit is the sum of a) 50% of the amount of the average monthly wage if the average monthly wage does not exceed seventy-five dollars or $37.50 or 15% of the amount by which the average monthly benefit exceeds seventy five dollars and does not exceed two hundred and fifty dollars; b) 1% of the amount computed under (a), multiplied by the number of years in which two hundred or more of wages were paid to the individual; and c) $826.64.

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 National Guard/Law Enforcement, 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 National Guard/Law Enforcement, 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.

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

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 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.

OASIS

Eligible surviving spouses are entitled to three-fourths of the primary insurance benefit of the insured individual.

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 and HPRS are set by state statute, actuarially determined based on the entry age normal actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost, (2) an amount for amortization of the unfunded accrued liability over an open period of 20 years, and (3) the amount necessary to provide for operating expenses. Contribution rates for 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, actuarially determined using the frozen initial liability actuarial cost method which is the same as the aggregate cost method. Contributions to OASIS are set by statute. Contributions are required only to the extent the trust fund does not have sufficient funds to meet current benefit payments. A tax will be assessed on participating state and local government employers when the trust fund does not have sufficient funds to meet current benefit obligations. No contributions have been collected since 1989.

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. Effective January 2012, both the employee and employer contribution rates for each of the plans increased by 1% (.5% each for the Law Enforcement Plans for political subdivisions). Effective January 2013, both the employee and employer contribution rates will be increased for each of the plans by an additional 1%(.5% for the Law Enforcement Plans for political subdivisions).

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.

Member contribution rates are established as a percent of regular compensation as follows:

	Effective 1/1/2012	Effective 1/1/2013
Public Employees Retirement System	5.00%	6.00%
Judges Retirement System	6.00%	7.00%
National Guard Retirement System	4.00%	4.00%
Law Enforcement with previous service		
State	5.00%	6.00%
Political Subdivisions	4.50%	5.00%
Law Enforcement without previous service	4.50%	5.00%

Employer contributions are set by statute except the contribution rates for the National Guard/Law Enforcement Plans which are set by the Board.

Employer contributions are established as a percent of total compensation as follows:

	Effective 1/1/2012	Effective 1/1/2013
Public Employees Retirement System	5.12%	6.12%
Judges Retirement System	15.52%	16.52%
National Guard Retirement System	6.50%	6.50%
Law Enforcement with previous service		
State	9.31%	10.31%
Political Subdivisions	8.81%	9.31%
Law Enforcement without previous service	6.93%	7.43%

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 the benefits earned by members 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.

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 is not sufficient to meet the actuarially determined requirement for 2011-2012.

HPRS

Employees' contributions are established at 11.3% (12.3% effective 1/1/2013) of total compensation of which the state is paying 4%. Employer contributions of 17.7% (18.7% effective 1/1/2013) of covered compensation are set by statute. 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 2011-2012.

The following schedule represents the annual pension costs and net pension obligations:

Annual required contributions	$ 2,170,739
Interest on net pension obligations	(21,627)
Adjustment to annual required contributions	18,867
Annual pension costs	2,167,979
Contributions made	1,423,154
Change in net pension obligations	744,825
(Assets in excess of) net pension obligations, beginning of year	(270,335)
Net pension obligations, end of year	$ 474,490

Defined Contribution Plan

Member contributions are established at 5% (6% effective 1/1/2013) and employer contributions are established at 5.12% (6.12% effective 1/1/2013) of regular compensation.

Retirement Plan for Employees of Job Service North Dakota

Employees' contributions are established at 7.0% of total compensation of which the state is paying 4%. 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.

The following schedule represents the annual pension costs and net pension obligation for the year ended June 30:

Annual required contributions	$ -
Interest on net pension obligations	(122,254)
Adjustment to annual required contributions	128,389
Annual pension costs	6,135
Contributions made	-
Change in net pension obligations	6,135
Net pension obligations, beginning of year	(1,630,058)
(Assets in excess of) net pension obligations, end of year	$ (1,623,923)

Retiree Health Insurance Credit Fund

The Retiree Health Insurance Credit Fund, a cost-sharing multiple-employer 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. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Employee membership data is as follows:

	2012	2011
Retired participants, receiving benefits	4,442	4,242
Active participants, not receiving benefits	21,462	21,062
	25,904	25,304

The Retiree Health Insurance Credit Fund has 21,462 and 21,062 active participants at June 30, 2012 and 2011, respectively. The employers' actuarially required contribution was $7,263,487 and $7,053,215 and the actual employer contributions were $9,388,040 and $8,929,903 for the periods ended June 30, 2012 and 2011, respectively.

The following are the changes in actuarial assumptions, asset method and plan experience and the effect on the employer's contribution rates expressed as a percent of covered payroll, and the dollar effect on the actuarial accrued liability.

	%	Dollar
Net effect of change in actuarial assumption	0.00%	$ -
Changes in plan provisions	0.00%	-
Changes in plan experience during the year	0.02%	164,971
	0.02%	$ 164,971

The employer contribution for the PERS and the HPRS and the Defined Contribution Plan is set by statute on an actuarially determined basis at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation beginning in the month following the transfer under Chapter 54-52-02.14 of the North Dakota Century code and continuing thereafter for a period of eight years. 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 Assets 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. 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.

Another component of the Retiree Health Insurance Credit Fund 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 2011-13 biennium will continue in the future. In the event the legislature does not fund the subsidy beyond the current biennium, the coverage would discontinue and the unfunded actuarial accrued liability displayed in the table below for the retiree health implicit subsidy would be reduced to zero.

A member must be receiving a retirement allowance from NDPERS to be eligible for the retiree health care coverage. In addition, a member receiving a retirement allowance from NDTFFR or TIAA-CREF is also eligible for the retiree health care coverage.

The premiums for this plan are reported as employee contributions on the Statement of Changes in Plan Assets as they are fully paid by the retirees. The full amount of the premiums collected are expended each year and are reported as health premiums paid on the Statement of Changes in Plan Assets.

Funded Status and Funding Progress

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

Plan	Actuarial Valuation Date June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
Public Employees	2012	$ 1,627.4	$ 2,501.3	$ 873.9	65.1%	$ 800.9	109.1%
Highway Patrol	2012	$ 48.1	$ 68.4	$ 20.3	70.3%	$ 8.2	247.6%
Job Service	2012	$ 75.1	$ 71.4	$ (3.7)	105.2%	$ 1.0	0.0%
Retiree Health Credit	2012	$ 58.3	$ 112.4	$ 54.1	51.9%	$ 824.9	6.6%
Retiree Health Implicit Subsidy	2011	$ -	$ 65.2	$ 65.2	0.0%	$ -	0.0%

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear funding trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits, as obtained from the System's independent actuary's annual valuation reports.

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

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

Actuarial Assumptions and Methods

PERS and HPRS

An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. Unfunded actuarial accrued liabilities for pension benefits are amortized over an open period of 20 years for the Public Employees Retirement System, the Supreme and District Court Judges, and the Highway Patrolmen's Retirement System which was adopted for the July 1, 1996 valuation. For the July 1, 1998 valuation the National Guard Security Officers and Firefighters changed the amortization period for the unfunded actuarial accrued liabilities for pension benefits from a closed period to an open period of 20 years. For both plans, this will produce payments which are level percents of payroll contributions based on an open amortization period.

Retirement Plan for Employees of Job Service North Dakota

A frozen initial liability actuarial cost method of valuation, which is the same as the aggregate cost method is used in determining benefit liabilities and normal cost. The annual contribution under this method is the normal cost plus the payment required to amortize the unfunded actuarial liability over a selected period of years. The normal cost is determined by calculating the total value of all future benefits, subtracting the unfunded actuarial liability, and dividing that amount into payments that are a level percent of pay over the future working lifetime of all participants.

To calculate pension plan contribution requirements, assumptions are made about all of the future events that could affect the amount and timing of benefits to be paid and assets to be accumulated. Under the Frozen Initial Liability Actuarial Cost method used, which is the same as the aggregate cost method the normal cost will remain level as a percentage of covered payroll if the assumptions closely approximate experience. Each year actual experience is measured against the assumptions, and to the extent that there were differences in that year, the contribution requirement is adjusted. If the assumptions are changed, contribution requirements are adjusted to take into account a change in experience in all future years.

Under the Frozen Initial Liability Actuarial Cost Method, which is the same as the aggregate cost method the net gain or loss is translated into a decrease or increase in the normal cost percentage, since the unfunded actuarial accrued liability has been frozen. The unfunded employer frozen initial liability was frozen at October 1, 1983. 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.

Retiree Health Insurance Credit

Under the Projected Unit Credit Actuarial Cost Method, benefits are projected to each assumed occurrence of decrement (death, disability, retirement) using service as of the valuation date. The normal cost is equal to the actuarial present value of the benefits allocated to the current year. The actuarial accrued liability for active members is equal to the actuarial present value of the benefits allocated to all prior years. The actuarial accrued liability for members currently receiving benefits and for participants entitled to deferred benefits is the actuarial present value of the benefits expected to be paid. The unfunded actuarial accrued liability is equal to the actuarial accrued liability minus the actuarial value of assets. This amount is amortized as a level percentage of payroll over a fixed period of 40 years, of which 18 years remain. For the implicit subsidy unfunded plan, this amount is amortized over a fixed period of 30 years, of which 25 years remain.

PERS and HPRS

For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized over a five-year period.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2012, the date of the latest actuarial study include:

- ***Investment Return*** - A rate of return on the investment of present and future assets of 8 %, net of investment expenses.
- ***Inflation*** - The assumed inflation rate is 3.50% per annum.
- ***Salary Scale*** **–** Projected salary increases based upon inflation of 4.5 % together with wage increases attributable to seniority, merit and *"standard of living"* increases. For judges, the assumed salary increase is 5.00% per year for all years of service.
- ***Mortality Rates*** **–** For NDPERS and HPRS: Pre- and post-mortality life expectancies of participants based upon the RP-2000 Combined Healthy Mortality Table, set back three years for NDPERS and set back one year for HPRS and the RP-2000 Disabled Retiree Mortality Table, set back one year for males (not set back for females) for disabled members.
- ***Withdrawal*** - Rates of withdrawal from active service before retirement for reasons other than death or disability, rates of disability and expected retirement ages developed on the basis of an investigation of actual plan experience.
- ***Expenses*** - Administrative expense of $1,120,500 a year for the Public Employees Retirement System and $18,000 a year for Highway Patrolmen's Retirement System.
- ***Post-retirement benefit increase*** - There are no post-retirement benefit increase assumptions.

Retirement Plan for Employees of Job Service North Dakota

For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized over a five-year period. Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2012, the date of the latest actuarial study include:

Rate of return: 7.5% per year, compounded annually, net of investment and administrative expenses

Salary scale: 5% per year

Mortality tables: Healthy:1994 Group Annuity Mortality Table

Disabled:1983 Railroad Retirement Board Disabled Life Mortality Table

Retirement rates: 75% of active participants are assumed to retire when eligible for optional retirement, and the remaining participants retire at normal retirement.

100% of inactive vested participants are assumed to retire at optional retirement age.

Post-retirement Cost Of Living Adjustment (COLA): 5% per year

Retiree Health Insurance Credit

Actuarial valuations for other postretirement employee benefit plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations of other postretirement employee benefit plans reflect a long-term perspective.

The actuarial methods and assumptions for the other postretirement employee benefit plan include techniques that are designed to reduce short-term volatility in the actuarial accrued liabilities and the actuarial value of assets.

Advance Funded Plan

For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized over a five-year period.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2012, the date of the latest actuarial study include:

Mortality Rates: The RP-2000 Combined Healthy Mortality Table set back three years and the RP-2000 Disabled Retiree Mortality Table set back one year for males (not set back for females).

Withdrawal Rates: 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.

Investment Return: 8.00% per annum, net of investment expenses.

Inflation: 3.50% per annum.

Expenses: Administrative expenses of $97,000 a year.

Implicit Subsidy Unfunded Plan

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2011, the date of the latest actuarial study include:

Mortality Rates:	RP-2000 Combined Healthy Mortality Table, set back three years for males and females (set back one year for Highway Patrol) RP-2000 Disabled Retiree Mortality Table, set back one year for males (not set back for females)
Health Care Cost Trend:	Select - 9.00%; Ultimate 6.0%. Select trends are reduced 0.5% each year until reaching the ultimate trend.
Retirement Age:	Retirement probabilities have been developed from the assumptions for the NDPERS plans.
Termination:	Probabilities of withdrawal for reasons other than death and retirement have been developed from the assumptions for the NDPERS pension plans.

NOTE 9 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. 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 related assets are reported at market value as investments as follows:

	2012		2011	
Plan participation by				
State of North Dakota	$ 35,147,760	88%	$ 32,619,742	87%
Other jurisdictions	4,959,982	12%	4,714,776	13%
Total value	$ 40,107,742	100%	$ 37,334,518	100%

NOTE 10 FEDERAL INCOME TAX STATUS

The System is exempt from the payment of any federal income taxes by virtue of being an agency of the state of North Dakota.

NOTE 11 UNIFORM GROUP INSURANCE PROGRAM SURPLUS

The Uniform Group Insurance Program, a proprietary fund, contracts with Blue Cross Blue Shield of North Dakota (BCBS) 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 provides for an accounting of premiums paid and claims incurred during the biennium. The contract for the 2007-2009 biennium provides for an accounting of premiums paid and claims incurred during the biennium, with a gain sharing provision, with the final accounting taking place two years after the end of the biennium. The final accounting for the 2007-2009 biennium occurred on June 30, 2011. Claims exceeded premiums, therefore, there was no surplus returned to the System. The System has entered into a similar contract with BCBS for the 2009-2011 biennium. The final accounting for this biennium will occur on June 30, 2013. The accumulated surplus and other invested funds in the amount of $5.9 million are shown as cash on the System's balance sheet. These funds are being held by BCBS.

The federal health care reform bill provides for a pre-Medicare retiree reinsurance provision for employer plans that will reimburse employers by providing reinsurance for 80% of retiree claims between $15,000 and $90,000. This program became effective on June 1, 2010 and employer eligibility is determined from an application submitted by the employer to the Department of Health and Human Services. The program requires that the funds be used to (1) reduce the sponsor's health benefit premiums or health benefit costs, (2) reduce health benefit premium contributions, copayment, deductibles, coinsurance, or other out-of-pocket costs, or any combination of these costs, for plan participants, or (3) reduce any combination of the costs in (1) and (2). The System Board determined that any reimbursements received under this program be used to help reduce health care costs for members of the Uniform Group Insurance Program. The System submitted an application and was determined to be an eligible employer. The System received a reimbursement of $1.0 million during fiscal year 2012 and $1.7 million during fiscal year 2011 which is included in Cash on the System's balance sheet.

The contract for life insurance is with Reliastar Life Insurance Company and does not have a gain sharing arrangement.

NOTE 12 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.

NOTE 13 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 14 COMMITMENTS

In 2007, the System entered into agreements with Sagitec Solutions, LLC and L.R. Wechsler, Ltd for the development of its new integrated benefits administration system. The contract with Sagitec is $7.7 million and the contract with L.R. Wechsler is $1 million, and the total appropriation for this project is approximately $9.6 million, which was anticipated to be fully completed by June 2011. As of June 30, 2012, the System had paid $8.6 million towards these contracts. The System delayed implementation of the member self service functionality to 2012, therefore, the final payment to Sagitec will be made during the 2011-2013 biennium upon completion of the warranty period.

NOTE 15 PRIOR PERIOD ADJUSTMENT/RESTATEMENT

The System is currently recognizing financial activity in its proprietary fund that was disclosed only through the Statement of Net Asset accounts in the prior year. As a result, the operating revenues and expenses were understated by $1,723,732 and $170,643, respectively. Net assets as of July 1, 2010 have been restated due to an updated interpretation of a statute in the prior period by increasing net assets $8,525,817.

As a result of this misstatement, the following changes were made to the 2011 proprietary financial statements:

Statement of Net Assets (Proprietary Fund)	2011 Previously Reported	2011 Restated
Accounts payable	$ 234,941	$ 235,191
Amounts held in custody for others	10,138,663	-
Total current liabilities	15,353,050	5,214,637
Total liabilities	15,419,040	5,280,627
Restricted for benefits	-	4,726,189
Unrestricted net assets	(2,284,712)	3,127,512
Total net assets	345,575	10,483,988
Statement of Activities (Proprietary Fund)		
Claim reimbursements	-	1,723,732
Total operating revenues	962,657	2,686,389
Insurance benefits	-	170,643
Total operating expenses	1,198,514	1,369,157
Operating income (loss)	(235,857)	1,317,232
Investment income	14,110	74,617
Investment expense	-	1,000
Income before transfers	(221,747)	1,390,849
Change in net assets	(483,278)	1,129,318
Net assets, beginning of year	828,853	9,354,670
Net assets, end of year	345,575	10,483,988

NOTE 16 NEW PRONOUNCEMENTS

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* will be effective for financial statement periods beginning after June 15, 2012 with earlier application encouraged. The statement will improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the requirements of Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

GASB Statement No. 62, Codification *of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* will be effective for financial statement periods beginning after December 15, 2011 with early application encouraged. The Statement brings the authoritative accounting and financial reporting literature together in one place, with the guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial users. It will eliminate the need to financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, resulting in a more consistent application of applicable guidance in financial statements of state and local governments.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* will be effective for financial statements for periods beginning after December 15, 2011 with early application encouraged. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53* is effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of the swap counterparty or swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54 **,** *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62 **,** *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

GASB Statements 67, *Financial Reporting for Pension Plans*. The objective of Statement 67 is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. GASB 67 is effective for periods beginning after June 15, 2013.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This statements establishes a definition of a pension plan that Reflects the primary activities associated with the pension arrangement—Determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. GASB 68 is effective for periods beginning after June 15, 2014.

NOTE 17 CONTINGENCY

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

At the time the Commodity Futures Trading Commission (CFTC) and Securities Exchange Commission (SEC) charges were filed, the court appointed a receiver to take control of any recoverable assets. The receiver recommended the court distribute the recovered assets as follows: pool the assets of WGTC and WGTI, and distribute those assets *pro rata* to all investors. The receiver's method did not take into consideration the terms in which each investor entered into the investment (i.e. limited partnership interest versus note holder agreement), even though the majority of the WGTC assets were intact and the fraud predominantly occurred with WGTI. The SIB joined with other WGTC investors and objected to a *pro rata* distribution to all investors. The receiver and the WGTI investors opposed. The court agreed with the receiver and in April, 2011, the recovered assets were distributed to all investors in a *pro rata* distribution based on net investment balances. The SIB received a total distribution of $63.9 million, which represented approximately 85% of its remaining cost basis with WGTC. The total realized loss included in the SIB June 30, 2011 financial statements attributable to the fraud is $11.3 million. The portion of the realized loss allocated to NDPERS is $4.6 million.

The SIB does not agree with the method used to distribute the assets, and along with the other WGTC limited partners is appealing the District Court's ruling. It is the SIB's position that the District Court incorrectly determined the amount of the distribution; and that the audited limited partners are entitled to a greater share of the recovered assets than the unaudited note holders. At this time it is difficult to estimate the potential additional distribution that could be received if the appeal is successful, therefore, no amount has been included on the balance sheet as of June 30, 2012 or 2011.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE SIX YEARS ENDED JUNE 30

Public Employees Retirement System

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2007	$ 38,184,510	61%
2008	35,875,117	70%
2009	40,327,067	69%
2010	54,157,866	56%
2011	82,909,840	39%
2012	91,458,077	42%

Highway Patrolmen's Retirement System

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Net Pension Obligation
2007	$ 1,076,146	89%	$ (565,712)
2008	905,591	117%	(724,722)
2009	1,025,737	109%	(829,104)
2010	1,312,591	91%	(721,539)
2011	1,744,270	74%	(270,334)
2012	2,170,739	66%	474,490

Retiree Health Insurance Credit
Advance Funded Plan

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2007	$ 5,687,050	100%
2008	5,708,457	100%
2009	5,804,660	116%
2010	7,199,033	117%
2011	7,053,215	127%
2012	7,263,487	129%

FOR THE FIVE YEARS ENDED JUNE 30
Retiree Health Insurance Credit Implicit Subsidy Unfunded Plan

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2008	$ 4,020,000	38.4%
2009	4,118,000	76.2%
2010	6,938,000	28.7%
2011	7,295,000	54.4%
2012	7,854,425	32.5%

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
FOR THE SIX YEARS ENDED JUNE 30

Public Employees Retirement System
(Expressed in Millions)

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Entry Age	Actuarial Value of Assets	Unfunded AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
2007	1,610.2	1,503.1	107.1	93.4	582.3	18.4
2008	1,737.6	1,609.8	127.8	92.6	640.7	19.9
2009	1,901.2	1,617.1	284.1	85.1	697.7	40.7
2010	2,208.4	1,621.7	586.7	73.4	769.7	76.2
2011	2,339.8	1,650.4	689.4	70.5	804.2	85.7
2012	2,501.3	1,627.4	873.9	65.1	800.9	109.1

Highway Patrolmen's Retirement System
(Expressed in Millions)

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Entry Age	Actuarial Value of Assets	Unfunded AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
2007	51.5	48.2	3.3	93.5	6.1	54.1
2008	54.6	50.8	3.8	93.0	6.5	58.5
2009	57.6	50.2	7.4	87.2	7.0	105.0
2010	61.8	49.3	12.5	79.8	7.7	161.0
2011	67.1	49.5	17.6	73.7	8.0	220.0
2012	68.4	48.1	20.3	70.3	8.2	247.6

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
FOR THE SIX YEARS ENDED JUNE 30

Retirement Plan for Employees of Job Service North Dakota (Expressed in Millions)

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Entry Age	Actuarial Value of Assets	Unfunded (Overfunded) AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL (Funded Excess) as a Percentage of Covered Payroll
2007	$ 70.7	$ 75.7	$ (5.0)	107.1	$ 1.8	0.0%
2008	70.8	77.0	(6.2)	108.8	1.8	0.0
2009	71.1	74.5	(3.4)	104.7	1.7	0.0
2010	70.1	73.5	(3.4)	104.8	1.6	0.0
2011	67.4	74.1	(6.7)	110.0	1.2	0.0
2012	71.4	75.1	(3.7)	105.2	1.0	0.0

Retiree Health Insurance Credit (Expressed in Millions)

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Unit Credit	Actuarial Value of Assets	Unfunded AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
2007	85.3	38.9	46.5	45.6	602.9	7.7
2008	87.6	42.5	45.1	48.5	660.9	6.8
2009	102.2	44.8	57.4	43.9	719.8	8.0
2010	102.8	48.7	54.1	47.4	793.6	6.8
2011	108.3	53.7	54.6	49.6	828.9	6.6
2012	112.4	58.3	54.1	51.9	824.9	6.6

FOR THE THREE YEARS ENDED JUNE 30

Retiree Health Insurance Implicit Subsidy (Expressed in Millions)

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Unit Credit	Actuarial Value of Assets	Unfunded AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
2007	$ 30.7	$ -	$ 30.7	0.0%	$ -	0.0%
2009	53.7	-	53.7	0.0%	-	0.0%
2011	65.2	-	65.2	0.0%	-	0.0%

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
SCHEDULES OF INVESTMENT AND ADMINISTRATIVE EXPENSES
FIDUCIARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2012 and 2011

	Public Employees Retirement System		Highway Patrolmen's Retirement System		Retiree Health Insurance Credit Fund		Defined Contribution Retirement Fund	
	2012	2011	2012	2011	2012	2011	2012	2011
Investment expenses								
Payments to State								
Investment Board								
Investment fees	$ 6,101,496	$ 6,232,260	$ 183,138	$ 188,571	$ 146,395	$ 132,724	$ -	$ -
Adminstrative expenses	258,217	469,588	7,742	14,221	-	-	-	-
Payments to providers								
Investments fees	-	-	-	-	-	-	8,453	13,797
Totals	$ 6,359,713	$ 6,701,848	$ 190,880	$ 202,792	$ 146,395	$ 132,724	$ 8,453	$ 13,797
Administrative expenses								
Salaries and wages	$ 800,371	$ 780,937	$ 6,391	$ 5,452	$ 80,726	$ 78,200	$ 5,098	$ 5,172
Operating expenses	220,052	241,279	1,804	1,901	19,274	22,427	1,650	3,016
Professional fees	394,101	386,610	14,813	12,186	30,321	16,268	7,505	8,035
Data processing	73,991	111,312	600	869	5,910	7,990	373	583
Depreciation/amortization expense	368,400	277,149	3,066	2,326	35,162	26,503	2,538	1,913
	$ 1,856,915	$ 1,797,287	$ 26,674	$ 22,734	$ 171,393	$ 151,388	$ 17,164	$ 18,719

	Pretax Benefit Program		Deferred Compensation Program		Retirement Plan for Employees of Job Service North Dakota	
	2012	2011	2012	2011	2012	2011
Investment expenses						
Payments to State						
Investment Board						
Investment fees	$ -	$ -	$ -	$ -	$ 264,891	$ 277,752
Adminstrative expenses	-	-	-	-	-	-
Payments to providers						
Investments fees	-	-	62,828	96,510	-	-
Totals	$ -	$ -	$ 62,828	$ 96,510	$ 264,891	$ 277,752
Administrative expenses						
Salaries and wages	$ 237,238	$ 227,590	$ 357,655	$ 357,268	$ 4,036	$ 4,138
Operating expenses	43,176	55,708	62,997	89,828	963	1,185
Professional fees	51,726	29,086	117,428	33,395	18,511	18,984
Data processing	13,512	12,808	16,282	20,945	295	423
Depreciation/amortization expense	92,754	69,548	185,507	139,096	2,175	1,638
	$ 438,406	$ 394,740	$ 739,869	$ 640,532	$ 25,980	$ 26,368

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF APPROPRIATIONS
FOR THE YEAR ENDED JUNE 30, 2012

	Approved 2011-2013 Appropriation	2011-2013 Appropriation Adjustments	Adjusted 2011-2013 Appropriation	Expenditures 2012	Unexpended Appropriation
All Fund Types:					
Salaries and wages	$ 4,563,507	$ -	$ 4,563,507	$ 2,148,633	$ 2,414,874
Operating expenses	2,054,383	-	2,054,383	907,774	1,146,609
Technology project carryover	597,338	-	597,338	46,610	550,728
Contingency	250,000	-	250,000	-	250,000
	$ 7,465,228	$ -	$ 7,465,228	$ 3,103,017	$ 4,362,211

Reconciliation of Administrative Expenses to Appropriated Expenditures

Administrative expenses as reflected in the financial statements	2012
Pension trust funds	$ 3,276,401
Enterprise funds-Group Insurance	1,353,470
Total adminstrative expenses	4,629,871
Plus:	
Software development costs reclassified to software (not in production)	68,429
Prepaid expenses	1,769
Change in accounts payable not charged to appropriation	384
Conference account revenues in excess of expenditures	1,647
Change in accrued compensated absences	2,455
Less:	
Professional fees paid pursuant to NDCC 54-52-04(6)	(633,668)
Depreciation expenses	(967,863)
Contribution/premium over & short	(7)
Total appropriated expenditures	$ 3,103,017

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

Governor Jack Dalrymple
The Legislative Assembly

Sparb Collins, Executive Director
North Dakota Public Employees Retirement System

We have audited the financial statements of the North Dakota Public Employees Retirement System, a department of the State of North Dakota, as of and for the year ended June 30, 2012, which collectively comprise North Dakota Public Employees Retirement System's basic financial statements and have issued our report thereon dated November 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the North Dakota Public Employees Retirement System's financial statements are free of 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 that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of North Dakota Public Employees Retirement System, in a separate letter dated November 16, 2012.

This report is intended solely for the information of the audit committee, Board of Trustees, 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 those specified parties.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

November 16, 2012

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

PUBLIC EMPLOYEES RETIREMENT SYSTEM
SPECIAL COMMENTS REQUESTED BY THE LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
June 30, 2012

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?**

   An unqualified opinion was issued on the 2012 and 2011 financial statements.

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

   Yes - A review was made of Chapters 54-52, 54-52.1, 54-52.2, 54-52.3, 54-52.6 and 39-03.1 and other pertinent chapters of the North Dakota Century Code and we felt the System operated within the statutes, laws, rules and regulations under which it was created.

3. **Was internal control adequate and functioning effectively?**

   Yes

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

   No

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

   Yes.

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

   Yes-A separate management letter has been issued and is attached following page 72. Please refer to this document for all recommendations and management responses.

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Audit Committee Communications:

1. **Identify and significant changes in accounting policies, any management conflicts or interest, any contingent liabilities, or any significant unusual transactions.**
   None.

2. **Identify any significant accounting estimates and the process used by management to determine 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 assets.

3. **Identify any significant audit adjustments.**

   There was a prior period adjustment for the reclassification of amounts held for others to be recognized as disclosed in Note 15.

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

   None

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

   None

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

   None

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

   None

8. **Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit reports 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 their database software system called PERSlink. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information of the Governor, the Legislative Audit Fiscal and Review Committee, and management, and is not intended to be and should not be used by anyone other than those specified parties.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

November 16, 2012

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

To the Board of Trustees
To the Audit Committee
North Dakota Public Employees Retirement System
Bismarck, North Dakota

We have audited the financial statements of the North Dakota Public Employees Retirement System for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 18, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Public Employees Retirement System are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

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Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following misstatement detected as a result of audit procedures was corrected by management: To properly report the financial activity in the proprietary fund to increase operating revenues $227,420,933, operating expenses $225,867,884 and July 1, 2010 net assets $8,525,817.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 16, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

This information is intended solely for the use of North Dakota Public Employees Retirement System Audit Committee, Board of Trustees and management of the North Dakota Public Employees Retirement System and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

November 16, 2012

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
BISMARCK, NORTH DAKOTA

MANAGEMENT LETTER
JUNE 30, 2012

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

To the Board of Directors
North Dakota Public Employees Retirement System
Bismarck, North Dakota

In planning and performing the audit of the financial statements of North Dakota Public Employees Retirement System for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered North Dakota Public Employees Retirement System's internal control over financial reporting(internal control) as a basis for designing our audit procedures for the purpose of expressing an opinion 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.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 16, 2012, on the financial statements of North Dakota Public Employees Retirement System.

We will review the status of the comment during our next audit engagement. Although we have discussed our recommended improvements with appropriate System personnel, we are available for further consultation.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

November 16, 2012

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MEMORANDUM ON AUDIT OF
NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
June 30, 2012

1. We noted the following control procedure not being performed on a timely and consistent basis, due primarily to additional resources concentrated on PERSLink implementation. This control function is listed in more detail below:

   a. Reconciliation of the deferred compensation contributions, per provider statements to PERSLink was not performed on a consistent basis. In addition, verification of participant allowability for those receiving distributions was not performed.

      We recommend these reconciliations and verifications be performed on a quarterly basis.

   Response:

   Contributions for the Deferred Compensation Companion Plan are reconciled each month. A process for reconciling other deferred compensation contributions to PERSLink will be established and performed quarterly. In addition, distributions reported on the provider statements will be reviewed for eligibility each quarter.

2. We noted during our testing of the Group Insurance accounts receivable listing that there were specific accounts past due by more than 30 days. Our recommendation to improve controls over accounts receivable is to implement an aging schedule and perform a reconciliation of the accounts receivable from the general ledger to the accounts receivable aging schedule to check that recording of transactions is accurate and proper and that any adjustments to, or write-offs of, accounts receivable have been performed and approved in a timely manner. We also recommend monitoring old balances and following up on those according to a specific policy such as those accounts older than 30 days on a consistent basis.

   Response:

   An accounts receivable aging report is generated from PERSLink each month and accounting staff is following up on outstanding receivables. The aging report is generated for the retirement and deferred compensation programs, in addition to group insurance. However, it has been determined that not all transactions are being reflected on the reports so some balances that are being reported may not be accurate. The issues have been identified and PERSLink will be modified to include all transactions on the aging report.

3. During our testing of the purchased service credits for PERS retirement system, we noted that the purchased service credits were not correctly recorded on the actuary database for 2 of the 5 individuals tested. Our recommendation is to implement a procedure to ensure that what the members purchase is correctly recorded in the database and agrees to the employee records.

   Response:

   The program that extracts the information for the actuary will be corrected to include purchased service credits.

4. Through inquiries regarding the ability for PERS to facilitate an enterprise-wide recovery of data and systems, it was determined that successful recovery testing for all critical data systems was not thoroughly and successfully tested. Most specifically addressing FileNet data recovery. We recommend that the agency work with ITD to determine that the recovery of data and systems can be done successfully and in an amount of time the PERS deems appropriate based on its risk assessment.

   Response:

   NDPERS has entered into a Service Level Agreement with ITD for Business Continuity services. As part of that agreement, it was identified that the current plan for backup and restoration of FileNet does not appear to meet the needs of NDPERS in the event of a disaster. NDPERS is waiting for ITD to develop a disaster recovery plan for the data stored on FileNet that will meet the same objectives that have been established for the PERSLink system, since the availability of FileNet is integral for PERSLink to be fully functional. ITD is currently reviewing options to provide more responsive recovery for data stored on FileNet.

5. It was noted the development/test database environments are running a different operating system than the production database. This has led to some issues during the past year and would potentially diminish the benefits of the test environment and put undue risk in releasing updates into production. We recommend that the operating systems in both the production and test/development databases be consistent to allow for full compatibility testing on the operating system used in production.

   Response:

   The operating systems for all environments will be updated so they are all consistent.