

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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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

Report on the Financial Statements

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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the plan net position of the North Dakota Public Employees Retirement System as of June 30, 2014 and 2013, and the respective changes in plan net position, changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the 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 plan net position 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, 2014 and 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Employer Contributions, and the Schedule of Funding Progress listed in the foregoing table of content, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial

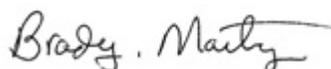
statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 16, 2014, on our consideration of the North Dakota Public Employees Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota Public Employees Retirement System's internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

December 16, 2014

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013

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, 2014. Please read it in conjunction with the basic financial statements, which follow this discussion.

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

Financial Highlights – Pension and Other Employee Benefit Plans

- As of June 30, 2014 and 2013, the Plan Fiduciary Net Position as a percentage of the Total Pension Liability for each pension fund is shown below:

	<u>2014</u>	<u>2013</u>
Public Employees Retirement System	78.2%	72.5%
Highway Patrolmen Retirement System	87.1%	79.4%
Retirement Plan for Employees of Job Service of ND	150.2%	136.8%

Positive investment earnings, together with contribution increases for PERS and Highway Patrol contributed to the growth in these percentages.

As of June 30, 2014, the funding ratio for the Retiree Health Insurance Credit Fund increased from 57.8% to 66.8%.

- The net position for all trust funds administered by NDPERS increased \$377.2 million or 17% during the fiscal year ended June 30, 2014. This increase is primarily due to gains in the financial markets during the fiscal year.

	(in thousands)
Public Employees Retirement System	\$ 323,913
Highway Patrolmen Retirement System	8,623
Retiree Health Insurance Credit Fund	16,458
Defined Contribution Retirement Fund	6,595
Pretax Benefits Fund	87
Deferred Compensation Plan	14,214
Retirement Plan for Employees of Job Service ND	7,318
Total increase in plan net position	<u>\$ 377,208</u>

Financial Highlights – Uniform Group Insurance Program

- Net position decreased by \$6.2 million or 13%. The decrease is primarily due to incurring an additional expense to buydown health insurance premiums. For the 2013-15 biennium, the NDPERS Board allocated funds to reduce the cost of health insurance premiums by approximately 2%. This is explained in more detail in Note 11.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013

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.

Overview of the Financial Statements.

The financial statements, notes to the financial statements, and required supplementary information for the fiduciary funds were prepared in conformity with GASB Statement No. 67, *Financial Reporting for Pension Plans*.

There are two financial statements presented for the fiduciary funds. The Statement of Plan Net Position as of June 30, 2014, indicates the net assets available to pay future payments and gives a snapshot at a particular point in time. The Statement of Changes in Plan Net Position for the year ended June 30, 2014, 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 Position as of June 30, 2014, 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 Position for the year ended June 30, 2014, 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, 2014 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 to the financial statements can be found on pages 16 - 53 of this report.

Required supplementary information. The required supplementary information consists of a Schedule of Employer Contributions and Schedule of Changes to the Net Pension Liability for the defined benefit pension trust funds. A Scheduled of Employer Contributions and Schedule of Funding Progress is included for the retiree health insurance credit advance funded plan and implicit subsidy unfunded plan.

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 2014 and 2013 are summarized below. The information in the tables below is condensed from the Financial Statements.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013

Statement of Fiduciary Plan Net Position (in thousands)

	June 30, 2014	% Change	June 30, 2013	% Change	June 30, 2012
Assets					
Cash	\$ 6,804	10.3%	\$ 6,171	49.1%	\$ 4,140
Receivables	15,881	12.4%	14,123	20.6%	11,707
Investments, at fair value	2,615,133	16.8%	2,238,095	13.0%	1,981,045
Prepaid expenses	580	5.3%	551	4.6%	527
Software & Equipment, net of accum depr.	4,545	-13.7%	5,264	-10.5%	5,882
Total assets	<u>2,642,943</u>	16.7%	<u>2,264,204</u>	13.0%	<u>2,003,301</u>
Liabilities					
Long-term liabilities outstanding	150	2.0%	147	4.3%	141
Other liabilities	4,911	44.7%	3,395	5.1%	3,230
Total liabilities	<u>5,061</u>	42.9%	<u>3,542</u>	5.1%	<u>3,371</u>
Deferred Inflows	<u>13</u>	0.0%	-	0.0%	-
Net Position	<u>\$ 2,637,869</u>	16.7%	<u>\$ 2,260,662</u>	13.0%	<u>\$ 1,999,930</u>

The total assets for all fiduciary funds as of June 30, 2014 were \$2.6 billion and were comprised mainly of investments. For the fiscal year ended June 30, 2014, plan assets increased by \$379 million. This increase was primarily due to financial market gains during the fiscal year and increased contributions in the PERS and Highway Patrol funds.

Total liabilities as of June 30, 2014 were \$5.1 million and were comprised mainly of investment expenses payable. Total liabilities increased by \$1.5 million or 42.9% from the prior year due mainly to an increase in investment expenses payable at June 30, 2014.

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

	June 30, 2014	% Change	June 30, 2013	% Change	June 30, 2012
Additions					
Contributions	\$ 156,403	21.5%	\$ 128,680	21.4%	\$ 105,968
Investment Income	364,104	37.3%	265,103	12737.9%	2,065
Other	9,785	10.4%	8,867	12.8%	7,862
Total additions	<u>530,292</u>	31.7%	<u>402,650</u>	247.4%	<u>115,895</u>
Deductions					
Benefit payments	142,626	8.0%	132,100	6.1%	124,464
Refunds/Transfers	6,621	6.3%	6,228	14.9%	5,422
Administrative Expenses	3,837	6.9%	3,591	9.6%	3,277
Total deductions	<u>153,084</u>	7.9%	<u>141,919</u>	6.6%	<u>133,163</u>
Change in Net Position	<u>\$ 377,208</u>	44.7%	<u>\$ 260,731</u>	1609.9%	<u>\$ (17,268)</u>

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013

Additions. Contributions and earnings on invested funds are the primary additions that are accumulated and used to pay benefits for each of the plans. Contributions increased by \$27.7 million for the year ended June 30, 2014 which reflects the increase in the employee and employer contribution rates to the pension plans, which became effective January 1, 2014. The plans experienced positive investment earnings of \$364.1 million for the fiscal year ending June 30, 2014. The increase in Other Additions for June 30, 2014 is primarily due to an increase in service purchase payments received during the fiscal year.

Deductions. Total deductions increased by \$11.2 million or 7.9% for the fiscal year ended June 30, 2014. This increase was primarily due to an increase in benefit payments which reflects the increase in the total number of retirees who are receiving pension payments.

Statement of Proprietary Fund Net Position (in thousands)

	<u>June 30, 2014</u>	<u>% Change</u>	<u>June 30, 2013</u>	<u>% Change</u>	<u>June 30, 2012</u>
Assets					
Cash	\$ 44,363	-12.2%	\$ 50,500	265.8%	\$ 13,805
Receivables	322	-33.6%	485	20.0%	404
Software	1,833	-13.6%	2,122	-10.5%	2,372
Total assets	<u>46,518</u>	-12.4%	<u>53,107</u>	220.3%	<u>16,581</u>
Liabilities					
Long-term liabilities outstanding	79	5.3%	75	8.7%	69
Other liabilities	5,654	-6.3%	6,031	7.5%	5,608
Total liabilities	<u>5,733</u>	-6.1%	<u>6,106</u>	7.6%	<u>5,677</u>
Net Position	<u>\$ 40,785</u>	-13.2%	<u>\$ 47,001</u>	331.0%	<u>\$ 10,904</u>

Total assets, as of June 30, 2014, were \$46.5 million and were comprised mainly of cash. Total assets decreased by \$6.6 million from the prior fiscal year which reflects the buydown payments towards health insurance premiums.

Total liabilities, as of June 30, 2014, were \$5.7 million and were comprised mostly of amounts held in custody for others, which represent premiums received before they are due. Total liabilities decreased by \$.4 million or 6.1% from the prior year primarily due to a decrease in amounts held in custody for others.

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

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013

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

Operating Revenues					
Administrative Fee	\$ 1,069	1.9%	\$ 1,049	4.9%	\$ 1,000
Miscellaneous	32	-99.9%	36,664	3614.7%	987
Total Operating Revenues	<u>1,101</u>	-97.1%	<u>37,713</u>	1798.0%	<u>1,987</u>
Non-Operating Revenues					
Net Investment income	<u>25</u>	-82.5%	<u>143</u>	160.0%	<u>55</u>
Total revenues	<u>1,126</u>	-97.0%	<u>37,856</u>	1753.9%	<u>2,042</u>
Operating Expenses					
Administrative expenses	7,027	354.2%	1,547	10.7%	1,398
Non-Operating Expense					
Transfer Out	<u>315</u>	48.6%	<u>212</u>	-5.4%	<u>224</u>
Change in Net Position	<u>\$ (6,216)</u>	-117.2%	<u>\$ 36,097</u>	8494.5%	<u>\$ 420</u>

The net position for the proprietary fund decreased by \$6.2 million during the fiscal year ended June 30, 2014. This reflects the additional expense incurred to reduce health insurance premiums during the current fiscal year. The large fluctuation in revenues from year to year reflects the effect of the gain sharing provision of the health insurance contract, which is determined every two years.

Contacting NDPERS Financial Management

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

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014 AND 2013

	Uniform Group Insurance Program	
	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 44,363,434	\$ 50,499,587
Accounts receivable	304,636	424,648
Due from fiduciary funds	17,203	59,981
Total current assets	44,685,273	50,984,216
Capital assets:		
Software (net of amortization)	1,832,736	2,122,442
Total capital assets	1,832,736	2,122,442
Total assets	46,518,009	53,106,658
LIABILITIES		
Current liabilities:		
Salaries payable	66,298	62,715
Accounts payable	107,279	80,735
Due to fiduciary funds	319,996	420,416
Due to other state agencies	5,781	12,846
Amounts held in custody for others	5,149,081	5,449,022
Accrued compensated absences	5,328	5,006
Total current liabilities	5,653,763	6,030,740
Noncurrent liabilities:		
Accrued compensated absences	79,103	74,700
Total liabilities	5,732,866	6,105,440
NET POSITION		
Net investment in capital assets	1,832,736	2,122,442
Restricted for benefits	3,000,000	5,735,616
Unrestricted net position	35,952,407	39,143,160
Total net position	\$ 40,785,143	\$ 47,001,218

See Notes to the Financial Statements

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	Uniform Group Insurance Program	
	2014	2013
OPERATING REVENUES:		
Administrative fee	\$ 1,069,499	\$ 1,049,309
Underwriting gain	31,597	36,612,357
Miscellaneous	-	51,329
Total operating revenues	1,101,096	37,712,995
OPERATING EXPENSES:		
Salaries and wages	756,584	695,301
Operating expenses	405,130	333,142
Premium buydown	5,437,457	-
Professional fees	83,525	182,034
Data processing	54,643	48,343
Amortization	289,706	287,718
Total operating expenses	7,027,045	1,546,538
Operating income (loss)	(5,925,949)	36,166,457
NON-OPERATING REVENUES AND EXPENSES:		
Investment income	29,413	147,186
Investment expenses	(4,539)	(3,819)
Total non-operating revenues and expenses	24,874	143,367
INCOME (LOSS) BEFORE TRANSFERS	(5,901,075)	36,309,824
TRANSFERS OUT	315,000	212,500
Change in net position	(6,216,075)	36,097,324
Total net position - beginning of year	47,001,218	10,903,894
Total net position - end of year	\$ 40,785,143	\$ 47,001,218

See Notes to the Financial Statements

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	Uniform Group Insurance Program	
	2014	2013
Cash Flows from Operating Activities:		
Premiums collected	\$ 288,205,205	\$ 291,741,809
Administrative fees collected	814,552	1,689,036
Payments to suppliers	(407,284)	(817,305)
Premiums paid	(293,741,821)	(291,781,195)
Payments to employees	(748,276)	(681,454)
Underwriting gain	31,597	36,612,357
Miscellaneous income	-	51,329
Net cash provided (used) by operating activities	(5,846,027)	36,814,577
Cash Flows from Investing Activities:		
Investment income	29,413	147,186
Investment expense	(4,539)	(3,819)
Net cash provided by investing activities	24,874	143,367
Cash Flows Used by Capital and Related Financing Activities:		
Acquisition and construction of capital assets/software	-	(51,025)
Cash Flows from Noncapital Financing Activities:		
Transfers out	(315,000)	(212,500)
Net change in cash and cash equivalents	(6,136,153)	36,694,419
Cash and Cash Equivalents - Beginning of Year	50,499,587	13,805,168
Cash and Cash Equivalents - End of Year	\$ 44,363,434	\$ 50,499,587
Reconciliation of Operating Income to Net Cash Provided		
Operating income (loss)	\$ (5,925,949)	\$ 36,166,457
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Amortization	289,706	287,718
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	120,012	(74,822)
(Increase) in due from other funds	42,778	(6,736)
Decrease in due from other state agencies	-	1,315
Increase in salaries payable	3,583	7,594
Increase in accrued compensated absences	4,725	6,253
Increase (decrease) in accounts payable	26,544	(248,352)
Increase (decrease) in due to fiduciary funds	(100,420)	(42,388)
Decrease in due to other state agencies	(7,065)	(2,432)
Increase (decrease) in amounts held in custody for others	(299,941)	719,970
Total adjustments	79,922	648,120
Net cash provided (used) by operating activities	\$ (5,846,027)	\$ 36,814,577

See Notes to the Financial Statements

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF PLAN NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	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	\$ 5,991,879	\$ -	\$ 50,169	\$ 117,135	\$ 550,904	\$ 91,121	\$ 2,605
Receivables:							
Contribution receivable	10,197,314	-	783,903	203,620	499,098	-	4,393
Interest receivable	3,259,339	94,358	85,205	-	-	-	96,697
Due from fiduciary funds	260,174	-	9,189	292	15,555	50,950	431
Due from proprietary funds	-	-	318,876	-	1,120	-	-
Due from other state agencies	40	-	-	-	-	-	-
Total receivables	<u>13,716,867</u>	<u>94,358</u>	<u>1,197,173</u>	<u>203,912</u>	<u>515,773</u>	<u>50,950</u>	<u>101,521</u>
Investments, at fair value:							
Domestic equities	509,920,969	14,779,824	42,578,295	-	-	-	18,141,815
International equities	695,332,269	20,153,886	12,534,457	-	-	-	20,544,452
International fixed income	112,293,730	3,254,782	-	-	-	-	4,624,320
Domestic fixed income	421,096,933	12,205,301	35,162,409	1,079,433	-	1,370,450	54,031,116
Real estate	396,107,838	11,481,003	-	-	-	-	-
Mutual funds	-	-	-	32,071,880	-	63,103,463	-
Annuities	-	-	-	-	-	109,052	-
Alternative investments	103,079,973	2,987,726	-	-	-	-	-
Invested cash	25,947,939	752,089	-	-	-	-	387,369
Total investments	<u>2,263,779,651</u>	<u>65,614,611</u>	<u>90,275,161</u>	<u>33,151,313</u>	<u>-</u>	<u>64,582,965</u>	<u>97,729,072</u>
Prepaid expenses	-	-	580,193	-	-	-	-
Software (net of amortization)	<u>2,426,891</u>	<u>21,226</u>	<u>233,311</u>	<u>16,730</u>	<u>610,912</u>	<u>1,221,824</u>	<u>14,283</u>
Total assets	<u>2,285,915,288</u>	<u>65,730,195</u>	<u>92,336,007</u>	<u>33,489,090</u>	<u>1,677,589</u>	<u>65,946,860</u>	<u>97,847,481</u>

	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	87,106	-	-	-	18,691	38,079	-
Accounts payable	4,129,900	-	69,150	15	14,971	13,216	148,692
Due to fiduciary funds	431	63,330	253,148	6,390	-	13,292	-
Due to proprietary funds	12,160	-	-	2,882	-	-	2,161
Due to other state agencies	8,473	-	-	28	1,566	3,041	-
Amounts held in custody for others	-	-	-	-	-	14,072	-
Accrued compensated absences	94,355	-	-	-	25,892	39,379	-
Total liabilities	4,332,425	63,330	322,298	9,315	61,120	121,079	150,853
DEFERRED INFLOW OF RESOURCES:							
Deferred Contributions	-	-	-	-	-	12,782	-
NET POSITION:							
Held in trust for pension benefits	2,281,582,863	65,666,865	-	33,479,775	-	65,812,999	97,696,628
Held in trust for postemployment healthcare benefits	-	-	92,013,709	-	-	-	-
Held in trust for pretax benefits	-	-	-	-	1,616,469	-	-
Total net position held in trust	\$ 2,281,582,863	\$ 65,666,865	\$ 92,013,709	\$ 33,479,775	\$ 1,616,469	\$ 65,812,999	\$ 97,696,628

See Notes to the Financial Statements

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF PLAN NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	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	\$ 5,552,040	\$ -	\$ 24,641	\$ 91,669	\$ 370,095	\$ 130,851	\$ 2,090
Receivables:							
Contribution receivable	8,338,059	-	758,365	172,005	499,419	-	5,499
Interest receivable	3,488,652	102,248	72,982	-	-	-	45,896
Due from fiduciary funds	104,387	4,672	68,920	-	15,555	24,492	123
Due from proprietary funds	-	-	420,416	-	-	-	-
Due from other state agencies	1,180	-	-	-	-	-	-
Total receivables	<u>11,932,278</u>	<u>106,920</u>	<u>1,320,683</u>	<u>172,005</u>	<u>514,974</u>	<u>24,492</u>	<u>51,518</u>
Investments, at fair value:							
Domestic equities	430,105,553	12,624,309	34,038,246	-	-	-	17,140,109
International equities	591,307,961	17,355,866	9,816,186	-	-	-	19,228,691
International fixed income	91,424,799	2,683,469	-	-	-	-	4,275,506
Domestic fixed income	337,477,792	9,905,531	29,749,849	1,024,745	-	1,096,488	49,151,520
Real estate	364,354,225	10,694,399	-	-	-	-	-
Mutual funds	-	-	-	25,583,919	-	48,980,243	-
Annuities	-	-	-	-	-	95,018	-
Alternative investments	99,995,649	2,935,038	-	-	-	-	-
Invested cash	25,694,768	754,184	-	-	-	-	601,042
Total investments	<u>1,940,360,747</u>	<u>56,952,796</u>	<u>73,604,281</u>	<u>26,608,664</u>	<u>-</u>	<u>50,171,749</u>	<u>90,396,868</u>
Prepaid expenses	1,582	-	549,260	-	163	335	-
Software (net of amortization)	<u>2,810,501</u>	<u>24,554</u>	<u>270,173</u>	<u>19,377</u>	<u>707,481</u>	<u>1,414,961</u>	<u>16,544</u>
Total assets	<u>1,960,657,148</u>	<u>57,084,270</u>	<u>75,769,038</u>	<u>26,891,715</u>	<u>1,592,713</u>	<u>51,742,388</u>	<u>90,467,020</u>

	<u>Public Employees Retirement System</u>	<u>Highway Patrolmen's Retirement System</u>	<u>Retiree Health Insurance Credit Fund</u>	<u>Defined Contribution Retirement Fund</u>	<u>Pretax Benefits Program</u>	<u>Deferred Compensation Plan</u>	<u>Retirement Plan for Employees of Job Service North Dakota</u>
LIABILITIES:							
Salaries payable	79,609	-	-	-	17,822	30,141	-
Accounts payable	2,726,521	-	57,110	-	14,636	13,610	88,063
Due to fiduciary funds	69,043	40,186	102,106	6,814	-	-	-
Due to proprietary funds	6,160	-	53,821	-	-	-	-
Due to other state agencies	16,511	-	-	226	5,226	4,871	-
Unearned revenue	-	-	-	-	-	15,532	-
Amounts held in custody for others	-	-	-	-	-	37,210	-
Accrued compensated absences	89,278	-	-	-	25,587	42,540	-
	<u>2,987,122</u>	<u>40,186</u>	<u>213,037</u>	<u>7,040</u>	<u>63,271</u>	<u>143,904</u>	<u>88,063</u>
Total liabilities							
NET POSITION:							
Held in trust for pension benefits	1,957,670,026	57,044,084	-	26,884,675	-	51,598,484	90,378,957
Held in trust for postemployment healthcare benefits	-	-	75,556,001	-	-	-	-
Held in trust for pretax benefits	-	-	-	-	1,529,442	-	-
	<u>\$ 1,957,670,026</u>	<u>\$ 57,044,084</u>	<u>\$ 75,556,001</u>	<u>\$ 26,884,675</u>	<u>\$ 1,529,442</u>	<u>\$ 51,598,484</u>	<u>\$ 90,378,957</u>
Total net position held in trust							

See Notes to the Financial Statements

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN PLAN NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	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	\$ 61,661,050	\$ 1,864,632	\$ 10,709,792	\$ 1,099,790	\$ -	\$ -	\$ -
From employee	59,394,200	1,243,520	6,274,649	1,079,863	5,584,388	6,238,092	55,748
Transfers from other plans	-	-	-	32,783	-	315,000	-
From external plans	-	-	-	-	-	849,744	-
Total contributions	<u>121,055,250</u>	<u>3,108,152</u>	<u>16,984,441</u>	<u>2,212,436</u>	<u>5,584,388</u>	<u>7,402,836</u>	<u>55,748</u>
Investment income:							
Net change							
in fair value of investments	285,047,952	8,318,289	10,620,455	3,305,934	-	6,204,209	10,466,656
Interest and dividends	39,771,600	1,160,492	1,984,656	1,530,475	320	2,947,054	1,725,637
Less investment expense	(8,191,090)	(238,852)	(238,703)	(13,069)	-	6,173	(304,453)
Net investment income	<u>316,628,462</u>	<u>9,239,929</u>	<u>12,366,408</u>	<u>4,823,340</u>	<u>320</u>	<u>9,157,436</u>	<u>11,887,840</u>
Repurchase service credit	8,325,140	87,418	368,859	-	-	-	-
FICA tax savings	-	-	-	-	668,899	-	-
Transfer from proprietary fund	-	-	-	-	-	315,000	-
Miscellaneous income	1,101	-	-	18,488	-	156	-
Total additions	<u>446,009,953</u>	<u>12,435,499</u>	<u>29,719,708</u>	<u>7,054,264</u>	<u>6,253,607</u>	<u>16,875,428</u>	<u>11,943,588</u>
DEDUCTIONS:							
Benefits paid to participants	113,300,699	3,752,627	-	452,014	5,634,822	1,833,977	4,594,462
Refunds	6,237,842	32,108	2,992	-	-	-	-
Prefunded credit applied	-	-	6,798,427	-	-	-	-
Health premiums paid	-	-	6,259,110	-	-	-	-
Transfers to other plans	347,783	-	-	-	-	-	-
	<u>119,886,324</u>	<u>3,784,735</u>	<u>13,060,529</u>	<u>452,014</u>	<u>5,634,822</u>	<u>1,833,977</u>	<u>4,594,462</u>
Administrative expenses	2,210,792	27,983	201,471	7,150	531,758	826,936	31,455
Total deductions	<u>122,097,116</u>	<u>3,812,718</u>	<u>13,262,000</u>	<u>459,164</u>	<u>6,166,580</u>	<u>2,660,913</u>	<u>4,625,917</u>
Change in net position	<u>323,912,837</u>	<u>8,622,781</u>	<u>16,457,708</u>	<u>6,595,100</u>	<u>87,027</u>	<u>14,214,515</u>	<u>7,317,671</u>
Net position - beginning of year	<u>1,957,670,026</u>	<u>57,044,084</u>	<u>75,556,001</u>	<u>26,884,675</u>	<u>1,529,442</u>	<u>51,598,484</u>	<u>90,378,957</u>
Net position - end of year	<u>\$ 2,281,582,863</u>	<u>\$ 65,666,865</u>	<u>\$ 92,013,709</u>	<u>\$ 33,479,775</u>	<u>\$ 1,616,469</u>	<u>\$ 65,812,999</u>	<u>\$ 97,696,628</u>

See Notes to the Financial Statements

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN PLAN NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	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	\$ 48,846,796	\$ 1,586,186	\$ 9,959,603	\$ 906,296	\$ -	\$ -	\$ -
From employee	46,815,060	1,028,615	6,014,003	886,855	5,866,659	5,198,258	72,174
Transfers from other plans	-	-	-	-	-	412,500	-
From external plans	-	-	-	104	-	1,086,587	-
Total contributions	<u>95,661,856</u>	<u>2,614,801</u>	<u>15,973,606</u>	<u>1,793,255</u>	<u>5,866,659</u>	<u>6,697,345</u>	<u>72,174</u>
Investment income:							
Net change							
in fair value of investments	195,052,808	5,766,740	6,384,010	2,166,442	-	3,718,955	7,978,316
Interest and dividends	43,509,791	1,286,296	1,777,178	913,834	439	1,645,810	2,248,708
Less investment expense	<u>(6,713,127)</u>	<u>(198,484)</u>	<u>(197,797)</u>	<u>(13,902)</u>	<u>-</u>	<u>20,007</u>	<u>(242,783)</u>
Net investment income	<u>231,849,472</u>	<u>6,854,552</u>	<u>7,963,391</u>	<u>3,066,374</u>	<u>439</u>	<u>5,384,772</u>	<u>9,984,241</u>
Repurchase service credit	7,470,218	133,169	371,587	-	-	-	-
FICA tax savings	-	-	-	-	660,757	-	-
Transfer from proprietary fund	-	-	-	-	-	212,500	-
Miscellaneous income	-	-	-	18,290	17	114	-
Total additions	<u>334,981,546</u>	<u>9,602,522</u>	<u>24,308,584</u>	<u>4,877,919</u>	<u>6,527,872</u>	<u>12,294,731</u>	<u>10,056,415</u>
DEDUCTIONS:							
Benefits paid to participants	103,295,777	3,749,888	-	809,546	5,826,126	1,605,608	4,353,984
Refunds	5,783,824	22,428	8,765	-	-	-	-
Prefunded credit applied	-	-	6,458,449	-	-	-	-
Health premiums paid	-	-	6,000,703	-	-	-	-
Transfers to other plans	212,500	-	-	-	200,000	-	-
	<u>109,292,101</u>	<u>3,772,316</u>	<u>12,467,917</u>	<u>809,546</u>	<u>6,026,126</u>	<u>1,605,608</u>	<u>4,353,984</u>
Administrative expenses	2,059,315	29,237	185,619	11,918	478,968	795,631	30,014
Total deductions	<u>111,351,416</u>	<u>3,801,553</u>	<u>12,653,536</u>	<u>821,464</u>	<u>6,505,094</u>	<u>2,401,239</u>	<u>4,383,998</u>
Change in net position	<u>223,630,130</u>	<u>5,800,969</u>	<u>11,655,048</u>	<u>4,056,455</u>	<u>22,778</u>	<u>9,893,492</u>	<u>5,672,417</u>
Net position - beginning of year	<u>1,734,039,896</u>	<u>51,243,115</u>	<u>63,900,953</u>	<u>22,828,220</u>	<u>1,506,664</u>	<u>41,704,992</u>	<u>84,706,540</u>
Net position - end of year	<u>\$ 1,957,670,026</u>	<u>\$ 57,044,084</u>	<u>\$ 75,556,001</u>	<u>\$ 26,884,675</u>	<u>\$ 1,529,442</u>	<u>\$ 51,598,484</u>	<u>\$ 90,378,957</u>

See Notes to the Financial Statements

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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

For financial reporting purposes, the System has included all funds, and has considered all potential component units for which the System is financially accountable, and other organizations for which the nature and significance of their relationship with the System are such that exclusion would cause the System's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board 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 Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities with the difference reported as net position. Net position is reported 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 position result when constraints on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position that do not meet the definition of the two preceding 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.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

The proprietary fund is used to account for the operations of the Uniform Group Insurance Program. The System has been given the responsibility to manage this public entity risk pool. The Uniform Group Insurance Program is 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 only reports administrative revenue and expenses.

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 available to state employees.

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.

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.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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 and underwriting gains. Operating expenses include 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 and amortization expense, benefits and refunds paid to participants, prefunded credits applied and employee reimbursements in the Pretax Benefits Program.

There were no supplemental appropriations during the fiscal year ending June 30, 2014 and 2013.

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.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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.

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) 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, 2014 and 2013 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.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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.

Amounts Held in Custody for Others

Amounts held in custody for others includes monies collected from participating employers for deferred compensation contributions that had not been forwarded to the investment provider company as of June 30. It also includes 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 2014 and 2013, transfers to other plans also includes operating transfers from the retirement plan and insurance plan, and pretax benefits program to the deferred compensation plan to cover general administrative expenses and software development costs.

Restricted Net Position

Net position restricted for benefits consists of funds on deposit with Blue Cross Blue Shield to pay health care benefits in the event total claims incurred during the biennium exceed total premiums, and funds received under the federal health care reform bill for pre-Medicare retiree reinsurance designated to reduce health care costs for members of the Uniform Group Insurance Program.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

Use of Estimates

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

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

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.

	2014	2013
Cash deposits at the Bank of North Dakota recorded as cash and cash equivalents	\$ 7,326,183	\$ 7,304,156
Cash deposits at State Treasury recorded as cash and cash equivalents	375,042	453,365
Cash held by the North Dakota Retirement and Investment Office recorded as cash and cash equivalents	37,489,974	42,849,158
Guaranteed investment contract with Blue Cross Blue Shield recorded as cash and cash equivalents	5,810,677	5,898,923
Cash held by ADP Benefit Services recorded as cash and cash equivalents	165,371	165,371
	\$ 51,167,247	\$ 56,670,973

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, 2014 and 2013 the carrying amount of the System's cash deposits were \$51,167,247 and \$56,670,973, and the bank balances were \$51,229,670 and \$56,700,229. All of the System's deposits are uncollateralized and uninsured at June 30, 2014 and 2013.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

Investments

Total investments of the System at fair value as of June 30, 2014 and 2013 consisted of the following:

	2014	2013
Equity Securities	\$ 1,333,985,967	\$ 1,131,616,921
Bonds and notes	645,118,474	526,789,699
Real estate	407,588,841	375,048,624
Alternative investments	106,067,699	102,930,687
Mutual funds	32,071,880	25,583,919
Invested cash	27,087,397	27,049,994
Deferred compensation plans:		
Annuities	109,052	95,018
Mutual funds	63,103,463	48,980,243
	<u>\$ 2,615,132,773</u>	<u>\$ 2,238,095,105</u>

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.

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. 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.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

PERS and HPRS Plan

Type (In Thousands)	2014				
	Fair Value	Less Than 1 Year	1-6 Years	6-10 Years	Over 10 Years
Asset Backed Securities	\$ 11,035	\$ -	\$ 2,216	\$ 2,874	\$ 5,945
Bank Loans	140	-	140	-	-
Commercial Mortgage-Backed	5,263	-	309	-	4,954
Corporate Bonds	93,704	2,895	40,554	30,287	19,968
Corporate Convertible Bonds	11,461	1,097	5,405	1,558	3,401
Government Agencies	16,541	394	15,386	(1)	762
Government Bonds	57,128	3,995	8,644	22,736	21,753
Government Mortgage and CMB	188,121	-	656	1,002	186,463
Repurchase Agreements	10,175	10,175	-	-	-
Index Linked Government Bonds	79	-	-	-	79
Municipal/Provincial Bonds	5,290	-	501	1,000	3,789
Non-Government Backed CMOs	7,037	-	1,155	-	5,882
Other Fixed Income	3,030	364	2,666	-	-
Pooled Investments	210,002	1,980	51,726	93,812	62,484
Short Term Bills and Notes	27,109	27,109	-	-	-
Total Debt Securities	<u>\$ 646,115</u>	<u>\$ 48,009</u>	<u>\$ 129,358</u>	<u>\$ 153,268</u>	<u>\$ 315,480</u>

PERS and HPRS Plan

Type (In Thousands)	2013				
	Fair Value	Less Than 1 Year	1-6 Years	6-10 Years	Over 10 Years
Asset Backed Securities	\$ 2,824	\$ -	\$ 665	\$ 691	\$ 1,468
Commercial Mortgage-Backed	5,180	-	-	-	5,180
Corporate Bonds	54,959	3,413	17,908	14,868	18,770
Corporate Convertible Bonds	11,757	117	5,659	1,514	4,467
Government Agencies	13,057	1,496	7,949	2,730	882
Government Bonds	39,673	7,066	7,051	9,322	16,234
Government Mortgage and CMB	170,931	-	214	600	170,117
Index Linked Government Bonds	641	-	-	-	641
Municipal/Provincial Bonds	3,662	-	2,171	425	1,066
Non-Government Backed CMOs	3,649	-	1,402	210	2,037
Other Fixed Income	1,784	119	1,665	-	-
Pooled Investments	184,602	-	115,712	45,456	23,434
Short Term Bills and Notes	12,705	12,705	-	-	-
Total Debt Securities	<u>\$ 505,424</u>	<u>\$ 24,916</u>	<u>\$ 160,396</u>	<u>\$ 75,816</u>	<u>\$ 244,296</u>

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

Job Service Retirement Plan

Type (In Thousands)	2014				
	Fair Value	Less Than 1			Over 10 Years
		Year	1-6 Years	6-10 Years	
Asset Backed Securities	\$ 1,001	\$ -	\$ 141	\$ 150	\$ 710
Bank Loans	21	-	21	-	-
Commercial Mortgage-Backed	267	-	46	-	221
Corporate Bonds	7,761	245	4,249	1,964	1,303
Corporate Convertible Bonds	739	71	348	100	220
Government Agencies	704	16	663	-	25
Government Bonds	3,816	160	750	1,982	924
Government Mortgage Backed and CMB	20,507	-	26	50	20,431
Repurchase Agreements	1,511	1,511	-	-	-
Index Linked Government Bonds	12	-	-	-	12
Municipal/Provincial Bonds	221	-	20	40	161
Non-Government Backed CMOs	518	-	47	-	471
Other Fixed Income	241	11	230	-	-
Pooled Investments	22,653	294	6,272	7,404	8,683
Short Term Bills and Notes	3,984	3,984	-	-	-
Total Debt Securities	<u>\$ 63,956</u>	<u>\$ 6,292</u>	<u>\$ 12,813</u>	<u>\$ 11,690</u>	<u>\$ 33,161</u>

Job Service Retirement Plan

Type (In Thousands)	2013				
	Fair Value	Less Than 1			Over 10 Years
		Year	1-6 Years	6-10 Years	
Asset Backed Securities	\$ 102	\$ -	\$ 24	\$ 26	\$ 52
Commercial Mortgage-Backed	191	-	-	-	191
Corporate Bonds	3,684	134	1,090	1,086	1,374
Corporate Convertible Bonds	867	9	417	112	329
Government Agencies	607	87	373	115	32
Government Bonds	2,354	321	340	798	895
Government Mortgage Backed and CMB	20,663	-	14	27	20,622
Index Linked Government Bonds	47	-	-	-	47
Municipal/Provincial Bonds	178	-	99	19	60
Non-Government Backed CMOs	142	-	53	7	82
Other Fixed Income	70	5	65	-	-
Pooled Investments	23,698	-	17,711	2,057	3,930
Short Term Bills and Notes	1,628	1,628	-	-	-
Total Debt Securities	<u>\$ 54,231</u>	<u>\$ 2,184</u>	<u>\$ 20,186</u>	<u>\$ 4,247</u>	<u>\$ 27,614</u>

Retiree Health Insurance Credit Fund

All securities subject to interest rate risk disclosure in the Retiree Health Insurance Credit Fund are pooled investments. At June 30, 2014, the market value of these securities maturing in 1-6 years is \$3.686 million and maturing in 6-10 years is \$31.501 million for a total market value of \$35.187 million. At June 30, 2013, the market value of these securities maturing in 1-6 years is \$3.174 million and maturing in 6-10 years is \$26.599 million for a total market value of \$29.773 million.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

Currency (In thousands)	2014			
	Short term	Debt	Equity	Total
Australian dollar	\$ (3,058)	\$ 6,703	\$ 6,426	\$ 10,071
Brazilian real	121	4,234	3,189	7,544
British pound sterling	(279)	3,541	39,248	42,510
Canadian dollar	24	-	9,967	9,991
Chilean peso	4,597	515	-	5,112
Chinese yuan renminbi	(1)	-	-	(1)
Czech koruna	-	-	747	747
Israeli shekel	25	-	636	661
Danish krone	-	-	914	914
Euro	(10,131)	9,310	62,979	62,158
Hong Kong dollar	45	-	7,596	7,641
Hungarian forint	19	2,088	664	2,771
Iceland krona	17	-	-	17
Indian rupee	177	-	-	177
Indonesian rupiah	-	2,071	-	2,071
Japanese yen	(1,326)	-	36,383	35,057
Malaysian ringgit	37	1,184	-	1,221
Mexican peso	1,033	12,570	-	13,603
New Zealand dollar	(1,581)	1,665	54	138
Norwegian krone	-	-	2,309	2,309
Philippine peso	-	1,083	-	1,083
Polish zloty	(2,231)	2,486	1,429	1,684
Singapore dollar	11	-	957	968
South African rand	7	1,862	1,651	3,520
South Korean won	108	2,518	4,243	6,869
Swedish krona	29	-	3,415	3,444
Swiss franc	110	25	12,534	12,669
Thai baht	52	-	1,000	1,052
Turkish lira	-	762	743	1,505
International commingled funds (various currencies)	-	57,475	301,314	358,789
	<u>\$ (12,195)</u>	<u>\$ 110,092</u>	<u>\$ 498,398</u>	<u>\$ 596,295</u>

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

PERS and HPRS Plan-Continued

<u>Currency (In thousands)</u>	2013			
	<u>Short term</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Australian dollar	\$ (3,932)	\$ 5,147	\$ 4,714	\$ 5,929
Brazilian real	848	2,477	3,317	6,642
British pound sterling	6,731	2,473	26,629	35,833
Canadian dollar	15	409	7,816	8,240
Chilean peso	1,533	-	-	1,533
Czech koruna	-	-	937	937
Israeli shekel	14	-	457	471
Danish krone	-	-	373	373
Euro	(6,470)	9,606	49,553	52,689
Hong Kong dollar	12	-	6,599	6,611
Hungarian forint	10	1,959	504	2,473
Iceland krona	15	-	-	15
Indian rupee	2,254	-	-	2,254
Japanese yen	6,924	-	22,065	28,989
Malaysian ringgit	13	2,065	1,060	3,138
Mexican peso	-	9,382	-	9,382
New Zealand dollar	(1,447)	1,487	-	40
Norwegian krone	21	-	997	1,018
Philippine peso	-	1,094	-	1,094
Polish zloty	-	2,060	604	2,664
Singapore dollar	35	-	1,282	1,317
South African rand	44	1,519	1,963	3,526
South Korean won	(2,105)	2,176	3,725	3,796
Swedish krona	245	-	2,472	2,717
Swiss franc	-	-	9,652	9,652
Thai baht	27	-	572	599
Turkish lira	1	1,318	486	1,805
International commingled funds (various currencies)	-	44,721	155,845	200,566
	<u>\$ 4,788</u>	<u>\$ 87,893</u>	<u>\$ 301,622</u>	<u>\$ 394,303</u>

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

Job Service Retirement Plan

<u>Currency (In thousands)</u>	2014			
	<u>Short term</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Australian dollar	\$ (140)	\$ 286	\$ 251	\$ 397
Brazilian real	18	199	135	352
British pound sterling	(45)	175	1,445	1,575
Canadian dollar	1	-	379	380
Chilean peso	184	33	-	217
Czech koruna	-	-	32	32
Israeli shekel	1	-	27	28
Danish krone	-	-	18	18
Euro	(718)	554	1,785	1,621
Hong Kong dollar	2	-	269	271
Hungarian forint	1	84	28	113
Iceland krona	1	-	-	1
Indian rupee	26	-	-	26
Indonesian rupiah	-	83	-	83
Japanese yen	(111)	-	1,308	1,197
Malaysian ringgit	2	47	-	49
Mexican peso	153	610	-	763
New Zealand dollar	(63)	67	1	5
Norwegian krone	-	-	88	88
Philippine peso	-	70	-	70
Polish zloty	(89)	100	61	72
Singapore dollar	-	-	29	29
South African rand	-	75	70	145
South Korean won	5	101	180	286
Swedish krona	1	-	104	105
Swiss franc	2	4	391	397
Thai baht	2	-	42	44
Turkish lira	-	31	31	62
International commingled funds (various currencies)	-	2,302	4,217	6,519
	<u>\$ (767)</u>	<u>\$ 4,821</u>	<u>\$ 10,891</u>	<u>\$ 14,945</u>

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

Job Service Retirement Plan-Continued

<u>Currency (In thousands)</u>	2013			
	<u>Short term</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Australian dollar	\$ (186)	\$ 254	\$ 198	\$ 266
Brazilian real	39	144	148	331
British pound sterling	247	112	1,070	1,429
Canadian dollar	1	30	333	364
Chilean peso	70	-	-	70
Czech koruna	-	-	42	42
Israeli shekel	1	-	20	21
Danish krone	-	-	9	9
Euro	(467)	551	1,769	1,853
Hong Kong dollar	1	-	257	258
Hungarian forint	-	89	23	112
Iceland krona	1	-	-	1
Indian rupee	102	-	-	102
Japanese yen	155	-	827	982
Malaysian ringgit	1	94	47	142
Mexican peso	-	497	-	497
New Zealand dollar	(66)	68	-	2
Norwegian krone	1	-	38	39
Philippine peso	-	81	-	81
Polish zloty	-	94	27	121
Singapore dollar	1	-	43	44
South African rand	2	69	88	159
South Korean won	(96)	99	166	169
Swedish krona	11	-	88	99
Swiss franc	-	-	344	344
Thai baht	1	-	26	27
Turkish lira	-	60	22	82
International commingled funds (various currencies)	-	2,032	1,924	3,956
	<u>\$ (181)</u>	<u>\$ 4,274</u>	<u>\$ 7,509</u>	<u>\$ 11,602</u>

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

The June 30, 2014 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	\$ 260,174	\$ 12,591
Highway Patrolmen's Retirement System	-	63,330
Retiree Health Insurance Credit Fund	328,065	253,148
Retirement Plan for Employees of Job Service	431	2,161
North Dakota		
Pretax Benefits Program	16,675	-
Deferred Compensation Plan	50,950	13,292
Defined Contribution Plan	292	9,272
Proprietary		
Uniform Group Insurance Program	17,203	319,996
	<u>\$ 673,790</u>	<u>\$ 673,790</u>

The June 30, 2013 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	\$ 104,387	\$ 75,203
Highway Patrolmen's Retirement System	4,672	40,186
Retiree Health Insurance Credit Fund	489,336	155,927
Retirement Plan for Employees of Job Service	123	-
North Dakota		
Pretax Benefits Program	15,555	-
Deferred Compensation Plan	24,492	-
Defined Contribution Plan	-	6,814
Proprietary		
Uniform Group Insurance Program	59,981	420,416
	<u>\$ 698,546</u>	<u>\$ 698,546</u>

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.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

June 30, 2014 due from/to state agencies are summarized as follows:

Fund	Due From State Agencies	Due To State Agencies
Fiduciary		
Public Employees Retirement System		
ITD	\$ -	\$ 7,436
Attorney General	-	920
Office of Management and Budget	-	117
Department of Transportation	40	-
Total	<u>\$ 40</u>	<u>\$ 8,473</u>
Defined Contribution Plan		
ITD	<u>\$ -</u>	<u>\$ 28</u>
Pretax Benefits Program		
ITD	\$ -	\$ 1,538
Attorney General	-	5
Office of Management and Budget	-	23
Total	<u>\$ -</u>	<u>\$ 1,566</u>
Deferred Compensation Plan		
ITD	\$ -	\$ 2,986
Attorney General	-	10
Office of Management and Budget	-	45
Total	<u>\$ -</u>	<u>\$ 3,041</u>
Proprietary		
Uniform Group Insurance Program		
Office of Management and Budget	\$ -	\$ 68
ITD	-	5,698
Attorney General	-	15
Total	<u>\$ -</u>	<u>\$ 5,781</u>

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

The June 30, 2013 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	\$ 160	\$ -
Legislative Council	20	-
Health Department	240	-
Public Service Commission	80	-
Workforce Safety and Insurance	420	-
Department of Agriculture	80	-
Department of Transportation	160	79
ITD	-	8,584
Attorney General	-	1,251
Office of Management and Budget	20	5,981
Retirement & Investment Office	-	616
Total	<u>\$ 1,180</u>	<u>\$ 16,511</u>
Defined Contribution Plan		
Office of Management and Budget	<u>\$ -</u>	<u>\$ 226</u>
Pretax Benefits Program		
ITD	\$ -	\$ 1,528
Attorney General	-	243
Office of Management and Budget	-	3,455
Total	<u>\$ -</u>	<u>\$ 5,226</u>
Deferred Compensation Plan		
ITD	\$ -	\$ 2,818
Attorney General	-	548
Office of Management and Budget	-	1,505
Total	<u>\$ -</u>	<u>\$ 4,871</u>
Proprietary		
Uniform Group Insurance Program		
Department of Transportation	\$ -	\$ 139
Office of Management and Budget	-	5,935
ITD	-	5,687
Attorney General	-	1,085
Total	<u>\$ -</u>	<u>\$ 12,846</u>

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

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

The June 30, 2014 transfers in/out are summarized as follows:

<u>Fund Type/Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Fiduciary Funds		
Defined Contribution Plan	\$ 32,783	\$ -
Deferred Compensation Plan	630,000	-
Public Employee Retirement System		347,783
Proprietary Funds		
Uniform Group Insurance Program	-	315,000

The June 30, 2013 operating transfers in/out are summarized as follows:

<u>Fund Type/Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Fiduciary Funds		
Pretax Benefit Program	\$ -	\$ 200,000
Deferred Compensation Plan	625,000	-
Public Employees Retirement System	-	212,500
Proprietary Funds		
Uniform Group Insurance Program	-	212,500

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, 2014 and 2013 is as follows:

	Balance 7/1/2013	Additions	Deletions	Balance 6/30/2014
Proprietary Funds:				
Capital assets being depreciated:				
Software	\$ 2,897,064	\$ -	\$ -	\$ 2,897,064
Less: Accumulated amortization for:				
Software	(774,622)	(289,706)	-	(1,064,328)
Total capital assets being depr., net	<u>2,122,442</u>	<u>(289,706)</u>	<u>-</u>	<u>1,832,736</u>
Proprietary Funds capital assets, net	<u>\$ 2,122,442</u>	<u>\$ (289,706)</u>	<u>\$ -</u>	<u>\$ 1,832,736</u>
Fiduciary Funds:				
Capital assets being depreciated:				
Software	\$ 7,184,137	\$ -	\$ -	\$ 7,184,137
Equipment	11,527	-	-	11,527
Total capital assets being depreciated	7,195,664	-	-	7,195,664
Less: Accumulated amort/depr. for:				
Equipment	(11,527)	-	-	(11,527)
Software	(1,920,546)	(718,414)	-	(2,638,960)
Total capital assets being depr. net	<u>5,263,591</u>	<u>(718,414)</u>	<u>-</u>	<u>4,545,177</u>
Fiduciary Funds capital assets, net	<u>\$ 5,263,591</u>	<u>\$ (718,414)</u>	<u>\$ -</u>	<u>\$ 4,545,177</u>

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

	Balance 7/1/2012	Additions	Deletions	Balance 6/30/2013
Proprietary Funds:				
Capital assets not being depreciated:				
Software (not in production)	\$ 76,626	\$ 38,525	\$ (115,151)	\$ -
Capital assets being depreciated:				
Software	2,781,913	115,151	-	2,897,064
Less: Accumulated amortization for:				
Software	(486,904)	(287,718)	-	(774,622)
Total capital assets being depr., net	<u>2,295,009</u>	<u>(172,567)</u>	<u>-</u>	<u>2,122,442</u>
Proprietary Funds capital assets, net	<u>\$ 2,371,635</u>	<u>\$ (134,042)</u>	<u>\$ (115,151)</u>	<u>\$ 2,122,442</u>
Fiduciary Funds:				
Capital assets not being depreciated:				
Software (not in production)	\$ 191,800	\$ 95,621	\$ (287,421)	\$ -
Capital assets being depreciated:				
Software	6,896,716	287,421	-	7,184,137
Equipment	11,527	-	-	11,527
Total capital assets being depreciated	<u>6,908,243</u>	<u>287,421</u>	<u>-</u>	<u>7,195,664</u>
Less: Accumulated amort/depr. for:				
Equipment	(11,527)	-	-	(11,527)
Software	(1,206,854)	(713,692)	-	(1,920,546)
Total capital assets being depr. net	<u>5,689,862</u>	<u>(426,271)</u>	<u>-</u>	<u>5,263,591</u>
Fiduciary Funds capital assets, net	<u>\$ 5,881,662</u>	<u>\$ (330,650)</u>	<u>\$ (287,421)</u>	<u>\$ 5,263,591</u>

NOTE 5 LEASE OBLIGATIONS

Operating Lease

The department has entered into an operating lease for office space until June 30, 2015. Expenditures for this lease were \$135,660 and \$124,356 for the years ended June 30, 2014 and 2013, respectively. The future minimum lease payment for the fiscal year ending June 30, 2015 is \$135,660.

The department has also entered into an operating lease for office equipment until February 28, 2014. Expenditures for this lease were \$1,707 and \$2,561 for the years ended June 30, 2014 and 2013, 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.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

NOTE 6 CHANGE IN LONG-TERM LIABILITIES

	Proprietary Fund		Fiduciary Fund
	Accrued Compensated Absences		Accrued Compensated Absences
Balance - June 30, 2012	\$ 73,453	\$	149,763
Increases	47,245		93,299
Decreases	(40,992)		(85,657)
Balance - June 30, 2013	79,706		157,405
Increases	53,184		100,549
Decreases	(48,459)		(98,328)
Balance - June 30, 2014	<u>\$ 84,431</u>	\$	<u>159,626</u>
Balance - due within one year	\$ 5,328	\$	10,072

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

NOTE 7 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

The System is required to contribute to PERS at a statutorily determined rate for permanent employees. The System's contributions to PERS for the years ended June 30, 2014, 2013 and 2012, were \$182,989, \$155,657, and \$129,748 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 three defined benefit pension plans and a defined contribution plan. The Public Employees Retirement System (PERS) is a cost-sharing multiple-employer retirement plan. The PERS was established July 1, 1966 as a defined contribution plan and was changed to a defined benefit plan by the 1977 North Dakota Legislature. The PERS is administered in accordance with Chapter 54-52 of the North Dakota Century Code. The Highway Patrolmen's Retirement System (HPRS) was established July 1, 1949 and is administered in accordance with Chapter 39-03 of the North Dakota Century Code. The HPRS is a single-employer defined benefit plan. The North Dakota Defined Contribution Retirement Plan was established on January 1, 2000 and is administered in accordance with Chapter 54-52.6 of the North Dakota Century Code. The Retirement Plan for Employees of Job Service North Dakota is a single-employer defined benefit public employee retirement plan administered by the Agency. The plan is established under NDCC 52-11-01 with benefit provisions established through the plan document, as amended.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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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 and the Retirement Plan for Employees of Job Service North Dakota is provided for general information purposes only. Participants should refer to the applicable chapters of the North Dakota Century Code for more complete information.

The PERS covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions (Main System). It also covers Supreme and District Court Judges 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. Effective October 1, 2013, eligibility was expanded to include all state employees hired on or after October 1, 2013 through July 31, 2017, with the exception of employees eligible for the Highway Patrol Retirement System, Teachers Fund for Retirement or the alternate retirement plan of the Board of Higher Education. The Retirement Plan for Employees of Job Service North Dakota is limited to employees participating in the plan as of September 30, 1980.

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

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:

	2014	2013
Cities	86	83
Counties	49	49
School Districts	119	117
Other	73	73
Total Participating Political Subdivisions	327	322

Employee membership data is as follows:

	PERS		HPRS		Job Service	
	2014	2013	2014	2013	2014	2013
Retirees and beneficiaries						
currently receiving benefits	9,355	8,721	117	116	213	213
Special prior service retirees	7	9	-	-	-	-
Terminated vested participants	4,372	4,258	11	9	1	3
Inactive participants	4,050	3,505	8	6	-	-
Active plan participants						
Vested	15,701	15,718	75	71	13	15
Nonvested	6,561	5,870	81	78	-	-
Total plan membership	40,046	38,081	292	280	227	231

The defined contribution plan had 286 and 274 participants as of June 30, 2014 and 2013, respectively.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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Investments – The System’s Board is responsible for establishing the investment policy for the fund assets, which includes setting investment goals and specifying the percentage of assets to be invested in various types of investments. The investment goals are viewed over the long term. The Board recognizes the plans’ performance objectives, benefit projections, and capital market expectations when determining the asset allocation. The SIB is responsible for managing the System’s investments in accordance with the investment policy. The following was the System’s asset allocation policy as of June 30, 2014 and 2013:

Asset Class	Target Allocation	
	PERS & HPRS	JSND
Domestic equities	31.0%	31.0%
International equities	21.0%	9.0%
Private equity	5.0%	
Domestic fixed income	17.0%	55.0%
International fixed income	5.0%	5.0%
Global real assets	20.0%	
Cash & equivalents	1.0%	
Total	100%	100%

Rate of return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested. The annual money-weighted rate of return on pension plan investment, net of pension plan investment expense for the years ended June 30, 2014 and 2013 are:

	<u>2014</u>	<u>2013</u>
Public Employees Retirement	16.29%	13.52%
Highway Patrolmen’s Retirement	16.20%	13.38%
Job Service Plan	13.46%	12.07%

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, 2014 and 2013, the following are the net realized gains (losses):

	<u>2014</u>	<u>2013</u>
Public Employees Retirement	\$ 140,363,845	\$ 78,314,479
Highway Patrolmen’s Retirement	4,096,107	2,315,369
Retiree Health Insurance Credit	1,495,120	1,335,488
Defined Contribution	(478,557)	171,694
Deferred Compensation	880,073	309,822
Job Service Plan	4,758,174	3,192,564

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.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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, 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.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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Defined Contribution Plan

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

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

Members may elect to receive their account balance in a lump sum, lump sum direct rollover or periodic distribution.

Retirement Plan for Employees of Job Service North Dakota

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

- 1.5% times years of credited service up to 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

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

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

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

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

Retirement Plan for Employees of Job Service North Dakota

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

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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If a participant becomes totally disabled, he/she will be eligible for a monthly disability benefit that shall be equal to the greater of 40% of the participant's average annual earnings or the accrued benefit determined as their date of disability.

Refunds of Member Contributions

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

Contributions

Contribution rates for PERS 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.

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 2013, both the employee and employer contribution rates increased for each of the plans by an additional 1% (.5% for the Law Enforcement Plans for political subdivisions). The 2013 Legislative Assembly also passed an increase in the employee and employer contribution rates for the PERS, Judges, National Guard, Law Enforcement, Highway Patrol and Defined Contribution plans. Effective January 2014, both the employee and employer contribution rates were increased for each of the plans by an additional 1% (.5% for the National Guard and Law Enforcement Plans for political subdivisions).

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.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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

	Effective <u>1/1/2012</u>	Effective <u>1/1/2013</u>	Effective <u>1/1/2014</u>
Public Employees Retirement System	5.00%	6.00%	7.00%
Judges Retirement System	6.00%	7.00%	8.00%
National Guard Retirement System	4.00%	4.00%	4.50%
Law Enforcement with previous service			
State	5.00%	6.00%	6.00%
Political Subdivisions	4.50%	5.00%	5.50%
Law Enforcement without previous service	4.50%	5.00%	5.50%

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 covered compensation as follows:

	Effective <u>1/1/2012</u>	Effective <u>1/1/2013</u>	Effective <u>1/1/2014</u>
Public Employees Retirement System	5.12%	6.12%	7.12%
Judges Retirement System	15.52%	16.52%	17.52%
National Guard Retirement System	6.50%	6.50%	7.00%
Law Enforcement with previous service			
State	9.31%	10.31%	10.31%
Political Subdivisions	8.81%	9.31%	9.81%
Law Enforcement without previous service	6.93%	7.43%	7.93%

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 2014-2015.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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HPRS

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

	Effective <u>1/1/2012</u>	Effective <u>1/1/2013</u>	Effective <u>1/1/2014</u>
Member contributions	11.3%	12.3%	13.3%
Employer contributions	17.7%	18.7%	19.7%

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

An open period of 20 years to fund accrued liabilities for the Highway Patrolmen's Retirement System has been adopted for the July 1, 1996 valuation. Currently, the present rate of contributions is not sufficient to meet the actuarially determined requirement for 2014-2015.

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

Annual required contributions	\$ 2,347,598
Interest on net pension obligations	86,738
Adjustment to annual required contributions	<u>(75,669)</u>
Annual pension costs	2,358,667
Contributions made	<u>1,864,632</u>
Change in net pension obligations	494,035
Net pension obligations, beginning of year	<u>1,084,224</u>
Net pension obligations, end of year	<u><u>\$ 1,578,259</u></u>

Defined Contribution Plan

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

	Effective <u>1/1/2012</u>	Effective <u>1/1/2013</u>	Effective <u>1/1/2014</u>
Member contributions	5.00%	6.00%	7.00%
Employer contributions	5.12%	6.12%	7.12%

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.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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	(129,425)
Adjustment to annual required contributions	133,061
Annual pension costs	3,636
Contributions made	-
Change in net pension obligations	3,636
Net pension obligations, beginning of year	(1,617,811)
 (Assets in excess of) net pension obligations, end of year	 \$ (1,614,175)

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. Effective July 1, 2015, the credit will also be available to apply towards monthly premiums under the state dental, vision and long term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Employee membership data is as follows:

	2014	2013
Retired participants, receiving benefits	4,828	4,635
Active participants, not receiving benefits	22,642	21,955
	27,470	26,590

The Retiree Health Insurance Credit Fund has 22,642 and 21,955 active participants at June 30, 2014 and 2013, respectively. The employers' actuarially required contribution was \$7,014,084 and \$7,410,911, and the actual employer contributions were \$10,709,787 and \$9,959,603 for the periods ended June 30, 2014 and 2013, 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	(0.13%)	(1,301,565)
	(0.13%)	\$ (1,301,565)

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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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 for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the pension trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan. 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 2013-15 biennium will continue in the future.

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

The premiums for this plan are reported as employee contributions on the Statement of Changes in Plan Net Position 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 Net Position.

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 (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
Retiree Health Credit	2014	\$ 77.9	\$ 116.6	\$ 38.7	66.8%	\$ 1,001.2	3.9%
Retiree Health Implicit Subsidy	2013	\$ -	\$ 33.8	\$ 33.8	0.0%	\$ -	0.0%

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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.

Net Pension Liability of the Plans

The components of the net pension liability of the Plans at June 30, 2014 and 2013, are as follows:

<u>2014</u>	<u>PERS</u>	<u>HPRS</u>	<u>JSND</u>
Total pension liability	\$ 2,918,552,143	\$ 75,432,901	\$ 65,046,433
Plan fiduciary net position	<u>2,281,582,863</u>	<u>65,666,865</u>	<u>97,696,628</u>
Net pension liability (asset)	\$ 636,969,280	\$ 9,766,036	\$ (32,650,195)
Plan fiduciary net position as a percentage of the total pension liability	78.18%	87.05%	150.20%
<u>2013</u>	<u>PERS</u>	<u>HPRS</u>	<u>JSND</u>
Total pension liability	\$ 2,699,324,809	\$ 71,873,400	\$ 66,052,801
Plan fiduciary net position	<u>1,957,670,025</u>	<u>57,044,084</u>	<u>90,378,957</u>
Net pension liability (asset)	\$ 741,654,784	\$ 14,829,316	\$ (24,326,156)
Plan fiduciary net position as a percentage of the total pension liability	72.52%	79.37%	136.83%

The plan provisions used in the measurement of the net pension liability are the same as those used in the PERS, HPRS and JSND Actuarial Valuation and Reviews as of July 1, 2014 and 2013.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

Actuarial Assumptions

PERS and HPRS

The total pension liability was determined by an actuarial valuation as of July 1, 2014 and 2013, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increase (Payroll Growth)	3.85% per annum for four years, then 4.50% per annum for Main System, National Guard and Law Enforcement. 4% per annum for Judges.
Investment Rate of Return	8.00%, net of investment expense, including inflation
Mortality Rates	For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back three years for PERS and one year for HPRS. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females). These mortality tables were determined to contain approximately a 10% margin for future mortality improvement, based on a review of mortality experience in 2010.

JSND

The total pension liability was determined by an actuarial valuation as of July 1, 2014 and 2013, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increase (Payroll Growth)	5.00% per annum
Investment Rate of Return	8.00%, net of investment expense, including inflation
Cost of Living Adjustment	5.00%
Mortality Rates	For active members, inactive members and healthy retirees, mortality rates were based on the 1994 Group Annuity Mortality Table. For disabled retirees, mortality rates were based on 1983 Railroad Retirement Board Disabled Life Mortality Table. These tables reasonably reflect the mortality experience of the Plan as of the measurement date. No provision was made for future mortality improvement after the measurement date. These assumptions are prescribed by the Board.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

Investment Rate of Return

The long-term expected investment rate of return assumption for PERS, HPRS and JSND was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions for each major asset class are summarized in the following tables:

PERS & HPRS

Asset Class	Long-Term Expected Real Rate of Return
Domestic equity	6.90%
International equity	7.55%
Private equity	11.30%
Domestic fixed income	1.55%
International fixed income	0.90%
Global real assets	5.38%
Cash equivalents	0.00%

JSND

Asset Class	Long-Term Expected Real Rate of Return
Domestic equities	6.90%
International equities	7.00%
Domestic fixed income	1.17%
International fixed income	0.90%

Discount Rate

The discount rate used to measure the total pension liability for PERS, HPRS, and JSND was 8.00% as of June 30, 2014 and 2013. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2014 Actuarial Valuation Reports. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions (For JSND it is assumed no future contribution will be made.), the pension plans' fiduciary net position were projected to be available to make all projected future benefit payments for current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014 and 2013.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

Sensitivity of Net Pension Liability

The following presents the net pension liability of the Plans as of June 30, 2014, calculated using the discount rate of 8.00%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

<u>Net pension liability (asset) as of June 30, 2014</u>	<u>1% Decrease (7.00%)</u>	<u>Current Discount (8.00%)</u>	<u>1% Increase (9.00%)</u>
PERS	\$ 989,279,303	\$ 636,969,280	\$ 342,385,541
HPRS	19,044,405	9,766,036	2,096,826
JSND	(26,305,241)	(32,650,195)	(38,110,962)

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 16 years remain. For the implicit subsidy unfunded plan, this amount is amortized over a fixed period of 30 years, of which 23 years remain.

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, 2014, 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).

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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 July 1, 2013, 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 - 8.00%; 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 pension 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:

	2014		2013	
Plan participation by				
State of North Dakota	\$ 57,914,618	90%	\$ 44,716,676	89%
Other jurisdictions	6,668,347	10%	5,455,073	11%
Total value	\$ 64,582,965	100%	\$ 50,171,749	100%

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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 2009-2011 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 2009-2011 biennium occurred on June 30, 2013. Premiums exceeded claims, therefore, a gain of \$36.6 million was returned to the System. The System has entered into a similar contract with BCBS for the 2011-2013 and the 2013-2015 biennium. The accumulated surplus and other invested funds in the amount of \$40 million are shown as cash on the System's balance sheet. No other insurance contracts have a gain sharing provision.

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. Funding for this program is no longer available; therefore no further reimbursements were received.

During fiscal year 2014, the System Board made the decision to use the reimbursement funds, in addition to a portion of the accumulated surplus, to reduce the health premiums by approximately 2% for the 2013-2015 biennium. The difference between the premiums billed to the contract holders and the premiums paid to BCBS is reflected as Premium Buydown Expense on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position.

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:

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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 NEW PRONOUNCEMENTS

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 statement 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.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68, requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning new pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014.

Management has not yet determined the effect these statements will have on the entity's financial statements.

NOTE 15 CONTINGENCY

WG Trading Company

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 SIB did not agree with the method used to distribute the assets, and along with the other WGTC limited partners appealed the District Court's ruling. It was 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. In April, 2013, the District Court's original ruling was upheld by the United States Court of Appeals for the Second Circuit and the SIB received an additional \$3.1 million *pro rata* distribution, bringing the total distributions received to \$67.1 million. It should be noted that the receiver continues to pursue certain "clawback" actions and to dispose of various real and personal property held by the receiver in order to recover additional funds that may eventually be distributed to the Westridge investors, including the SIB. The receiver has also indicated that it intends to make a third distribution to investors, including to SIB. While future additional distributions are possible, the amount of any additional distributions to the SIB will likely be small as compared to the prior distributions. Total distributions to date have resulted in a net realized loss attributable to the fraud of \$8.2 million. The portion of the net realized loss allocated to NDPERS is \$3.3 million.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

Tribune Company

The SIB has been listed as a defendant in a putative defense class action originally filed in the United States Bankruptcy Court for the District of Delaware, styled The Official Committee of Unsecured Creditors of Tribune Company v. Fitzsimmons, et al., Bankr. Case No. 10-54010 (the “Adversary Proceeding”), and subsequently transferred to a multi-district litigation proceeding in the United States District Court for the Southern District of New York, Case Nos. 12-cv-02652, and 11-md-02296. In addition to the Adversary Proceeding, other Tribune creditors have filed numerous state court actions (the “State Court Actions”) to assert fraudulent transfer claims against certain recipients of the offering described below. The SIB was not named in any of these actions, which have since been consolidated and transferred to the MDL proceeding (the State Court Actions together with the Adversary Proceeding, the “Tribune LBO Litigation”).

The Adversary Proceeding arises out of a leveraged buyout by which the Tribune Company converted to a privately held company in 2007 pursuant to which beneficial owners of Tribune stock were paid \$34 a share. The Official Committee of Unsecured Creditors (the “Committee”) contends that there was misconduct in connection with that offering, including fraud. No such allegations have been made against the SIB. Nevertheless, the Committee seeks to recover the payments made pursuant to the offering to beneficial owners, allegedly including the SIB (among thousands of other putative shareholder defendants) in connection with the leveraged buyout. The SIB’s records indicate that it received, in the aggregate, \$1,003,000.00 in Tribune leveraged buyout payments, comprised of two separate payments.

On February 23, 2012, the MDL Court entered an order appointing co-interim liaison defense counsel and a subset of six lead liaison counsel representing the various groups of defendants (the “Defense Executive Committee”). On November 6, 2012, the Defense Executive Committee submitted a “Phase One” Motion to Dismiss on behalf of all defendants in the State Court Actions. On September 23, 2013, the MDL Court granted the motion, and dismissed the State Court Actions. Both the plaintiffs in the State Court Actions and the Defense Executive Committee have appealed the MDL Court order and judgment of dismissal to the United States Court of Appeals for the Second Circuit. The Second Circuit has consolidated these appeals with the appeal in another case, *Whyte v. Barclays Bank, PLC, Barclays Capital, Inc.*, No. 13-2653 (2d Cir. 2013).

Following the dismissal of the State Court Actions, on May 23, 2014, Liaison Defense Counsel filed the Global Count One Motion to Dismiss. NDSIB, the Pension Trust, and the Investment Trust were automatically included in this Motion. The Litigation Trustees filed an opposition to the Motion to Dismiss on June 23, 2014. The Court postponed briefing on issues relating to service, jurisdiction, and dismissal based on sovereign immunity (and other theories that relate to a subset of shareholder defendants) pending resolution of the Global Count One Motion to Dismiss. Until further order of the MDL Court, individual defendants will not be required to file answers and no discovery shall proceed with the exception of discovery related to determining the amounts received in the Offering by certain entities that received subpoenas issued by the Litigation Trustee’s predecessor.

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

Public Employees Retirement System

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	\$ 107,864	\$ 97,985	\$ 91,458	\$ 82,910	\$ 54,158	\$ 40,327	\$ 35,875	\$ 38,185	\$ 31,906	\$ 31,845
Contributions in relation to the actuarially determined contribution	61,661	48,847	38,006	32,278	30,253	27,705	25,254	23,141	21,970	20,704
Contribution deficiency (excess)	\$ 46,203	\$ 49,138	\$ 53,452	\$ 50,632	\$ 23,905	\$ 12,622	\$ 10,621	\$ 15,044	\$ 9,936	\$ 11,141
Covered-employee payroll	888,452	800,878	804,169	769,710	697,737	640,685	582,287	547,006	521,132	501,002
Contributions as a percentage of covered-employee payroll	6.94%	6.10%	4.73%	4.19%	4.34%	4.32%	4.34%	4.23%	4.22%	4.13%

Highway Patrolmen's Retirement System

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	\$ 2,348	\$ 2,191	\$ 2,171	\$ 1,744	\$ 1,313	\$ 1,026	\$ 924	\$ 1,083	\$ 933	\$ 1,026
Contributions in relation to the actuarially determined contribution	1,865	1,586	1,423	1,286	1,197	1,123	1,059	960	931	868
Contribution deficiency (excess)	\$ 483	\$ 605	\$ 748	\$ 458	\$ 116	\$ (97)	\$ (135)	\$ 123	\$ 2	\$ 158
Covered-employee payroll	9,348	8,167	8,002	7,738	7,009	6,509	6,129	5,688	5,299	5,393
Contributions as a percentage of covered-employee payroll	19.95%	19.42%	17.78%	16.62%	17.08%	17.25%	17.28%	16.88%	17.57%	16.09%

Retirement Plan for Employees of Job Service North Dakota

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution										
Contributions in relation to the actuarially determined contribution										
Contribution deficiency (excess)	0	0	0	0	0	0	0	0	0	0
Covered-employee payroll	843	1,011	1,163	1,266	1,487	1,613	1,843	1,923	2,227	2,460
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES TO THE NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>PERS</u>	<u>HPRS</u>	<u>JSND</u>
Total pension liability (asset)			
Service cost	\$ 94,611,357	\$ 1,894,183	\$ 87,668
Interest	218,719,441	5,750,017	5,107,459
Change of benefit terms	-	-	-
Differences between expected and actual experience	25,782,859	(299,964)	(1,607,033)
Changes of assumptions	-	-	-
Benefit payments, including refund of employee contributions	(119,886,323)	(3,784,735)	(4,594,462)
Net change in total pension liability (asset)	<u>219,227,334</u>	<u>3,559,501</u>	<u>(1,006,368)</u>
Total pension liability (asset) - beginning	<u>2,699,324,809</u>	<u>71,873,400</u>	<u>66,052,801</u>
Total pension liability (asset) - ending (a)	<u><u>\$ 2,918,552,143</u></u>	<u><u>\$ 75,432,901</u></u>	<u><u>\$ 65,046,433</u></u>
Plan fiduciary net position			
Contributions - employer	\$ 61,661,050	\$ 1,864,632	\$ -
Contributions - employee	59,394,200	1,243,520	55,748
Service credit repurchase	8,325,140	87,418	-
Net investment income	316,629,563	9,239,929	11,887,840
Benefit payments, including refund of employee contributions	(119,886,324)	(3,784,735)	(4,594,462)
Administrative expense	(2,210,792)	(27,983)	(31,455)
Net change in plan fiduciary net position	<u>323,912,837</u>	<u>8,622,781</u>	<u>7,317,671</u>
Plan fiduciary net position - beginning	<u>1,957,670,026</u>	<u>57,044,084</u>	<u>90,378,957</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 2,281,582,863</u></u>	<u><u>\$ 65,666,865</u></u>	<u><u>\$ 97,696,628</u></u>
Net pension liability (asset) - ending (a) - (b)	<u><u>\$ 636,969,280</u></u>	<u><u>\$ 9,766,036</u></u>	<u><u>\$ (32,650,195)</u></u>
Plan fiduciary net position as a percentage of the total pension liability (asset)	78.18%	87.05%	150.20%
Covered employee payroll	\$ 888,452,060	\$ 9,348,386	\$ 842,601
Plan net pension liability (asset) as a percentage of covered employee payroll	71.69%	104.47%	-3874.93%

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

Notes to schedule:

Benefit Changes – New employer and member contribution rates were adopted beginning January 1, 2014 for PERS and HPRS. Those changes are reflected in the results shown above. There were no changes made to the plan provisions for JSND.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014

Asset valuation method The asset value is adjusted toward market value by adding to the “preliminary asset value” 20% of the difference between the market value and the preliminary asset value. The preliminary asset value is the actuarial asset value at the beginning of the year plus net new money. Net new money is the sum of contributions, dividends, and interest, less the sum of benefit payments, administrative expenses and investment fees. If necessary, the actuarial value is further adjusted to be within 20% of market value.

Schedule of Changes to the Net Pension Liability

Methods and assumptions used to determine GASB 67 and 68 amounts for PERS, HPRS, and JSND:

Actuarial cost method Entry Age Actuarial Cost Method. Under this method, each employee’s service cost is determined based on the same benefit terms reflected in that employee’s actuarial present value of projected benefit payments.

Asset valuation method The plan’s assets (Fiduciary Net Position) are reported without actuarial smoothing.

Investment rate of return 8.0%. The net investment return assumption is a long-term estimate derived from historical data, current and recent market expectations, and professional judgment. As part of the analysis, a building block approach was used that reflects inflation expectations and anticipated risk premiums for each of the portfolio’s asset classes, as well as the Plan’s target asset allocation.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014

Inflation rate	3.50%
Projected salary increases	For PERS – ranges from 8.25% for new members to 4.86% for members with 5 or more years of service (5.0% for judges). For HPRS – 3.85% per annum for first five years, then 4.50% per annum. For JSND – 5.00% per annum.
Cost of living adjustment	5.0% per annum for JSND, none for PERS and HPRS.
Mortality	<p>PERS and HPRS – RP-2000 Combined Healthy Mortality Table with sex-distinct rates, set back three years for PERS and one year for HPRS. RP-2000 Disabled Retiree Mortality Table with sex-distinct rates, set back one year for males (not set back for females).</p> <p>JSND – Healthy: 1994 Group Annuity Mortality Table. Disabled: 1983 Railroad Retirement Board Disabled Life Mortality Table. These tables reasonably reflect the mortality experience of the Plan as of the measurement date. No provision was made for future mortality improvement after the measurement date. These assumptions are prescribed by the Board.</p>
Other assumptions	Same as those used in the July 1, 2014 and 2013 actuarial funding valuation.

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

***Retiree Health Insurance Credit
Advance Funded Plan***

Year Ended June 30	Required Contribution	Percentage Contributed
2009	\$ 5,804,660	116%
2010	7,199,033	117%
2011	7,053,215	127%
2012	7,263,487	129%
2013	7,410,911	134%
2014	7,014,084	153%

Retiree Health Insurance Credit Implicit Subsidy Unfunded Plan

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2009	\$ 4,118,000	76%
2010	6,938,000	29%
2011	7,295,000	54%
2012	7,854,425	33%
2013	8,212,947	40%
2014	3,053,866	199%

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
FOR THE SIX YEARS ENDED 2014

Retiree Health Insurance Credit
(Expressed in Millions)

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Projected Unit Credit	Actuarial Value of Assets	Unfunded AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
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%
2013	114.1	66.0	48.1	57.8%	914.4	5.3%
2014	116.6	77.9	38.7	66.8%	1,001.2	3.9%

FOR THE SEVEN YEARS ENDED JUNE 30
Retiree Health Insurance Implicit Subsidy
(Expressed in Millions)

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Projected 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%
2013	33.8	-	33.8	0.0%	-	0.0%

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
SCHEDULES OF INVESTMENT AND ADMINISTRATIVE EXPENSES
FIDUCIARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	Public Employees		Highway Patrolmen's		Retiree Health		Defined	
	Retirement System		Retirement System		Insurance Credit Fund		Contribution Retirement Fund	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Investment expenses								
Payments to State								
Investment Board								
Investment fees	\$ 7,924,455	\$ 6,465,612	\$ 231,071	\$ 191,173	\$ 238,703	\$ 197,797	\$ -	\$ -
Administrative expenses	266,635	247,515	7,781	7,311	-	-	-	-
Payments to providers								
Investments fees	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,069</u>	<u>13,902</u>
Totals	<u>\$ 8,191,090</u>	<u>\$ 6,713,127</u>	<u>\$ 238,852</u>	<u>\$ 198,484</u>	<u>\$ 238,703</u>	<u>\$ 197,797</u>	<u>\$ 13,069</u>	<u>\$ 13,902</u>
Administrative expenses								
Salaries and wages	\$ 982,425	\$ 888,030	\$ 7,771	\$ 6,980	\$ 99,188	\$ 87,000	\$ 5,981	\$ 5,280
Operating expenses	291,555	292,449	2,306	2,282	27,797	26,402	2,519	2,610
Professional fees	474,441	418,054	13,956	16,018	30,270	28,813	(5,329)	984
Data processing	78,761	79,815	623	633	7,354	6,620	1,332	402
Depreciation/amortization expense	<u>383,610</u>	<u>380,967</u>	<u>3,327</u>	<u>3,324</u>	<u>36,862</u>	<u>36,784</u>	<u>2,647</u>	<u>2,642</u>
	<u>\$ 2,210,792</u>	<u>\$ 2,059,315</u>	<u>\$ 27,983</u>	<u>\$ 29,237</u>	<u>\$ 201,471</u>	<u>\$ 185,619</u>	<u>\$ 7,150</u>	<u>\$ 11,918</u>

	Pretax Benefit Program		Deferred Compensation Program		Retirement Plan for Employees of Job Service North Dakota	
	2014	2013	2014	2013	2014	2013
Investment expenses						
Payments to State						
Investment Board						
Investment fees	\$ -	\$ -	\$ -	\$ -	\$ 304,453	\$ 242,783
Administrative expenses	-	-	-	-	-	-
Payments to providers						
Investments fees	-	-	(6,173)	(20,007)	-	-
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,173)</u>	<u>\$ (20,007)</u>	<u>\$ 304,453</u>	<u>\$ 242,783</u>
Administrative expenses						
Salaries and wages	\$ 214,278	\$ 216,710	\$ 421,458	\$ 392,081	\$ 4,486	\$ 4,132
Operating expenses	62,732	61,159	107,587	105,555	1,257	1,254
Professional fees	143,228	89,687	77,079	83,150	23,118	22,056
Data processing	14,951	15,506	27,674	23,033	333	314
Depreciation/amortization expense	96,569	95,906	193,138	191,812	2,261	2,258
	<u>\$ 531,758</u>	<u>\$ 478,968</u>	<u>\$ 826,936</u>	<u>\$ 795,631</u>	<u>\$ 31,455</u>	<u>\$ 30,014</u>

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF APPROPRIATIONS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Approved 2013-2015 Appropriation</u>	<u>2013-2015 Appropriation Adjustments</u>	<u>Adjusted 2013-2015 Appropriation</u>	<u>Expenditures 2014</u>	<u>Unexpended Appropriation</u>
All Fund Types:					
Salaries and wages	\$ 5,016,339	\$ -	\$ 5,016,339	\$ 2,476,257	\$ 2,540,082
Accrued leave payments	103,217	-	103,217	3,845	99,372
Operating expenses	2,280,894	-	2,280,894	1,060,108	1,220,786
Contingency	<u>250,000</u>	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>250,000</u>
	<u>\$ 7,650,450</u>	<u>\$ -</u>	<u>\$ 7,650,450</u>	<u>\$ 3,540,210</u>	<u>\$ 4,110,240</u>

Reconciliation of Administrative Expenses to Appropriated Expenditures

Administrative expenses as reflected in the financial statements	<u>2014</u>
Pension trust funds	\$ 3,837,545
Enterprise funds-Group Insurance	<u>7,027,045</u>
Total administrative expenses	10,864,590
Adjustments:	
Change in accounts payable not charged to appropriation	(72,940)
Accrued salary and benefits	(5,123)
Change in accrued compensated absences	(6,945)
Professional fees and benefits paid pursuant to NDCC 54-52-04(6)	(793,803)
Amortization expense	(1,008,120)
Premium buydown paid from surplus	(5,437,457)
Contribution/premium over & short	<u>8</u>
Total appropriated expenditures	<u>\$ 3,540,210</u>



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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Dakota Public Employees Retirement System as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise North Dakota Public Employees Retirement System's basic financial statements, and have issued our report thereon dated December 16, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider to be a significant deficiency as 2014-001.

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*.

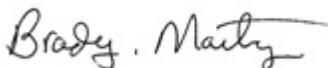
We noted certain matters that we reported to management of North Dakota Public Employees Retirement System, in a separate letter dated December 16, 2014.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM'S RESPONSE TO FINDINGS

North Dakota Public Employees Retirement System's response to the finding identified in our audit is described in the accompanying schedule of findings. North Dakota Public Employees Retirement System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

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



BRADY, MARTZ & ASSOCIATES, P.C.

December 16, 2014

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF FINDINGS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

2014-001

Criteria:

Management of PERS is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. As a result of the new governmental accounting standards requirements, this responsibility also includes verifying the completeness and accuracy of census data for the PERS, HPRS and JSND defined benefit plans.

Condition:

During our audit it was noted that management does not have in place procedures to verify the underlying payroll records of the participating employers to determine that the information provided is accurate and complete. This applies specifically to the census data for active employees in the PERS, HPRS and JSND plans.

Cause:

Currently, PERS does not have the resources available to develop and implement procedures and controls to over the underlying payroll records of the participating employers.

Effect:

Without the proper procedures and controls in place, the assessed level of risk is high over the completeness and accuracy of census data, specifically the payroll records for active participants in the census data.

Recommendation:

PERS management should review the current processes in place and determine what additional procedures and controls could be implemented to lower the assessed level of risk over the completeness and accuracy of census data. Also, management will need to evaluate the additional resources necessary to lower the assessed level of risk, and determine if it is cost-beneficial.

Views of Responsible Officials and Planned Corrective Actions:

Management will determine what additional procedures and controls could be implemented to lower the risk over completeness and accuracy of census data. It will then be determined what additional resources may be necessary to implement the new procedures.

**PUBLIC EMPLOYEES RETIREMENT SYSTEM
SPECIAL COMMENTS REQUESTED BY THE LEGISLATIVE AUDIT
AND FISCAL REVIEW COMMITTEE
June 30, 2014**

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 unmodified opinion was issued on the 2014 and 2013 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?

See finding related to internal control identified on page 66.

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.

Audit Committee Communications:

- 1. Identify any 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 position.

- 3. Identify any significant audit adjustments.**

None

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

None

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

None

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

None

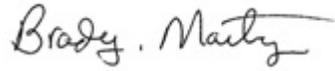
- 7. Identify any management consultations with other accountants about auditing and accounting matters.**

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.

A handwritten signature in cursive script that reads "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.

December 16, 2014



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, 2014. 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 16, 2014. 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 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates 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.

The financial statements disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the 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 December 16, 2014.

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.

Other Matters

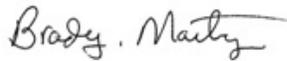
We applied certain limited procedures to the Management Discussion and Analysis, the Schedule of Employer Contributions, and the Schedule of Funding Progress, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on supplementary information, which accompany the financial statements, but are not required supplementary information. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

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,

A handwritten signature in cursive script that reads "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.

December 16, 2014