

**NORTH DAKOTA PUBLIC EMPLOYEES
RETIREMENT SYSTEM**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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

Governor Jack Dalrymple
The Legislative Assembly

Sparb Collins, Executive Director
North Dakota Public Employees' Retirement System
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the proprietary fund and each of the individual fiduciary funds of the North Dakota Public Employees' Retirement System (the System), a department of the State of North Dakota, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the proprietary fund and the net position of each of the individual fiduciary funds of the System as of June 30, 2016 and 2015, and the respective changes in financial and net position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the System are intended to present the financial position and the changes in financial position of only that portion of the State of North Dakota that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2016, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2016 on our consideration of the 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
November 28, 2016

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

Management's Discussion and Analysis (MD&A) of the North Dakota Public Employees Retirement System (NDPERS) financial performance provides an overview of the agency's financial activities for the fiscal year ended June 30, 2016 and 2015. 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, 2016 and 2015, the Plan Fiduciary Net Position as a percentage of the Total Pension Liability for each pension fund is shown below:

	<u>2016</u>	<u>2015</u>
Public Employees Retirement System	71.1%	77.7%
Highway Patrolmen Retirement System	74.9%	83.2%
Retirement Plan for Employees of Job Service of ND	157.7%	151.9%

Lower investment earnings in the current fiscal year were the primary reason for the lack of growth in the percentages for PERS and Highway Patrol.

As of June 30, 2016, the funding ratio for the Retiree Health Insurance Credit Fund decreased from 69.4% to 55.4%, primarily due to an increase of benefit payments due to making the benefit portable in 2016.

- The net position for all trust funds administered by NDPERS increased \$25.9 million or 1% during the fiscal year ended June 30, 2016. This increase is primarily due to increased contributions from members & their employers.

<i>(in thousands)</i>	<u>Change in Net Position</u>
Public Employees Retirement System	\$ 43,185
Highway Patrolmen Retirement System	(864)
Retiree Health Insurance Credit Fund	3,779
Defined Contribution Retirement Fund	(24,980)
Pretax Benefits Fund	(208)
Deferred Compensation Plan	4,772
Retirement Plan for Employees of Job Service ND	251
Total increase in plan net position	<u>\$ 25,935</u>

Financial Highlights – Uniform Group Insurance Program

- Net position decreased by \$3.75 million or 8.6%. The decrease is primarily due to operating expenses exceeding operating revenues.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

Overview of the Financial Statements

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

Financial Statements.

There are two financial statements presented for the fiduciary funds. The Statement of Fiduciary Net Position as of June 30, 2016 and 2015, indicates the net position available to pay future payments and gives a snapshot at a particular point in time. The Statement of Changes in Fiduciary Net Position for the year ended June 30, 2016 and 2015, 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, 2016 and 2015, provides a snapshot at a particular point in time of the net position available for use by this program. The Statement of Revenues, Expenses, and Changes in Fund Net Position for the year ended June 30, 2016 and 2015, 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, 2016 and 2015 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 17-59 of this report.

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

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

Financial Analysis

The financial results for fiscal years 2016, 2015 and 2014 are summarized on page 5. The information in the tables below is condensed from the Financial Statements.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

Statement of Fiduciary Plan Net Position (in thousands)

	June 30, 2016	% Change	June 30, 2015	% Change	June 30, 2014
Assets					
Cash	\$ 10,855	19.0%	\$ 9,119	34.0%	\$ 6,804
Receivables	21,730	23.3%	17,621	11.0%	15,881
Investments	2,740,379	0.7%	2,720,705	4.0%	2,615,133
Prepaid expenses	-	-	-	-100.0%	580
Invested securities lending collateral	24,703	-	-	-	-
Software & equipment, net of accum depr.	3,168	-17.2%	3,827	-15.8%	4,545
Total assets	2,800,835	1.8%	2,751,272	4.1%	2,642,943
Liabilities					
Long-term liabilities outstanding	177	22.1%	145	-3.3%	150
Other liabilities	28,304	501.2%	4,708	-4.4%	4,924
Total liabilities	28,481	486.9%	4,853	-4.4%	5,074
Net Position	\$ 2,772,354	0.9%	\$ 2,746,419	4.1%	\$ 2,637,869

The total assets for all fiduciary funds as of June 30, 2016 were \$2.8 billion and were comprised mainly of investments. For the fiscal year ended June 30, 2016, plan assets increased by \$26 million. This increase was primarily due to contributions and financial market gains during the fiscal year.

Total liabilities as of June 30, 2016 were \$28.5 million and were comprised mainly of investment expenses payable and securities lending collateral.

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

	June 30, 2016	% Change	June 30, 2015	% Change	June 30, 2014
Additions					
Contributions	\$ 209,108	21.2%	\$ 172,503	14.9%	\$ 150,144
Investment income	14,901	-84.0%	92,903	-74.5%	364,104
Other	10,512	28.6%	8,172	-16.5%	9,785
Total additions	234,521	-14.3%	273,578	-47.8%	524,033
Deductions					
Benefit payments	171,585	12.2%	152,987	12.2%	136,367
Refunds/transfers	32,357	305.7%	7,975	20.5%	6,621
Administrative expenses	4,645	14.2%	4,066	6.0%	3,837
Total deductions	208,587	26.4%	165,028	12.4%	146,825
Change in Net Position	\$ 25,934	-76.1%	\$ 108,550	-71.2%	\$ 377,208

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 \$36.6 million for the year ended June 30, 2016. The plans experienced positive investment earnings of \$14.9 million for the fiscal year ending June 30, 2016. The change in Other Additions for June 30, 2016 is primarily due to an increase in service purchase payments received during the fiscal year.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

Deductions. Total deductions increased by \$43.6 million or 26.4% for the fiscal year ended June 30, 2016. This increase was due to an increase in benefit payments which reflects the increase in the total number of retirees who are receiving pension payments, as well as the significant increase in refunds/transfers. The increase in refunds/transfers was due to Senate Bill 2015, which allowed a one time election for members of the defined contribution plan to move back into the PERS defined benefit plan. Administrative expenses in the RHIC fund increased 97.8% due to the portability of RHIC benefit payments and the outsourcing of the payment functionality to ASI Flex. The increase in benefit payments was in part due to Senate Bill 2015, which allowed a one time election for members of the defined contribution plan to move back into the PERS defined benefit plan, with a number of those members retiring shortly after moving back.

Statement of Proprietary Fund Net Position (in thousands)

	<u>June 30, 2016</u>	<u>% Change</u>	<u>June 30, 2015</u>	<u>% Change</u>	<u>June 30, 2014</u>
Assets					
Cash	\$ 48,033	1.2%	\$ 47,461	7.0%	\$ 44,363
Receivables	332	-60.2%	834	159.0%	322
Software	1,277	-17.2%	1,543	-15.8%	1,833
Total assets	<u>49,642</u>	-0.4%	<u>49,838</u>	7.1%	<u>46,518</u>
Liabilities					
Long-term liabilities outstanding	91	12.3%	81	2.5%	79
Other liabilities	9,638	58.3%	6,090	7.7%	5,654
Total liabilities	<u>9,729</u>	57.7%	<u>6,171</u>	7.6%	<u>5,733</u>
Net Position	<u>\$ 39,913</u>	-8.6%	<u>\$ 43,667</u>	7.1%	<u>\$ 40,785</u>

Total assets, as of June 30, 2016, were \$49.6 million and were comprised mainly of cash and cash equivalents. Total assets decreased by \$0.2 million from the prior fiscal.

Total liabilities, as of June 30, 2016, were \$9.7 million and were comprised mostly of unearned premiums, which represent premiums received before they are due as well as a liability to Sanford Health Plan as further explained in Note 14.

The net position of the proprietary fund consists primarily of cash and is 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'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

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

	<u>June 30, 2016</u>	<u>% Change</u>	<u>June 30, 2015</u>	<u>% Change</u>	<u>June 30, 2014</u>
Operating Revenues					
Premium revenues	\$ 334,889	15.8%	\$ 289,237	2.3%	\$ 282,767
Administrative fee	1,138	4.2%	1,092	2.1%	1,070
Miscellaneous	<u>(3,438)</u>	-136.0%	<u>9,560</u>	-	<u>-</u>
Total operating revenues	332,589	10.9%	299,889	5.7%	283,837
Non-Operating Revenues					
Net investment income	<u>616</u>	1611.1%	<u>36</u>	44.0%	<u>25</u>
Total revenues	<u>333,205</u>	11.1%	<u>299,925</u>	5.7%	<u>283,862</u>
Operating Expenses					
Premium expenses	334,834	13.6%	294,709	2.3%	288,174
Administrative expenses	<u>1,871</u>	-5.7%	<u>1,984</u>	24.9%	<u>1,589</u>
Total operating expenses	336,705	13.5%	296,693	2.4%	289,763
Non-Operating Expense					
Transfer in	1	-	-	-	-
Transfer out	<u>255</u>	-27.1%	<u>350</u>	11.1%	<u>315</u>
Change in Net Position	<u><u>\$ (3,754)</u></u>	-230.3%	<u><u>\$ 2,882</u></u>	146.4%	<u><u>\$ (6,216)</u></u>

The net position for the proprietary fund decreased by \$3.75 million during the fiscal year ended June 30, 2016. The decrease is primarily due to operating expenses exceeding operating revenues as well as a settlement of ACA fees with Blue Cross Blue Shield of North Dakota.

Contacting NDPERS Financial Management

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2016 AND 2015**

	Uniform Group Insurance Program	
	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 14,434,655	\$ 47,461,288
Commingled domestic fixed income investments	33,598,449	-
Accounts receivable	318,497	814,518
Prepaid expenses	-	207
Due from fiduciary funds	13,325	19,029
Total current assets	48,364,926	48,295,042
NONCURRENT ASSETS		
Capital assets (net of depreciation/amortization)	1,277,270	1,543,030
Total noncurrent assets	1,277,270	1,543,030
Total assets	49,642,196	49,838,072
LIABILITIES		
CURRENT LIABILITIES		
Salaries payable	76,910	73,042
Accounts payable	666,888	180,645
Due to Sanford Health Plan	3,000,000	-
Due to fiduciary funds	360,379	361,439
Due to other state agencies	11,318	9,821
Unearned premiums	5,515,692	5,459,160
Accrued compensated absences	7,102	5,453
Total current liabilities	9,638,289	6,089,560
NONCURRENT LIABILITIES		
Accrued compensated absences	90,450	80,969
Total liabilities	9,728,739	6,170,529
NET POSITION		
Net investment in capital assets	1,277,270	1,543,030
Restricted for benefits	6,000,000	3,000,000
Unrestricted net position	32,636,187	39,124,513
Total net position	\$ 39,913,457	\$ 43,667,543

See accompanying notes to financial statements.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
YEARS ENDED JUNE 30, 2016 AND 2015**

	Uniform Group Insurance Program	
	2016	2015
OPERATING REVENUES		
Premium revenues	\$ 334,888,620	\$ 289,237,079
Administrative fee	1,138,380	1,091,522
Underwriting gain (loss)	(3,476,314)	9,530,062
Miscellaneous	37,500	30,000
Total operating revenues	<u>332,588,186</u>	<u>299,888,663</u>
OPERATING EXPENSES		
Premium expenses	334,833,893	294,708,608
Salaries and wages	858,704	802,110
Operating expenses	491,657	429,493
Professional fees	131,847	404,621
Data processing	98,721	58,010
Amortization	290,112	289,706
Total operating expenses	<u>336,704,934</u>	<u>296,692,548</u>
Operating income (loss)	<u>(4,116,748)</u>	<u>3,196,115</u>
NON-OPERATING REVENUES AND EXPENSES		
Investment income	658,097	41,621
Investment expenses	(41,785)	(5,336)
Total non-operating revenues and expenses	<u>616,312</u>	<u>36,285</u>
INCOME (LOSS) BEFORE TRANSFERS	(3,500,436)	3,232,400
TRANSFERS IN	1,350	-
TRANSFERS OUT	<u>255,000</u>	<u>350,000</u>
Change in net position	<u>(3,754,086)</u>	<u>2,882,400</u>
Total net position - beginning of year	<u>43,667,543</u>	<u>40,785,143</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 39,913,457</u>	<u>\$ 43,667,543</u>

See accompanying notes to financial statements.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
YEARS ENDED JUNE 30, 2016 AND 2015**

	Uniform Group Insurance Program	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums collected	\$ 334,888,620	\$ 289,237,079
Administrative fees collected	1,679,741	822,465
Payments to suppliers	(694,756)	(706,054)
Premiums paid	(334,833,893)	(294,708,608)
Payments to employees	(843,706)	(793,375)
Underwriting gain (loss)	-	9,530,062
Miscellaneous income	37,500	30,000
Net cash provided (used) by operating activities	<u>233,506</u>	<u>3,411,569</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Purchase of Investments	(33,598,449)	-
Investment income	658,097	41,621
Investment expense	(41,785)	(5,336)
Net cash provided by investing activities	<u>(32,982,137)</u>	<u>36,285</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of software	(24,352)	-
Net cash provided (used) by capital financing activities	<u>(24,352)</u>	<u>-</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in	1,350	-
Transfers out	(255,000)	(350,000)
Net cash provided (used) by capital financing activities	<u>(253,650)</u>	<u>(350,000)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(33,026,633)	3,097,854
Cash and cash equivalents - beginning of year	<u>47,461,288</u>	<u>44,363,434</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 14,434,655</u>	<u>\$ 47,461,288</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (4,116,748)	\$ 3,196,115
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Amortization	290,112	289,706
Changes in assets and liabilities:		
Accounts receivable	496,021	(509,882)
Due from other funds	5,704	(1,826)
Prepaid expenses	207	(207)
Salaries payable	3,868	6,744
Accrued compensated absences	11,130	1,991
Accounts payable	3,486,243	73,366
Due to fiduciary funds	(1,060)	41,443
Due to other state agencies	1,497	4,040
Amounts held in custody for others	56,532	310,079
Net cash provided (used) by operating activities	<u>\$ 233,506</u>	<u>\$ 3,411,569</u>

See accompanying notes to financial statements.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Services North Dakota
ASSETS							
Cash	\$ 9,317,857	\$ -	\$ 478,157	\$ 145,918	\$ 712,448	\$ 200,201	\$ 424
Receivables:							
Contribution receivable	12,753,464	560	962,713	81,589	503,767	663,800	3,296
Interest receivable	5,765,507	158,350	97,862	-	-	-	163
Due from other fiduciary funds	309,308	25,479	14,004	292	382	29,073	-
Due from Uniform Group Insurance Plan	-	-	359,259	-	1,120	-	-
Due from other state agencies	-	-	335	-	-	-	-
Total receivables	18,828,279	184,389	1,434,173	81,881	505,269	692,873	3,459
Investments:							
External investment pool	2,387,841,823	65,626,348	-	-	-	-	-
Equities	-	-	59,903,215	-	-	-	39,637,397
Fixed income	-	-	41,622,146	463,659	-	1,411,041	56,950,773
Mutual funds	-	-	-	10,405,678	-	75,705,779	-
Annuities	-	-	-	-	-	116,397	-
Invested cash	-	-	-	55,008	-	639,964	-
Total investments	2,387,841,823	65,626,348	101,525,361	10,924,345	-	77,873,181	96,588,170
Invested securities lending collateral	24,042,640	660,777	-	-	-	-	-
Prepaid expenses	-	-	-	-	-	-	-
Capital assets (net of depreciation/ amortization)	1,691,598	15,163	162,495	11,562	425,757	851,514	9,893
Total assets	2,441,722,197	66,486,677	103,600,186	11,163,706	1,643,474	79,617,769	96,601,946

See accompanying notes to financial statements.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Services North Dakota
LIABILITIES							
Salaries payable	\$ 103,819	\$ -	\$ -	\$ -	\$ 21,802	\$ 44,164	\$ -
Accounts payable	2,520,453	559	367,190	8	20,147	25,285	65,187
Due to other fiduciary funds	25,861	14,004	311,921	10,655	-	13,292	2,805
Due to Uniform Group Insurance Plan	13,325	-	-	-	-	-	-
Due to other state agencies	11,713	-	-	333	3,807	5,539	-
Amounts held in custody for others	-	-	-	-	-	19,176	-
Securities lending collateral	24,042,640	660,777	-	-	-	-	-
Accrued compensated absences	108,729	-	-	-	26,443	42,110	-
Total liabilities	26,826,540	675,340	679,111	10,996	72,199	149,566	67,992
NET POSITION							
Restricted for pensions	2,414,895,657	65,811,337	-	11,152,710	-	79,468,203	96,533,954
Restricted for postemployment healthcare benefits	-	-	102,921,075	-	-	-	-
Restricted for pretax benefits	-	-	-	-	1,571,275	-	-
Total net position held in trust	\$ 2,414,895,657	\$ 65,811,337	\$ 102,921,075	\$ 11,152,710	\$ 1,571,275	\$ 79,468,203	\$ 96,533,954

See accompanying notes to financial statements.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Services North Dakota
ASSETS							
Cash	\$ 7,700,778	\$ -	\$ 286,999	\$ 119,835	\$ 817,443	\$ 193,970	\$ 343
Receivables:							
Contribution receivable	10,097,551	30	859,924	219,513	493,620	564,867	3,931
Interest receivable	4,462,618	126,209	87,940	-	-	-	106,664
Due from other fiduciary funds	205,726	-	14,004	292	14,120	-	1,878
Due from Uniform Group Insurance Plan	-	-	360,319	-	1,120	-	-
Due from other state agencies	460	-	-	-	-	-	-
Total receivables	14,766,355	126,239	1,322,187	219,805	508,860	564,867	112,473
Investments:							
External investment pool	2,351,434,809	66,559,899					96,285,896
Equities	-	-	59,124,528	-	-	-	-
Fixed income	-	-	38,458,592	1,148,289	-	1,223,316	-
Mutual funds	-	-	-	34,653,967	-	71,701,023	-
Annuities	-	-	-	-	-	114,498	-
Total investments	2,351,434,809	66,559,899	97,583,120	35,802,256	-	73,038,837	96,285,896
Invested securities lending collateral	-	-	-	-	-	-	-
Prepaid expenses	276	-	-	-	69	138	-
Capital assets (net of depreciation/amortization)	2,043,278	17,900	196,448	14,083	514,343	1,028,686	12,021
Total assets	2,375,945,496	66,704,038	99,388,754	36,155,979	1,840,715	74,826,498	96,410,733

See accompanying notes to financial statements.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	System	System	Credit Fund	Fund	Program	Plan	North Dakota
LIABILITIES							
Salaries payable	\$ 91,535	\$ -	\$ -	\$ -	\$ 18,441	\$ 40,545	\$ -
Accounts payable	4,012,487	30	77,357	-	18,390	18,780	127,280
Due to other fiduciary funds	1,878	28,280	169,219	22,790	-	13,292	561
Due to Uniform Group Insurance Plan	19,029	-	-	-	-	-	-
Due to other state agencies	13,346	-	128	176	2,116	3,648	-
Amounts held in custody for others	-	-	-	-	-	18,695	-
Securities lending collateral	-	-	-	-	-	-	-
Accrued compensated absences	96,412	-	-	-	22,920	35,283	-
Total liabilities	4,234,687	28,310	246,704	22,966	61,867	130,243	127,841
NET POSITION							
Restricted for pensions	2,371,710,809	66,675,728	-	36,133,013	-	74,696,255	96,282,892
Restricted for postemployment healthcare benefits	-	-	99,142,050	-	-	-	-
Restricted for pretax benefits	-	-	-	-	1,778,848	-	-
Total net position held in trust	\$ 2,371,710,809	\$ 66,675,728	\$ 99,142,050	\$ 36,133,013	\$ 1,778,848	\$ 74,696,255	\$ 96,282,892

See accompanying notes to financial statements.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Services North Dakota
ADDITIONS							
Contributions:							
From employer	\$ 77,080,576	\$ 2,127,355	\$ 12,349,883	\$ 922,371	\$ -	\$ -	\$ -
From employee	74,218,276	1,436,236	16,655	867,076	5,670,342	8,893,268	44,178
Transfer from general fund	1,890	-	-	-	1,080	1,080	-
Transfers from other plans	23,573,047	-	-	143,649	-	580,000	-
From external plans	-	-	-	57,208	-	1,123,518	-
Total contributions	174,873,789	3,563,591	12,366,538	1,990,304	5,671,422	10,597,866	44,178
Investment income:							
Net change in fair value of investments	(38,325,802)	(1,073,991)	(1,185,174)	(3,635,672)	-	(4,732,529)	2,352,098
Interest and dividends	56,512,739	1,583,045	2,271,699	1,648,218	575	4,348,980	2,650,945
Less investment expense	(7,132,911)	(199,955)	(292,820)	(11,925)	-	-	(166,226)
Net investment income	11,054,026	309,099	793,705	(1,999,379)	575	(383,549)	4,836,817
Securities lending activity							
Net securities lending income	279,098	7,859	-	-	-	-	3,516
Repurchase service credit	9,179,163	-	383,089	-	-	-	-
FICA tax savings	-	-	-	-	681,806	-	-
Transfer from proprietary fund	-	-	-	-	-	255,000	-
Miscellaneous income	712	5	-	12,075	-	-	-
Total additions	195,386,788	3,880,554	13,543,332	3,000	6,353,803	10,469,317	4,884,511
DEDUCTIONS							
Benefits paid to participants	141,263,796	4,658,232	-	1,396,663	5,621,287	4,714,348	4,601,196
Refunds	8,001,696	55,263	3,135	-	-	-	-
Prefunded credit applied	-	-	9,329,881	-	-	-	-
Health premium paid	-	-	-	-	-	-	-
Transfers to other plans	398,649	-	-	23,573,047	325,000	-	-
Administrative expenses	149,664,141	4,713,495	9,333,016	24,969,710	5,946,287	4,714,348	4,601,196
	2,537,799	31,450	431,291	13,593	615,089	983,021	32,253
Total deductions	152,201,940	4,744,945	9,764,307	24,983,303	6,561,376	5,697,369	4,633,449
CHANGE IN NET POSITION	43,184,848	(864,391)	3,779,025	(24,980,303)	(207,573)	4,771,948	251,062
Net position - beginning of year	2,371,710,809	66,675,728	99,142,050	36,133,013	1,778,848	74,696,255	96,282,892
NET POSITION - END OF YEAR	\$ 2,414,895,657	\$ 65,811,337	\$ 102,921,075	\$ 11,152,710	\$ 1,571,275	\$ 79,468,203	\$ 96,533,954

See accompanying notes to financial statements.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Services North Dakota
ADDITIONS							
Contributions:							
From employer	\$ 70,842,535	\$ 2,002,291	\$ 11,478,599	\$ 1,240,684	\$ -	\$ -	\$ -
From employee	68,392,061	1,351,798	12,625	1,219,774	5,559,317	8,329,715	50,142
Transfer from general fund	-	-	-	-	-	-	-
Transfers from other plans	-	-	-	182,647	-	350,000	-
From external plans	-	-	-	-	-	1,491,209	-
Total contributions	<u>139,234,596</u>	<u>3,354,089</u>	<u>11,491,224</u>	<u>2,643,105</u>	<u>5,559,317</u>	<u>10,170,924</u>	<u>50,142</u>
Investment income:							
Net change in fair value of investments	44,887,622	1,287,164	936,842	(1,034,532)	-	(5,703,789)	1,818,431
Interest and dividends	44,597,780	1,278,179	2,105,589	2,049,613	458	7,718,662	1,721,361
Less investment expense	(7,948,837)	(230,563)	(281,478)	(19,907)	-	-	(279,285)
Net investment income	<u>81,536,565</u>	<u>2,334,780</u>	<u>2,760,953</u>	<u>995,174</u>	<u>458</u>	<u>2,014,873</u>	<u>3,260,507</u>
Securities lending activity							
Net securities lending income	-	-	-	-	-	-	-
Repurchase service credit	6,651,879	96,429	347,238	-	-	-	-
FICA tax savings	-	-	-	-	705,660	-	-
Transfer from proprietary fund	-	-	-	-	-	350,000	-
Miscellaneous income	-	-	-	20,855	-	338	-
Total additions	<u>227,423,040</u>	<u>5,785,298</u>	<u>14,599,415</u>	<u>3,659,134</u>	<u>6,265,435</u>	<u>12,536,135</u>	<u>3,310,649</u>
DEDUCTIONS							
Benefits paid to participants	127,179,525	4,528,178	-	992,163	5,566,438	2,781,735	4,694,171
Refunds	7,217,565	217,332	6,994	-	-	-	-
Prefunded credit applied	-	-	7,246,091	-	-	-	-
Health premium paid	-	-	-	-	-	-	-
Transfers to other plans	532,647	-	-	-	-	-	-
Administrative expenses	<u>134,929,737</u>	<u>4,745,510</u>	<u>7,253,085</u>	<u>992,163</u>	<u>5,566,438</u>	<u>2,781,735</u>	<u>4,694,171</u>
Total deductions	<u>137,295,094</u>	<u>4,776,435</u>	<u>7,471,074</u>	<u>1,005,896</u>	<u>6,103,056</u>	<u>3,652,879</u>	<u>4,724,385</u>
CHANGE IN NET POSITION	<u>90,127,946</u>	<u>1,008,863</u>	<u>7,128,341</u>	<u>2,653,238</u>	<u>162,379</u>	<u>8,883,256</u>	<u>(1,413,736)</u>
Net position - beginning 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>
NET POSITION - END OF YEAR	<u>\$ 2,371,710,809</u>	<u>\$ 66,675,728</u>	<u>\$ 99,142,050</u>	<u>\$ 36,133,013</u>	<u>\$ 1,778,848</u>	<u>\$ 74,696,255</u>	<u>\$ 96,282,892</u>

See accompanying notes to financial statements.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The System is governed by a nine-member board, five of the members are appointed and the remaining four are elected by the participants of the retirement plans which was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management effective July 1, 2015.

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 an enterprise fund that relies to a significant extent on fees and charges for support and is shown in the separate proprietary fund financial statements.

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets 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 for benefits 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.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted net position consists of net position that does 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.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

The fiduciary 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

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 FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The fiduciary funds are accounted for on the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each system.

Budgetary Process

The System operates through a biennial appropriation provided by the State Legislature. The System prepares a biennial budget on the modified accrual basis, which is included in the Governor's budget 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 premium expenses, professional fees, depreciation and amortization expense, benefits and refunds paid to participants, prefunded credits applied and employee reimbursements in the Pretax Benefits Program.

There were no supplemental appropriations during the fiscal years ending June 30, 2016 and 2015.

The legal level of budgetary control is at the appropriation and expenditure line item level, with administrative controls established at lower levels of detail in certain instances.

Investment Valuation and Income Recognition

The fair value of real estate investments, including timberland, is based on appraisals plus fiscal year-to-date capital transactions. Publicly traded alternative investments are valued based on quoted market prices. When not readily available, alternative investment securities are valued using current estimates of fair value from the investment manager. Such valuations consider variables such as financial performance of the issuer, comparison of comparable companies' earnings multiples, cash flow analysis, recent sales prices of investments, withdrawal restrictions, and other pertinent information. Because of the inherent uncertainty of the valuation for these other alternative investments, the

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

estimated fair value may differ from the values that would have been used had a ready market existed. Investments in the external investment pool are stated at fair value which is the same as the value of the pool shares.

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

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

Derivative Securities

Derivatives are financial arrangements between two parties whose payments are based on, or “derived” from, the performance of some agreed upon benchmark. The System’s investment policy allows the use of derivative securities to hedge or replicate underlying exposures but not for speculation. All derivatives are considered investment derivative instruments. The fair value of all derivative securities is reported in the statements of fiduciary net position.

Accounts Receivable and Credit Policy

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

Capital Assets and Depreciation

Capital assets, which include equipment and intangibles (software) are presented in the accompanying financial statements at cost or estimated historical cost. Donated capital assets are stated at fair value at the time of donation. Capital assets acquired via lease agreements are capitalized at the inception of the agreement. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. For the years ending June 30, 2016 and 2015 the System capitalized equipment and software in accordance with Section 54-27-21 of the North Dakota Century Code.

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

by the employing unit. No more than 240 hours of annual leave may be carried forward beyond April 30th of each year. Employees are paid for unused annual leave upon termination or retirement. Permanent employees accrue sick leave from the first day of employment at the rate of eight hours per month with unlimited accumulation. Employees with at least 10 years of state employment are paid one-tenth of their accumulated sick leave under Section 54-06-14 of the North Dakota Century Code when the employee leaves the employ of the state.

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

Amounts Held in Custody for Others

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

Unearned Premiums

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

Transfers to/from Other Plans

Transfers to/from other plans consist of monies transferred from the Public Employees Retirement System Defined Benefit Plan to the Defined Contribution Retirement Plan pursuant to Section 54-52.6 Subsection 3 of the North Dakota Century Code. Each eligible employee who elects to terminate membership in the Defined Benefit Plan has a lump sum amount transferred to the participating member's account under the Defined Contribution Retirement Plan. For new employees electing to transfer to the Defined Contribution Retirement Plan, the lump sum transferred is the actual employee and employer contributions plus interest. In 2016 and 2015, transfers to other plans also includes operating transfers from the pretax benefits program, retirement plan, and insurance plan to the deferred compensation plan to cover general administrative expenses. In 2016 it also includes a general fund transfer in to cover part of the cost of a state sponsored internship program.

Senate Bill 2015 provided participating members of the Defined Contribution Retirement Plan as of July 1, 2015 a one-time 3 month special election opportunity to transfer their account balances back into the Public Employees Retirement System's Defined Benefit Plan. The election period was open from November 1, 2015 and lasted until January 31, 2016. Of the 223 eligible Defined Contribution Retirement Plan participants, 170 members made the election to move back into the Public Employees Retirement System Defined Benefit Plan.

Restricted Net Position

Net position restricted for benefits consists of funds on deposit with Blue Cross Blue Shield and Sanford Health Plan to pay health care benefits in the event total claims incurred during the biennium exceed total premiums.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

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

ADOPTION OF NEW ACCOUNTING STANDARD

GASB 72 introduces additional fair value disclosure requirements to improve the financial reporting and transparency of public employee's pensions by state and local governments. The System implemented this standard for 2016. The statement addresses accounting and financial reporting requirements related to fair value measurements and requires measurement of certain assets and liabilities at fair value using a consistent and detailed definition of fair value and accepted valuation technique. It also enhances disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques. Additional disclosures are also required for investments in certain entities that calculate net asset value per share (or its equivalent).

NOTE 2 DEPOSITS AND INVESTMENTS

Fair Value Measurement

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

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

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

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Deferred Compensation Plan	June 30, 2016			
	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Investments at fair value			
Mutual funds	\$ 75,705,779	\$ 75,705,779	-	-
Investments at contract value				
Fixed income	1,411,041			
Investments at cash surrender value				
Annuities	116,397			
Investments at amortized cost				
Invested cash	639,964			
Total investments	\$ 77,873,181			
	June 30, 2015			
	June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments at fair value				
Mutual funds	\$ 71,701,023	\$ 71,701,023	-	-
Investments at contract value				
Fixed income	1,223,316			
Investments at cash surrender value				
Annuities	114,498			
Investments at amortized cost				
Invested cash	-			
Total investments	\$ 73,038,837			

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Net Asset Value Measurement

The System's investments in the Uniform Group Insurance Program are held in an external investment pool with the North Dakota Retirement and Investment Office and are valued at Net Asset Value (NAV). The System's investments in commingled cash are valued at amortized cost. There are no unfunded commitments and the plan may redeem investments daily with a 1 day redemption notice period.

INVESTMENTS MEASURED AT THE NET ASSET VALUE - PROPRIETARY FUND

	6/30/2016
Commingled domestic fixed income	\$ 33,598,449
	6/30/2015
Commingled domestic fixed income	\$ -

The System's investments in the Public Employees Retirement System and Highway Patrol Retirement System are held in an external investment pool with the North Dakota Retirement and Investment Office and are valued at Net Asset Value (NAV). There are no unfunded commitments and the plan may redeem investments daily with a 1 day redemption notice period.

The System's investments in the Retiree Health Insurance Credit Fund and Retirement Plan for Employees of Job Service of North Dakota are directly managed and held in an individual investment account with the North Dakota Retirement and Investment Office and are valued at NAV as of June 30, 2016. There are no unfunded commitments and the plan may redeem investments daily with a 1 day redemption notice period. For the year ended June 30, 2015, the Retirement Plan for Employees of Job Service of North Dakota were held in an external investment pool with the North Dakota Retirement and Investment Office and are valued at Net Asset Value (NAV). There were no unfunded commitments and the plan may redeem investments daily with a 1 day redemption notice period.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENTS MEASURED AT THE NET ASSET VALUE - FIDUCIARY FUNDS

	June 30, 2016			
	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Retirement Plan for Employees of Job Services North Dakota
Commingled external investment pools	\$ 2,387,841,823	\$ 65,626,348	\$ -	\$ -
Commingled equities	-	-	59,903,215	39,637,397
Commingled fixed income	-	-	41,622,146	56,950,773
Total investments measured at the net asset value	<u>\$ 2,387,841,823</u>	<u>\$ 65,626,348</u>	<u>\$ 101,525,361</u>	<u>\$ 96,588,170</u>

	June 30, 2015			
	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Retirement Plan for Employees of Job Services North Dakota
Commingled external investment pools	\$ 2,351,434,809	\$ 66,559,899	\$ -	\$ 96,285,896
Commingled equities	-	-	59,124,528	-
Commingled fixed income	-	-	38,458,592	-
Total investments measured at the net asset value	<u>\$ 2,351,434,809</u>	<u>\$ 66,559,899</u>	<u>\$ 97,583,120</u>	<u>\$ 96,285,896</u>

Deposits

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

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

	<u>2016</u>	<u>2015</u>
Cash deposits at the Bank of North Dakota recorded as cash and cash equivalents	\$ 12,981,013	\$ 10,154,891
Cash deposits at State Treasury recorded as cash and cash equivalents	1,797,240	844,297
Cash held by the North Dakota Retirement and Investment Office recorded as cash and cash equivalents	37,697,350	39,653,336
Guaranteed investment contract with Blue Cross Blue Shield / Sanford Health Plan recorded as cash and cash equivalents	6,247,135	5,762,761
Cash held by ADP Benefit Services recorded as cash and cash equivalents	165,371	165,371
Total cash and cash equivalents	<u>\$ 58,888,109</u>	<u>\$ 56,580,656</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2016 and 2015 the carrying amount of the System's cash deposits were \$58,888,109 and \$56,580,656, and the bank balances were \$58,782,219 and \$56,030,201. All of the System's deposits are uncollateralized and uninsured at June 30, 2016 and 2015.

Investments

Total investments of the System as of June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Equity Securities	\$ 1,413,420,437	\$ 1,395,660,856
Fixed Income Securities	661,343,983	658,352,086
Real estate	459,762,805	430,520,347
Alternative investments	79,938,588	88,967,769
Mutual funds	86,111,457	106,354,990
Annuities	116,397	114,498
Invested cash	39,685,561	40,734,271
Invested Securities Lending Collateral	24,703,417	-
	<u>\$ 2,765,082,645</u>	<u>\$ 2,720,704,817</u>

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.

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 for the Uniform Group Insurance Program, Public Employees Retirement System, Highway Patrolmen's Retirement System, RHIC Fund, and Retirement Plan for Employees of Job Service of North Dakota as of June 30, 2016 and 2015:

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Asset Class	Target Allocation	
	PERS & HPRS	JSND
Domestic equities	31.00%	31.00%
International equities	21.00%	9.00%
Private equity	5.00%	0.00%
Domestic fixed income	17.00%	55.00%
International fixed income	5.00%	5.00%
Global real assets	20.00%	0.00%
Cash & equivalents	1.00%	0.00%
Total	100.00%	100.00%

Rate of return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested. The annual money-weighted rate of return on pension plan investment, net of pension plan investment expense for the years ended June 30, 2016 and 2015 are:

	<u>2016</u>	<u>2015</u>
Public Employees Retirement	0.49%	3.61%
Highway Patrolmen’s Retirement	0.48%	3.66%
Job Service Plan	5.14%	3.41%

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

For the years ended June 30, 2016 and 2015, the following are the net realized gains (losses):

	<u>2016</u>	<u>2015</u>
Public Employees Retirement System	\$ 66,822,688	\$ 54,088,390
Highway Patrolmen's Retirement	1,872,550	1,550,996
Retiree Health Insurance Credit	3,305,180	3,591,925
Defined Contribution	(70,697)	551,276
Deferred Compensation	77,215	1,086,833
Job Service Plan	506,503	1,681,081

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

All investments of the fund, except for the Retirement Plan for Employees of Job Service, Retiree Health Insurance Credit Fund, 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.

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates. The SIB has chosen to use the Segmented Time Distribution disclosure method. Tables detailing the System's portion of the investment pool are reported below. Readers may refer to the North Dakota Retirement and Investment Office financial statements regarding highly sensitive securities that are disclosed at the SIB level.

PERS and HPRS Plan

Type (In Thousands)	Fair Value	2016			
		Less Than 1 Year	1-6 Years	6-10 Years	Over 10 Years
Asset Backed Securities	\$ 11,607	\$ -	\$ 821	\$ 2,401	\$ 8,385
Bank Loans	50	-	-	50	-
Collateralized Bonds	-	-	-	-	-
Commercial Mortgage-Backed	9,758	-	-	-	9,758
Commercial Paper	-	-	-	-	-
Corporate Bonds	98,469	4,991	34,652	38,798	20,028
Corporate Convertible Bonds	4,789	-	3,734	107	948
Government Agencies	13,286	1,351	9,871	1,477	587
Government Bonds	68,381	-	25,830	17,207	25,344
Government Mortgage and CMB	227,174	-	10,678	13,441	203,055
Repurchase Agreements	(7,193)	(7,193)	-	-	-
Index Linked Government Bonds	1,665	-	-	760	905
Municipal/Provincial Bonds	4,574	-	-	2,925	1,649
Non-Government Backed CMOs	12,408	-	282	282	11,844
Other Fixed Income	1,375	371	1,004	-	-
Pooled Investments	191,985	107	136,775	55,103	-
Short Term Bills and Notes	7,976	7,976	-	-	-
Total Debt Securities	\$ 646,304	\$ 7,603	\$ 223,647	\$ 132,551	\$ 282,503

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

PERS and HPRS Plan

Type (In Thousands)	2015				
	Fair Value	Less Than 1 Year	1-6 Years	6-10 Years	Over 10 Years
Asset Backed Securities	\$ 12,616	\$ -	\$ 649	\$ 2,033	\$ 9,934
Bank Loans	-	-	-	-	-
Collateralized Bonds	-	-	-	-	-
Commercial Mortgage-Backed	10,645	-	284	-	10,361
Commercial Paper	186	186	-	-	-
Corporate Bonds	96,564	5,210	39,841	36,206	15,307
Corporate Convertible Bonds	9,105	2,114	4,402	1,683	906
Government Agencies	19,194	2,680	15,461	(1)	1,054
Government Bonds	65,110	2,493	21,493	14,840	26,284
Government Mortgage and CMB	192,261	-	5,003	13,164	174,094
Repurchase Agreements	64,482	64,482	-	-	-
Index Linked Government Bonds	3,816	-	-	2,252	1,564
Municipal/Provincial Bonds	3,269	-	-	2,775	494
Non-Government Backed CMOs	11,509	-	591	-	10,918
Other Fixed Income	2,601	1,117	1,484	-	-
Pooled Investments	3,027	3,027	-	-	-
Short Term Bills and Notes	208,380	19,995	52,441	93,788	42,156
Total Debt Securities	<u>\$ 702,765</u>	<u>\$ 101,304</u>	<u>\$ 141,649</u>	<u>\$ 166,740</u>	<u>\$ 293,072</u>

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

Securities Lending

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

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

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and Northern Trust has failed to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending. For securities loaned at fiscal year end, the SIB has no credit risk exposure to borrowers because the amounts the SIB owes the borrowers exceeds the amounts the borrowers owe the SIB.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Job Service Retirement Plan

Type (In Thousands)	2016				
	Fair Value	Less Than 1 Year	1-6 Years	6-10 Years	Over 10 Years
Asset Backed Securities	\$ -	\$ -	\$ -	\$ -	\$ -
Bank Loans	-	-	-	-	-
Collateralized Bonds	-	-	-	-	-
Commercial Mortgage-Backed	-	-	-	-	-
Commercial Paper	-	-	-	-	-
Corporate Bonds	-	-	-	-	-
Corporate Convertible Bonds	-	-	-	-	-
Government Agencies	-	-	-	-	-
Government Bonds	-	-	-	-	-
Government Mortgage and CMB	-	-	-	-	-
Repurchase Agreements	-	-	-	-	-
Index Linked Government Bonds	-	-	-	-	-
Municipal/Provincial Bonds	-	-	-	-	-
Non-Government Backed CMOs	-	-	-	-	-
Other Fixed Income	-	-	-	-	-
Pooled Investments	56,559	14,758	41,801	-	-
Short Term Bills and Notes	-	-	-	-	-
Total Debt Securities	\$ 56,559	\$ 14,758	\$ 41,801	\$ -	\$ -

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

Job Service Retirement Plan

Type (In Thousands)	2015				
	Fair Value	Less Than 1 Year	1-6 Years	6-10 Years	Over 10 Years
Asset Backed Securities	\$ 1,657	\$ -	\$ 39	\$ 130	\$ 1,488
Bank Loans	-	-	-	-	-
Collateralized Bonds	-	-	-	-	-
Commercial Mortgage-Backed	571	-	48	-	523
Commercial Paper	32	32	-	-	-
Corporate Bonds	4,362	529	2,709	769	355
Corporate Convertible Bonds	191	44	93	35	19
Government Agencies	618	58	474	-	86
Government Bonds	3,527	52	1,681	925	869
Government Mortgage and CMB	22,969	-	536	2,074	20,359
Repurchase Agreements	10,971	10,971	-	-	-
Index Linked Government Bonds	649	-	-	383	266
Municipal/Provincial Bonds	80	-	-	68	12
Non-Government Backed CMOs	1,490	-	36	-	1,454
Other Fixed Income	202	142	60	-	-
Pooled Investments	450	450	-	-	-
Short Term Bills and Notes	23,561	756	7,664	8,079	7,062
Total Debt Securities	\$ 71,330	\$ 13,034	\$ 13,340	\$ 12,463	\$ 32,493

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2016, the fair value of these securities maturing in 1-6 years is \$41.62 million for a total fair value of \$41.62 million. At June 30, 2015, the fair value of these securities maturing in 1-6 years is \$3.875 million and maturing in 6-10 years is \$34.593 million for a total fair value of \$38.468 million.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The System does not have a formal investment policy governing foreign currency risk. The System is invested in an external investment pool managed by SIB. The Retirement Plan for Employees of Job Services of North Dakota was in an external investment pool in 2015, but in 2016 was directly managed and therefore no longer has a foreign currency risk. A table detailing the exposure to foreign currency through the Public Employees Retirement System and Highway Patrolmen's Retirement System's portion of the investment pool is reported on page 33.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

PERS and HPRS Plan

<u>Currency (In thousands)</u>	2016			
	<u>Short term</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Australian dollar	\$ 53	\$ 5,551	\$ 6,460	\$ 12,064
Brazilian real	290	3,939	2,117	6,346
British pound sterling	107	3,615	37,956	41,678
Canadian dollar	40	-	7,251	7,291
Chilean peso	28	4,845	448	5,321
Chinese yuan renminbi	(8)	-	-	(8)
Columbian peso	-	1,230	-	1,230
Czech koruna	-	-	390	390
Israeli shekel	6	-	902	908
Danish krone	-	-	1,352	1,352
Euro	(2,153)	3,725	60,672	62,244
Hong Kong dollar	38	-	17,512	17,550
Hungarian forint	-	2,805	1,003	3,808
Indian rupee	3,424	-	-	3,424
Indonesian rupiah	17	3,380	552	3,949
Japanese yen	(1,121)	60	27,902	26,841
Malaysian ringgit	31	3,229	-	3,260
Mexican peso	(151)	13,215	1,031	14,095
New Zealand dollar	-	2,590	-	2,590
Norwegian krone	2,090	-	1,480	3,570
Polish zloty	-	1,474	618	2,092
Russian ruble	(271)	-	-	(271)
Singapore dollar	20	-	1,054	1,074
South African rand	25	2,267	2,096	4,388
South Korean won	255	-	6,996	7,251
Swedish krona	4,986	-	3,765	8,751
Swiss franc	17	-	8,505	8,522
Thai baht	203	-	2,014	2,217
Turkish lira	22	-	616	638
International commingled funds (various currencies)	-	55,103	305,373	360,476
	<u>\$ 7,948</u>	<u>\$ 107,028</u>	<u>\$ 498,065</u>	<u>\$ 613,041</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

PERS and HPRS Plan-Continued

<u>Currency (In thousands)</u>	2015			
	<u>Short term</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Australian dollar	\$ (312)	\$ 5,296	\$ 5,527	\$ 10,511
Brazilian real	(224)	4,352	2,483	6,611
British pound sterling	(242)	279	34,252	34,289
Canadian dollar	(74)	-	10,292	10,218
Chilean peso	4,719	455	98	5,272
Chinese yuan renminbi	-	-	-	-
Czech koruna	5	-	511	516
Israeli shekel	7	-	989	996
Danish krone	-	-	2,223	2,223
Euro	(9,431)	8,003	81,986	80,558
Hong Kong dollar	63	-	8,852	8,915
Hungarian forint	4	2,495	521	3,020
Iceland krona	-	-	-	-
Indian rupee	-	3,750	-	3,750
Indonesian rupiah	-	2,959	-	2,959
Japanese yen	(1,193)	28	32,791	31,626
Malaysian ringgit	32	1,824	-	1,856
Mexican peso	783	12,552	-	13,335
New Zealand dollar	(2,030)	2,131	114	215
Norwegian krone	2,044	-	2,192	4,236
Philippine peso	-	1,047	-	1,047
Polish zloty	8	1,391	990	2,389
Singapore dollar	(216)	-	931	715
South African rand	5	2,721	1,512	4,238
South Korean won	(584)	2,808	4,495	6,719
Swedish krona	2,104	-	4,564	6,668
Swiss franc	-	-	17,223	17,223
Thai baht	120	-	1,989	2,109
Turkish lira	-	-	900	900
International commingled funds (various currencies)	-	49,535	296,552	346,087
	<u>\$ (4,412)</u>	<u>\$ 101,626</u>	<u>\$ 511,987</u>	<u>\$ 609,201</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Job Service Retirement Plan

Currency (In thousands)	2016			
	Short term	Debt	Equity	Total
Australian dollar	\$ -	\$ -	\$ -	\$ -
Brazilian real	-	-	-	-
British pound sterling	-	-	-	-
Canadian dollar	-	-	-	-
Chilean peso	-	-	-	-
Czech koruna	-	-	-	-
Israeli shekel	-	-	-	-
Danish krone	-	-	-	-
Euro	-	-	-	-
Hong Kong dollar	-	-	-	-
Hungarian forint	-	-	-	-
Iceland krona	-	-	-	-
Indian rupee	-	-	-	-
Indonesian rupiah	-	-	-	-
Japanese yen	-	-	-	-
Malaysian ringgit	-	-	-	-
Mexican peso	-	-	-	-
New Zealand dollar	-	-	-	-
Norwegian krone	-	-	-	-
Philippine peso	-	-	-	-
Polish zloty	-	-	-	-
Singapore dollar	-	-	-	-
South African rand	-	-	-	-
South Korean won	-	-	-	-
Swedish krona	-	-	-	-
Swiss franc	-	-	-	-
Thai baht	-	-	-	-
Turkish lira	-	-	-	-
International commingled funds (various currencies)	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Job Service Retirement Plan-Continued

Currency (In thousands)	2015			
	Short term	Debt	Equity	Total
Australian dollar	\$ (60)	\$ 201	\$ 166	\$ 307
Brazilian real	(33)	178	98	243
British pound sterling	(40)	41	899	900
Canadian dollar	(12)	-	319	307
Chilean peso	189	10	4	203
Czech koruna	-	-	20	20
Israeli shekel	-	-	27	27
Danish krone	-	-	-	-
Euro	-	525	1,978	2,503
Hong Kong dollar	(750)	-	235	(515)
Hungarian forint	2	100	21	123
Iceland krona	-	-	-	-
Indian rupee	-	140	-	140
Indonesian rupiah	-	118	-	118
Japanese yen	(203)	4	729	530
Malaysian ringgit	1	73	-	74
Mexican peso	137	449	-	586
New Zealand dollar	(81)	85	-	4
Norwegian krone	82	-	64	146
Philippine peso	-	22	-	22
Polish zloty	-	56	39	95
Singapore dollar	(33)	-	16	(17)
South African rand	-	109	60	169
South Korean won	(105)	112	177	184
Swedish krona	84	-	101	185
Swiss franc	-	-	416	416
Thai baht	5	-	78	83
Turkish lira	-	-	35	35
International commingled funds (various currencies)	-	1,984	-	1,984
	<u>\$ (817)</u>	<u>\$ 4,207</u>	<u>\$ 5,482</u>	<u>\$ 8,872</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

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

The June 30, 2016 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	\$ 309,308	\$ 39,186
Highway Patrolmen's Retirement System	25,479	14,004
Retiree Health Insurance Credit Fund	373,263	311,921
Retirement Plan for Employees of Job Service North Dakota	-	2,805
Pretax Benefits Program	1,502	-
Deferred Compensation Plan	29,073	13,292
Defined Contribution Plan	292	10,655
Proprietary		
Uniform Group Insurance Program	13,325	360,379
	<u>\$ 752,242</u>	<u>\$ 752,242</u>

The June 30, 2015 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	\$ 205,726	\$ 20,907
Highway Patrolmen's Retirement System	-	28,280
Retiree Health Insurance Credit Fund	374,323	169,219
Retirement Plan for Employees of Job Service North Dakota	1,878	561
Pretax Benefits Program	15,240	-
Deferred Compensation Plan	-	13,292
Defined Contribution Plan	292	22,790
Proprietary		
Uniform Group Insurance Program	19,029	361,439
	<u>\$ 616,488</u>	<u>\$ 616,488</u>

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

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

June 30, 2016 due from/to state agencies are summarized as follows:

Fund	Due From State Agencies	Due To State Agencies
Fiduciary		
Public Employees Retirement System		
ITD	\$ -	\$ 8,776
Attorney General	-	2,831
Central Duplicating	-	70
Central Supply	-	36
Total	<u>\$ -</u>	<u>\$ 11,713</u>
Retiree Health Insurance Credit Fund		
Job Service	\$ 335	\$ -
Total	<u>\$ 335</u>	<u>\$ -</u>
Defined Contribution Plan		
ITD	\$ -	\$ 75
Attorney General	-	258
Total	<u>\$ -</u>	<u>\$ 333</u>
Pretax Benefits Program		
ITD	\$ -	\$ 2,426
Attorney General	-	531
Central Duplicating	-	841
Central Supply	-	9
Total	<u>\$ -</u>	<u>\$ 3,807</u>
Deferred Compensation Plan		
ITD	\$ -	\$ 3,646
Attorney General	-	1,113
Central Duplicating	-	762
Central Supply	-	18
Total	<u>\$ -</u>	<u>\$ 5,539</u>
Proprietary		
Uniform Group Insurance Program		
ITD	\$ -	\$ 6,179
Central Supply	-	27
Central Duplicating	-	45
Attorney General	-	5,067
Total	<u>\$ -</u>	<u>\$ 11,318</u>

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

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

The June 30, 2015 due from/to state agencies are summarized as follows:

Fund	Due From State Agencies	Due To State Agencies
Fiduciary		
Public Employees Retirement System		
ITD	\$ -	\$ 8,172
Department of Agriculture	40	-
Department of Parks & Recreation	420	-
Attorney General	-	1,288
Office of Management and Budget	-	3,886
Total	<u>\$ 460</u>	<u>\$ 13,346</u>
Retiree Health Insurance Credit Fund		
Attorney General	\$ -	\$ 128
Total	<u>\$ -</u>	<u>\$ 128</u>
Defined Contribution Plan		
ITD	\$ -	\$ 26
Attorney General	-	150
Total	<u>\$ -</u>	<u>\$ 176</u>
Pretax Benefits Program		
ITD	\$ -	\$ 1,618
Attorney General	-	204
Office of Management and Budget	-	294
Total	<u>\$ -</u>	<u>\$ 2,116</u>
Deferred Compensation Plan		
ITD	\$ -	\$ 2,928
Office of Management and Budget	-	312
Attorney General	-	408
Total	<u>\$ -</u>	<u>\$ 3,648</u>
Proprietary		
Uniform Group Insurance Program		
Department of Transportation	\$ -	\$ 515
Office of Management and Budget	-	1,157
ITD	-	5,933
Attorney General	-	2,216
Total	<u>\$ -</u>	<u>\$ 9,821</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

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

The June 30, 2016 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	\$ 143,649	\$ 23,573,047
Deferred Compensation Plan	836,080	-
Pretax Benefit Program	1,080	325,000
Public Employee Retirement System	23,574,937	398,649
Proprietary Funds		
Uniform Group Insurance Program	1,350	255,000

The June 30, 2015 operating transfers in/out are summarized as follows:

<u>Fund Type/Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Fiduciary Funds		
Defined Contribution Plan	\$ 182,647	\$ -
Deferred Compensation Plan	700,000	-
Public Employee Retirement System	-	532,647
Proprietary Funds		
Uniform Group Insurance Program	-	350,000

The transfer to the Defined Contribution Retirement Fund is for those employees electing to transfer from the defined benefit plan. The transfer from the Defined Contribution Plan to the Public Employee Retirement System represents those members making the one time election under Senate Bill 2015 to move from the Defined Contribution Plan back to the Public Employee Retirement System Defined Benefit Plan. The transfers to the Deferred Compensation Plan are to cover administrative expenses pursuant to NDCC 54-52-04 subsection 11.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 4 CAPITAL ASSETS

A statement of changes in equipment and accumulated depreciation for the System for the year ended June 30, 2016 and 2015 is as follows:

	Balance 7/1/2015	Additions	Deletions	Balance 6/30/2016
Proprietary Funds:				
Capital assets being depreciated:				
Software	\$ 2,897,064	\$ 24,352	\$ -	\$ 2,921,416
Less: Accumulated amortization for:				
Software	(1,354,034)	(290,112)	-	(1,644,146)
Total capital assets being depr., net	<u>1,543,030</u>	<u>(265,760)</u>	<u>-</u>	<u>1,277,270</u>
Proprietary Funds capital assets, net	<u>\$ 1,543,030</u>	<u>\$ (265,760)</u>	<u>\$ -</u>	<u>\$ 1,277,270</u>
Fiduciary Funds:				
Capital assets being depreciated:				
Software	\$ 7,184,137	\$ 60,648	\$ -	\$ 7,244,785
Total capital assets being depreciated	7,184,137	60,648	-	7,244,785
Less: Accumulated amort/depr. for:				
Software	(3,357,378)	(719,425)	-	(4,076,803)
Total capital assets being depr. net	<u>3,826,759</u>	<u>(658,777)</u>	<u>-</u>	<u>3,167,982</u>
Fiduciary Funds capital assets, net	<u>\$ 3,826,759</u>	<u>\$ (658,777)</u>	<u>\$ -</u>	<u>\$ 3,167,982</u>
	Balance 7/1/2014	Additions	Deletions	Balance 6/30/2015
Proprietary Funds:				
Capital assets being depreciated:				
Software	\$ 2,897,064	\$ -	\$ -	\$ 2,897,064
Less: Accumulated amortization for:				
Software	(1,064,328)	(289,706)	-	(1,354,034)
Total capital assets being depr., net	<u>1,832,736</u>	<u>(289,706)</u>	<u>-</u>	<u>1,543,030</u>
Proprietary Funds capital assets, net	<u>\$ 1,832,736</u>	<u>\$ (289,706)</u>	<u>\$ -</u>	<u>\$ 1,543,030</u>
Fiduciary Funds:				
Capital assets being depreciated:				
Software	7,184,137	-	-	7,184,137
Total capital assets being depreciated	7,184,137	-	-	7,184,137
Less: Accumulated amort/depr. for:				
Software	(2,638,960)	(718,418)	-	(3,357,378)
Total capital assets being depr. net	<u>4,545,177</u>	<u>(718,418)</u>	<u>-</u>	<u>3,826,759</u>
Fiduciary Funds capital assets, net	<u>\$ 4,545,177</u>	<u>\$ (718,418)</u>	<u>\$ -</u>	<u>\$ 3,826,759</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 5 LEASE OBLIGATIONS

Operating Lease

The system has entered into an operating lease for office space until June 30, 2017. Expenditures for this lease were \$171,344 and \$138,376 for the years ended June 30, 2016 and 2015, respectively. The future minimum lease payment for the fiscal year ending June 30, 2017 is \$171,307.

The system has also entered into an operating lease for office equipment, with expenditures totaling \$6,841 for the year ended June 30, 2016 and \$9,543 for the year ended June 30, 2015.

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

NOTE 6 CHANGE IN LONG-TERM LIABILITIES

	Proprietary Fund		Fiduciary Fund
	Accrued Compensated Absences		Accrued Compensated Absences
Balance - June 30, 2014	\$ 84,431	\$	159,626
Increases	55,223		98,800
Decreases	(53,232)		(103,811)
Balance - June 30, 2015	86,422		154,615
Increases	61,212		111,240
Decreases	(50,082)		(88,575)
Balance - June 30, 2016	\$ 97,552	\$	177,280
 Balance - due within one year	 \$ 7,102	\$	 12,906

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, 2016 and 2015, were \$209,692 and \$196,226 equal to the required contributions for each year.

The System is required to contribute to the North Dakota Defined Contribution Retirement Plan at a statutorily determined rate for permanent employees who have elected to participate in this plan. The System's contributions to this plan for the years ended June 30, 2016 and 2015, were \$7,837 and \$2,313 equal to the required contributions for each year.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 8 DESCRIPTION OF PLANS

General

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

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

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

The PERS covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions (Main System). It also covers Supreme and District Court Judges and the National Guard Security Officers and Firefighters and as of August 1, 2003, peace officers and correctional officers employed by political subdivisions. Effective August 1, 2015, current and newly eligible members of the National Guard System were transferred to the Law Enforcement System. The HPRS covers substantially all sworn officers of the North Dakota Highway Patrol. 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 nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; two members of the legislative assembly appointed by the chairman of the legislative management, three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 8 DESCRIPTION OF PLANS (CONTINUED)

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:

	<u>2016</u>	<u>2015</u>
Cities	89	88
Counties	49	49
School Districts	123	122
Other	75	74
Total Participating Political Subdivisions	<u>336</u>	<u>333</u>

Employee membership data is as follows:

	<u>PERS</u>		<u>HPRS</u>		<u>Job Service</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Retirees and beneficiaries						
currently receiving benefits	10,515	10,060	123	128	206	206
Special prior service retirees	3	3	-	-	-	-
Terminated vested participants	5,456	4,733	31	11	1	1
Inactive participants	5,277	4,481	8	11	-	-
Active plan participants						
Vested	16,018	15,645	67	62	9	11
Nonvested	7,398	7,200	89	99	-	-
Total plan membership	<u>44,667</u>	<u>42,122</u>	<u>318</u>	<u>311</u>	<u>216</u>	<u>218</u>

The defined contribution plan had 178 and 312 participants as of June 30, 2016 and 2015, respectively. This decrease is a direct result of Senate Bill 2015, where Defined Contribution participants were given a one-time election to move back into the North Dakota Public Employees Retirement System's Defined Benefit Plan.

BENEFITS

PERS

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

Supreme and District Court Judges are entitled to unreduced monthly pension benefits beginning at normal retirement age of (65) or the Rule of 85. The monthly pension benefit is equal to a percentage of average monthly salary using the highest 36 months out of the last 180 months of service. The

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 8 DESCRIPTION OF PLANS (CONTINUED)

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

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

HPRS

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

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

Defined Contribution Plan

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%

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 8 DESCRIPTION OF PLANS (CONTINUED)

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

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 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.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 8 DESCRIPTION OF PLANS (CONTINUED)

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.

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 8 DESCRIPTION OF PLANS (CONTINUED)

service credited for the HPRS), they will receive the accumulated member contributions plus interest, or may elect to receive this amount at a later date. If a member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

CONTRIBUTIONS

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

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

PERS

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

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

	Member Contributions	Employer Contributions
Public Employees Retirement System*	7.00%	7.12%
Judges Retirement System	8.00%	17.52%
Law Enforcement with previous service		
State - BCI Plan**	6.00%	10.31%
State - National Guard	5.50%	9.81%
Political Subdivisions	5.50%	9.81%
Law Enforcement without previous service	5.50%	7.93%

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

**Effective July 1, 2016, the BCI member contribution will be 6.00% and the employer rate will be 9.81%.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 8 DESCRIPTION OF PLANS (CONTINUED)

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

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

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

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

An open period of 20 years to fund accrued liabilities for the Public Employees Retirement System and the Supreme and District Court Judges has been adopted for the July 1, 1996 valuation and adopted for the National Guard Security Officers and Firefighters for the July 1, 1998 valuation. Currently, the present rate of contributions for the PERS and Law Enforcement without previous service plans are not sufficient to meet the actuarially determined requirement for 2016-2017.

HPRS

Member and employer contributions are set by statute as a percent of covered compensation. The state is paying 10.3% of the member contribution. The member contribution rate is 13.3% and the employer rate is 19.7%.

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

An open period of 20 years to fund accrued liabilities for the Highway Patrolmen's Retirement System has been adopted for the July 1, 1996 valuation. Currently, the present rate of contributions is not sufficient to meet the actuarially determined requirement for 2016-2017.

Defined Contribution Plan

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

Retirement Plan for Employees of Job Service North Dakota

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 8 DESCRIPTION OF PLANS (CONTINUED)

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.

NOTE 9 NET PENSION LIABILITY OF THE PLANS

The components of the net pension liability of the Plans at June 30, 2016 and 2015, are as follows:

<u>2016</u>	<u>PERS</u>	<u>HPRS</u>	<u>JSND</u>
Total pension liability	\$ 3,396,565,467	\$ 87,921,960	\$ 61,204,772
Plan fiduciary net position	<u>2,414,895,657</u>	<u>65,811,337</u>	<u>96,533,954</u>
Net pension liability (asset)	\$ 981,669,810	\$ 22,110,623	\$ (35,329,182)
Plan fiduciary net position as a percentage of the total pension liability	71.10%	74.85%	157.72%
<u>2015</u>	<u>PERS</u>	<u>HPRS</u>	<u>JSND</u>
Total pension liability	\$ 3,052,446,539	\$ 80,112,217	\$ 63,390,014
Plan fiduciary net position	<u>2,371,710,809</u>	<u>66,675,728</u>	<u>96,282,892</u>
Net pension liability (asset)	\$ 680,735,730	\$ 13,436,489	\$ (32,892,878)
Plan fiduciary net position as a percentage of the total pension liability	77.70%	83.23%	151.89%

The plan provisions used in the measurement of the total pension liability are the same as those used in the PERS, HPRS and JSND Actuarial Valuation and Reviews as of July 1, 2016 and 2015.

Actuarial Assumptions

PERS and HPRS

The total pension liability was determined by an actuarial valuation as of July 1, 2016 and 2015, using the following actuarial assumptions, applied to all periods included in the measurement (unless noted otherwise):

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 9 NET PENSION LIABILITY OF THE PLANS (CONTINUED)

Inflation	3.50%
Salary Increase (Payroll Growth)	For June 30, 2016, 4.50% per annum for Highway Patrol, Main System, National Guard and Law Enforcement; 4% per annum for Judges. For June 30, 2015, 4.50% per annum for Highway Patrol, Main System, National Guard and Law Enforcement; 4% per annum for Judges.
Investment Rate of Return	8.00%, net of investments expense, including inflation
Mortality Rates	For June 30, 2016 and June 30, 2015, mortality rates for active members, inactive members and healthy retirees were based on the RP-2000 Combined Healthy Mortality Table, set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table, set back one year for males (no setback for females) multiplied by 125%.

JSND

The total pension liability was determined by an actuarial valuation as of July 1, 2016 and 2015, using the following actuarial assumptions, applied to all periods included in the measurement (unless noted otherwise):

Inflation	3.50%
Salary Increase (Payroll Growth)	3.5% per annum
Investment Rate of Return	7.00%, net of investment expense, including inflation
Cost of Living Adjustment	3.00 per annum
Mortality Rates	For June 30, 2016 and June 30, 2015, mortality rates for active members, inactive members and healthy retirees were based on the RP-2000 Combined Healthy Mortality Table, set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table, set back one year for males, (no setback for females) multiplied by 125%.

Investment Rate of Return

The long-term expected investment rate of return assumption for PERS, HPRS and JSND was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the pension plan's target asset allocation as of July 1, 2016 are summarized in the following tables:

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 9 NET PENSION LIABILITY OF THE PLANS (CONTINUED)

PERS & HPRS	
Asset Class	Long-Term Expected Real Rate of Return
Domestic equity	6.60%
International equity	7.30%
Private equity	10.90%
Domestic fixed income	1.49%
International fixed income	-0.45%
Global real assets	5.24%
Cash equivalents	0.00%

JSND	
Asset Class	Long-Term Expected Real Rate of Return
Domestic equity	7.16%
Core fixed income	4.26%
Limited duration fixed income	3.18%
Global Equity	7.11%
Diversified Short-Term Fixed Income	3.54%
Short-Term Corporate Fixed Income	2.48%
US High Yield	6.13%
Emerging Market Debt	7.45%

Discount Rate

The discount rate used to measure the total pension liability for PERS and HPRS was 8.00% as of June 30, 2016 and 2015. For JSND, the discount rate was 7.00% as of June 30, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed plan member and employer contributions will be made at rates equal to those based on the July 1, 2016 and July 1, 2015 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, 2016. 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, 2016 and 2015.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 9 NET PENSION LIABILITY OF THE PLANS (CONTINUED)

Sensitivity of Net Pension Liability (Asset)

The following presents the net pension liability (asset) of the Plans as of June 30, 2016, calculated using the discount rate of 8.00% for PERS and HPRS and 7.00% for JSND, as well as what the Plan's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

Net pension liability (asset) as of June 30, 2016	1% Decrease (7.00%)	Current Discount (8.00%)	1% Increase (9.00%)
PERS	\$ 1,401,158,232	\$ 981,669,810	\$ 628,295,237
HPRS	33,272,054	22,110,623	12,830,376
Net pension liability (asset) as of June 30, 2016	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
JSND	\$ (29,386,845)	\$ (35,329,182)	\$ (40,412,093)
Net pension liability (asset) as of June 30, 2015	1% Decrease (7.00%)	Current Discount (8.00%)	1% Increase (9.00%)
PERS	\$ 1,052,010,116	\$ 680,735,730	\$ 376,867,526
HPRS	23,140,230	13,436,489	5,494,139
Net pension liability (asset) as of June 30, 2015	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
JSND	\$ (26,578,200)	\$ (32,892,878)	\$ (38,280,035)

NOTE 10 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 is also available to apply towards monthly premiums under the state dental, vision and long term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Employee membership data is as follows:

	2016	2015
Retired participants, receiving benefits	10,320	5,212
Active participants, not receiving benefits	23,664	23,237
	<u>33,984</u>	<u>28,449</u>

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 10 RETIREE HEALTH INSURANCE CREDIT FUND (CONTINUED)

The Retiree Health Insurance Credit Fund has 23,664 and 23,237 active participants at June 30, 2016 and 2015, respectively. The employers' actuarially required contribution was \$7,543,743 and \$6,438,784, and the actual employer contributions were \$12,349,883 and \$11,478,599 for the periods ended June 30, 2016 and 2015, respectively.

The following is the net effect of changes in actuarial assumptions, plan provisions and plan experience on the employer's contribution rates expressed as a percent of covered payroll and the dollar impact to the actuarial accrued liability.

	ER Contribution Rate as % of Covered Payroll	Actuarial Accrued Liability
Changes in plan experience during the year	0.29%	\$ 38,441,297
Changes in plan provisions	-	-
Changes in actuarial assumptions	-	-
	0.29%	\$ 38,441,297

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

Funded Status and Funding Progress

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 10 RETIREE HEALTH INSURANCE CREDIT FUND (CONTINUED)

Plan	Actuarial Valuation Date June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded)		Funded Ratio	Annual Covered Payroll	UAAL
				Actuarial Accrued Liability (UAAL)	as a Percentage of Annual Covered Payroll			
Retiree Health Credit	2016	\$ 97.8	\$ 176.6	\$ 78.8	55.4%	\$ 1,142.4	6.9%	

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.

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 14 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.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 10 RETIREE HEALTH INSURANCE CREDIT FUND (CONTINUED)

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.

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, 2016, the date of the latest actuarial valuation include:

Mortality Rates: The RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, and the RP-2000 Disabled Retiree Mortality Table set back one year for males (not set back for females), multiplied by 125%.

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.

Interest Rate: 8.00% per annum, net of investment expenses.

Inflation: 3.50% per annum.

Expenses: Prior year expenses, adjusted for inflation.

NOTE 11 IMPLICIT SUBSIDY UNFUNDED PLAN

The Implicit Subsidy Unfunded Plan provides health care coverage to eligible retirees who are not eligible for Medicare. The premiums for this coverage are set under North Dakota Century Code Chapter 54-52.1-02 as a percent of the active member single and family plan rates and are paid by the retiree. The premiums for this coverage are not age-rated. Currently, the premiums for this group do not cover the costs of the coverage; therefore, the costs of this group are being subsidized through the active group rates. This subsidy is not funded in advance and there is no guarantee that the subsidy for the 2015-17 biennium will continue in the future.

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

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

Funded Status and Funding Progress

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 11 IMPLICIT SUBSIDY UNFUNDED PLAN (CONTINUED)

Plan	Actuarial	Actuarial Value of Plan Assets	Actuarial	Unfunded (Overfunded)	Funded Ratio	Annual	UAAL
	Valuation Date June 30		Accrued Liability (AAL)	Accrued Liability (UAAL)		Covered Payroll	as a Percentage of Annual Covered Payroll
Retiree Health							
Implicit Subsidy	2015	\$ -	\$ 8.9	\$ 8.9	0.0%	\$ -	0.0%

*See Note 10 for additional discussion on the Funded Status and Funding Progress

Significant actuarial assumptions employed by the actuary for funding purposes as of July 1, 2015, the date of the latest actuarial valuation include:

- Mortality Rates:** For June 30, 2015, RP-2000 Combined Healthy Mortality Table, set back two years for males and three years for females. RP-2000 Disabled Retiree Mortality Table, set back one year for males (not set back for females) multiplied by 125%

Rates of withdrawal from active service before retirement for reasons other than death, rates of disability and expected retirement ages developed on the basis of an investigation of actual plan experience.
- Withdrawal Rates:**
- Interest Rate:** 8% per annum, net of investment expenses
- Inflation:** 3.5% per annum
- Expenses:** Prior year expenses, adjusted for inflation

NOTE 12 DEFERRED COMPENSATION PLAN FOR PUBLIC EMPLOYEES

The System was given the authority by Chapter 54-52.2 to administer an employee deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan allows employees of the State of North Dakota or any of its political subdivisions, institutions, departments, or agencies to participate, providing that the employee has signed a participant agreement which permits them to defer a portion of their salary until future years. Each participant may defer the lesser of \$18,000 or 100% of gross annual compensation for the calendar years of 2016 and 2015, respectively. 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.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 12 DEFERRED COMPENSATION PLAN FOR PUBLIC EMPLOYEES (CONTINUED)

The related assets are reported at fair value as investments as follows:

	2016		2015	
Plan participation by:				
State of North Dakota	\$ 69,691,547	89%	\$ 66,595,443	91%
Other jurisdictions	8,181,634	11%	6,443,394	9%
Total value	\$ 77,873,181	100%	\$ 73,038,837	100%

NOTE 13 FEDERAL INCOME TAX STATUS

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

NOTE 14 UNIFORM GROUP INSURANCE PROGRAM SURPLUS

The Uniform Group Insurance Program, a proprietary fund, contracted 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 for the 2011-2013 biennium provides for an accounting of premiums paid and claims incurred during the biennium. The final gain or loss is determined two years after the end of the biennium, which for the 2011-2013 biennium occurred on June 30, 2015. For this period, premiums exceeded claims, therefore, a gain of \$9.5 million was returned to the System. The System entered into a similar contract with BCBS for the 2013-2015 biennium. The accumulated surplus and other invested funds in the amount of \$47 million are shown as cash on the System's balance sheet. No other insurance contracts have a gain sharing provision. During fiscal year 2014, the System Board made the decision to use a portion of the accumulated surplus, to reduce the health premiums by approximately 2% for the 2013-2015 biennium.

The System entered into a similar contract with Sanford Health Plan for the 2015-2017 biennium. The contract for the 2015-2017 biennium provides for an accounting of premiums paid and claims incurred during the biennium. The final gain or loss is determined two years after the end of the biennium, which for the 2015 - 2017 biennium will occur in 2019. The System has \$3.0 million at risk, and it is reasonably assured claims will exceed premiums, and the full \$3.0 million that is at risk was recorded as an underwriting loss in 2016, and shown as a liability to Sanford Health Plan.

NOTE 15 RISK MANAGEMENT

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

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 2016 AND 2015**

NOTE 15 RISK MANAGEMENT (CONTINUED)

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 16 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 17 RECLASSIFICATION

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

NOTE 18 SUBSEQUENT EVENTS

The System evaluated subsequent events through November 28, 2016, which is the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2016, but prior to November 28, 2016 that provided additional evidence about conditions that existed at June 30, 2016, have been recognized in the financial statements for the year ended June 30, 2016. Events or transactions that provided evidence about conditions that did not exist at June 30, 2016, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2016.

NOTE 19 CONTINGENCY

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES TO THE NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	Public Employees Retirement System			Highway Patrolmen's Retirement System			Retirement Plan for Employees of Job Service North Dakota		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Total pension liability									
Service cost	\$ 126,443,929	\$ 104,158,320	\$ 94,611,357	\$ 2,226,286	\$ 2,038,291	\$ 1,894,183	\$ 71,420	\$ 127,734	\$ 87,668
Interest	243,284,784	236,419,648	218,719,441	6,311,403	6,007,875	5,750,017	4,281,440	5,026,167	5,107,459
Change of benefit terms	-	2,615	-	-	-	-	-	-	-
Differences between expected and actual experience	15,914,938	4,395,805	25,782,859	39,748	984,241	(299,964)	(2,006,791)	(1,806,271)	(1,607,033)
Changes of assumptions	108,139,418	(76,152,255)	-	3,945,801	394,419	-	69,885	(309,878)	-
Benefit payments, including refund of employee contributions	(149,664,141)	(134,929,737)	(119,886,323)	(4,713,495)	(4,745,510)	(3,784,735)	(4,601,196)	(4,694,171)	(4,594,462)
Net change in total pension liability	344,118,928	133,894,396	219,227,334	7,809,743	4,679,316	3,559,501	(2,185,242)	(1,656,419)	(1,006,368)
Total pension liability (asset) - beginning	3,052,446,539	2,918,552,143	2,699,324,809	80,112,217	75,432,901	71,873,400	63,390,014	65,046,433	66,052,801
Total pension liability (asset) - ending (a)	\$ 3,396,565,467	\$ 3,052,446,539	\$ 2,918,552,143	\$ 87,921,960	\$ 80,112,217	\$ 75,432,901	\$ 61,204,772	\$ 63,390,014	\$ 65,046,433
Plan fiduciary net position									
Contributions - employer	\$ 77,080,576	\$ 70,842,535	\$ 61,661,050	\$ 2,127,355	\$ 2,002,291	\$ 1,864,632	\$ -	\$ -	\$ -
Contributions - employee	74,218,276	68,392,061	59,394,200	1,436,236	1,351,798	1,243,520	44,178	50,142	55,748
Service credit repurchase	9,179,163	6,651,879	8,325,140	-	96,429	87,418	-	-	-
Net investment income	11,333,836	81,536,565	316,629,563	316,963	2,334,780	9,239,929	4,840,333	3,260,507	11,887,840
Transfers from other plans	23,574,937	-	-	-	-	-	-	-	-
Benefit payments, including refund of employee contributions	(149,664,141)	(134,929,737)	(119,886,324)	(4,713,495)	(4,745,510)	(3,784,735)	(4,601,196)	(4,694,171)	(4,594,462)
Administrative expense	(2,537,799)	(2,365,357)	(2,210,792)	(31,450)	(30,925)	(27,983)	(32,253)	(30,214)	(31,455)
Net change in plan fiduciary net position	43,184,848	90,127,946	323,912,837	(864,391)	1,008,863	8,622,781	251,062	(1,413,736)	7,317,671
Plan fiduciary net position - beginning	2,371,710,809	2,281,582,863	1,957,670,026	66,675,728	65,666,865	57,044,084	96,282,892	97,696,628	90,378,957
Plan fiduciary net position - ending (b)	\$ 2,414,895,657	\$ 2,371,710,809	\$ 2,281,582,863	\$ 65,811,337	\$ 66,675,728	\$ 65,666,865	\$ 96,533,954	\$ 96,282,892	\$ 97,696,628
Net pension liability (asset) - ending (a) - (b)	\$ 981,669,810	\$ 680,735,730	\$ 636,969,280	\$ 22,110,623	\$ 13,436,489	\$ 9,766,036	\$ (35,329,182)	\$ (32,892,878)	\$ (32,650,195)
Plan fiduciary net position as a percentage of the total pension liability	71.10%	77.70%	78.18%	74.85%	83.23%	87.05%	157.72%	151.89%	150.20%
Covered employee payroll	\$ 1,048,548,467	\$ 973,536,402	\$ 888,452,060	\$ 10,526,791	\$ 10,145,713	\$ 9,348,386	\$ 564,684	\$ 790,649	\$ 842,601
Plan net pension liability (asset) as a percentage of covered employee payroll	93.62%	69.92%	71.69%	210.04%	132.44%	104.47%	(6,256.45)%	(4,160.24)%	(3,874.93)%

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

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

Public Employees Retirement System

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	124,336	107,514	107,864	97,985	91,458	82,910	54,158	40,327	35,875	38,185
Contributions in relation to the actuarially determined	77,081	70,843	61,661	48,847	38,006	32,278	30,253	27,705	25,254	23,141
Contribution deficiency (excess)	47,255	36,671	46,203	49,138	53,452	50,632	23,905	12,622	10,621	15,044
Covered-employee payroll	1,048,548	973,536	888,452	800,878	804,169	769,710	697,737	640,685	582,287	547,006
Contributions as a percentage of covered-employee payroll	7.35%	7.28%	6.94%	6.10%	4.73%	4.19%	4.34%	4.32%	4.34%	4.23%

Highway Patrolmen's Retirement System

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	2,307	2,201	2,348	2,191	2,171	1,744	1,313	1,026	924	1,083
Contributions in relation to the actuarially determined	2,127	2,002	1,865	1,586	1,423	1,286	1,197	1,123	1,059	960
Contribution deficiency (excess)	180	199	483	605	748	458	116	(97)	(135)	123
Covered-employee payroll	10,527	10,146	9,348	8,167	8,002	7,738	7,009	6,509	6,129	5,688
Contributions as a percentage of covered-employee payroll	20.21%	19.73%	19.95%	19.42%	17.78%	16.62%	17.08%	17.25%	17.28%	16.88%

Retirement Plan for Employees of Job Service North Dakota

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	-	-	-	-	-	-	-	-	-	-
Contributions in relation to the actuarially determined	-	-	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Covered-employee payroll	565	791	843	1,011	1,163	1,266	1,487	1,613	1,843	1,923
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
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

PERS

Benefit Changes: New employer contribution rates were adopted beginning July 1, 2016 for members of the BCI plan, which are a part of the Law Enforcement System. Those changes are reflected in the results for June 30, 2015.

New employer and member contribution rates were adopted beginning August 1, 2015 for members of the National Guard system who were transferred to the Law Enforcement System. Those changes are reflected in the results for June 30, 2015.

New employer and member contribution rates were adopted beginning January 1, 2014 for PERS. Those changes are reflected in the results for June 30, 2014 and after.

Changes of Assumptions: The actuarial assumptions used in the July 1, 2016 and 2015 valuation were based on the results of an experience study for the period July 1, 2009 to June 30, 2014.

HPRS

Benefit Changes: New employer and member contribution rates were adopted beginning January 1, 2014 for PERS. Those changes are reflected in the results for June 30, 2014 and after.

Changes of Assumptions: The actuarial assumptions used in the July 1, 2016 and 2015 valuation were based on the results of an experience study for the period July 1, 2009 to June 30, 2014.

JSND

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

Changes of Assumptions: The actuarial assumptions used in the July 1, 2016 and 2015 valuation were based on the results of an experience study for the period July 1, 2009 to June 30, 2014.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

Schedule of Employer Contributions

Valuation date	Actuarially determined contribution rates are calculated as of June 30, 12 months prior to the end of the fiscal year in which contributions are reported.
 Methods and assumptions used to establish "actuarially determined contribution" rates for PERS and HPRS:	
Actuarial cost method	Entry Age Normal Method. Entry Age is the age at the time the participant commenced employment. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salary.
Amortization Method	Level percent of payroll, Open Period
Remaining amortization period	20 years open, assuming 4.50% (4.00% for Judges) of payroll growth per annum
Asset valuation method	Adjusted fair value that immediately recognizes interest and dividends. The procedure recognizes 20% of each year's total appreciation (depreciation) beginning with the year of occurrence. After five years, the appreciation (depreciation) is fully recognized
 Methods and assumptions used to establish "actuarially determined contribution" rates for JSND:	
Actuarial cost method	Frozen Initial Liability Cost Method. The "annual contribution" under this method is the normal cost plus the payment required to amortize the unfunded initial actuarial accrued liability over a selected period of years. The normal cost is determined by calculating the total value of all future benefits, subtracting the outstanding balance (if any) of the unfunded initial actuarial accrued liability, subtracting the actuarial value of assets, and determining payments (not less than zero) that are a level percent of pay over the future working lifetime of all participants. In the absence of an unfunded initial actuarial accrued liability, the Frozen Initial Liability Actuarial Cost Method is the same as the Aggregate Cost Method. The plan has assets in excess of the present value of future benefits. Therefore, no contribution is being made.
Asset valuation method	Adjusted fair value that immediately recognizes interest and dividends. The procedure recognizes 20% of each year's total appreciation (depreciation) beginning with the year of occurrence. After five years, the appreciation (depreciation) is fully recognized.

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30**

**Schedule of Investment Returns
For the Three years ended June 30**

	2016	2015	2014	2013
Public Employees Retirement	0.49%	3.61%	16.29%	13.52%
Highway Patrolmen's Retirement	0.48%	3.66%	16.20%	13.38%
Retirement Plan for Employees of Job Service North Dakota	5.14%	3.41%	13.46%	12.07%

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

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

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

Year Ended June 30	Required Contribution	Percentage Contributed
2011	7,053,215	127%
2012	7,263,487	129%
2013	7,410,911	134%
2014	7,014,084	153%
2015	6,438,784	178%
2016	7,543,743	152%

Retiree Health Implicit Subsidy Plan

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2011	7,295,000	0%
2012	7,854,425	0%
2013	8,212,947	0%
2014	3,053,866	0%
2015	2,848,396	0%
2016	686,429	0%

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

***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
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%
2015	128.9	89.4	39.5	69.4%	1,052.7	3.8%
2016	176.6	97.8	78.8	55.4%	1,142.4	6.9%

***Retiree Health Implicit Subsidy Plan
 (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	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%
2015	6.9	-	6.9	0.0%	-	0.0%

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
SUPPLEMENTAL INFORMATION**

**SCHEDULE OF INVESTMENT EXPENSES
Fiduciary Funds
For the Fiscal Year Ended June 30, 2016**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan
Payments to State Investment Board:							
Investment Fees	\$ 6,789,869	\$ 191,154	\$ 292,820	\$ -	\$ -	\$ -	\$ 166,226
Administrative Expenses	343,042	8,801	-	-	-	-	-
	7,132,911	199,955	292,820	-	-	-	166,226
Payments to Providers:							
Investment Fees (Net of Plan Servicing Credits)	-	-	-	11,925	-	-	-
Total Investment Expenses	\$ 7,132,911	\$ 199,955	\$ 292,820	\$ 11,925	\$ -	\$ -	\$ 166,226

SCHEDULE OF INVESTMENT EXPENSES
Fiduciary Funds
For the Fiscal Year Ended June 30, 2015

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan
Payments to State Investment Board:							
Investment Fees	\$ 7,639,829	\$ 219,242	\$ 281,478	\$ -	\$ -	\$ -	\$ 279,285
Administrative Expenses	309,008	11,321	-	-	-	-	-
	<u>7,948,837</u>	<u>230,563</u>	<u>281,478</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>279,285</u>
Payments to Providers:							
Investment Fees (Net of Plan Servicing Credits)	-	-	-	19,907	-	-	-
Total Investment Expenses	<u>\$ 7,948,837</u>	<u>\$ 230,563</u>	<u>\$ 281,478</u>	<u>\$ 19,907</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 279,285</u>

SCHEDULE OF ADMINISTRATIVE EXPENSES
Fiduciary Funds
For the Fiscal Year Ended June 30, 2016

	PUBLIC EMPLOYEES RETIREMENT SYSTEM	HIGHWAY PATROLMEN'S RETIREMENT SYSTEM	RETIREE HEALTH INSURANCE CREDIT FUND	DEFINED CONTRIBUTION RETIREMENT FUND	PRETAX BENEFITS PROGRAM	DEFERRED COMPENSATION PROGRAM	JOB SERVICE RETIREMENT PLAN
Personnel Services:							
Salaries	821,333	5,842	71,268	3,072	174,231	354,495	4,010
Social security	59,954	426	5,186	224	12,744	26,010	291
Retirement	97,184	691	8,318	359	19,992	40,488	468
Insurance	191,220	1,360	15,314	660	35,539	65,800	860
Total Personnel Services	1,169,691	8,319	100,086	4,315	242,506	486,793	5,629
Professional Services:							
Actuarial	262,795	14,650	13,700	1,622	-	-	19,500
Audit	39,626	282	3,609	155	9,994	19,954	199
Data processing	131,495	935	11,288	1,137	28,627	52,184	636
Consulting	213,432	1,518	19,843	779	68,043	106,491	998
Legal counsel	16,813	120	3,417	1,501	3,539	6,942	277
Misc outside services	28,546	204	214,758	107	104,613	14,859	1,447
Total Professional Services	692,707	17,709	266,615	5,301	214,816	200,430	23,057
Communication:							
Printing	15,248	108	1,910	48	1,877	1,795	67
Postage	56,794	404	5,513	357	9,543	9,548	270
Telephone	9,735	69	772	33	1,782	2,614	44
Total Communication	81,777	581	8,195	438	13,202	13,957	381
Rentals:							
Equipment rent	2,614	18	238	12	659	1,316	13
Office rent	67,090	477	6,423	262	16,751	33,208	335
Total Rentals	69,704	495	6,661	274	17,410	34,524	348
Miscellaneous:							
Depreciation/amortization	384,151	3,337	36,912	2,649	96,704	193,408	2,264
Dues and prof development	14,184	101	796	34	870	2,226	40
Insurance	432	3	39	1	99	238	2
Miscellaneous	14,874	119	2,355	67	4,184	-	3
Repairs and maintenance	2,699	19	246	11	681	1,359	13
Supplies	95,836	683	8,767	476	24,388	48,099	483
Travel	11,744	84	619	27	229	1,987	33
Total Miscellaneous	523,920	4,346	49,734	3,265	127,155	247,317	2,838
Total Administrative Expenses	\$2,537,799	\$31,450	\$431,291	\$13,593	\$615,089	\$983,021	\$32,253

SCHEDULE OF ADMINISTRATIVE EXPENSES
Fiduciary Funds
For the Fiscal Year Ended June 30, 2015

	PUBLIC EMPLOYEES RETIREMENT SYSTEM	HIGHWAY PATROLMEN'S RETIREMENT SYSTEM	RETIREE HEALTH INSURANCE CREDIT FUND	DEFINED CONTRIBUTION RETIREMENT FUND	PRETAX BENEFITS PROGRAM	DEFERRED COMPENSATION PROGRAM	JOB SERVICE RETIREMENT PLAN
Personnel Services:							
Salaries	739,262	5,915	73,407	4,742	158,535	333,568	3,035
Social security	54,930	440	5,451	352	11,720	25,115	225
Retirement	85,323	683	8,466	547	18,491	38,516	350
Insurance	159,195	1,274	14,768	954	31,214	58,841	611
Total Personnel Services	1,038,710	8,312	102,092	6,595	219,960	456,040	4,221
Professional Services:							
Actuarial	302,090	14,200	13,300	0	0	0	19,200
Audit	81,393	651	4,310	278	4,092	8,184	178
Data processing	75,182	602	7,317	807	16,032	31,149	303
Consulting	150,423	1,197	14,813	871	33,489	71,528	558
Legal counsel	39,362	315	4,007	512	2,882	6,219	780
Misc outside services	12,334	99	1,744	79	105,253	4,469	1,619
Total Professional Services	660,784	17,064	45,491	2,547	161,748	121,549	22,638
Communication:							
Printing	17,738	142	5,561	85	2,355	1,354	54
Postage	52,454	420	7,528	448	13,747	8,834	198
Telephone	10,322	83	948	61	1,909	3,044	39
Total Communication	80,514	645	14,037	594	14,193	13,232	291
Rentals:							
Equipment rent	2,862	23	292	19	721	1,294	12
Office rent	53,746	430	5,492	355	13,544	26,789	227
Total Rentals	56,608	453	5,784	374	14,265	28,083	239
Miscellaneous:							
Depreciation/amortization	383,613	3,326	36,863	2,647	96,569	193,138	2,262
Dues and prof development	13,463	108	776	50	692	1,089	32
Insurance	318	3	32	2	80	160	1
Miscellaneous	20,839	130	1,829	108	4,192	7,979	72
Repairs and maintenance	2,778	22	283	18	700	1,400	12
Supplies	94,560	757	9,631	722	23,994	47,291	398
Travel	13,170	105	1,171	76	225	1,183	48
Total Miscellaneous	528,741	4,451	50,585	3,623	126,452	252,240	2,825
Total Administrative Expenses	\$2,365,357	\$30,925	\$217,989	\$13,733	\$536,618	\$871,144	\$30,214

**Schedule of Consultant Expenses
Fiduciary Funds
For the Fiscal Year Ended June 30, 2016**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan
Actuary Fees:							
The Segal Company	\$ 262,795	\$ 14,650	\$ 13,700	\$ 1,623	\$ -	\$ -	\$ 19,500
Audit/Accounting Fees:							
CliftonLarsonAllen LLP	39,626	282	3,609	156	9,994	19,954	199
Disability Consulting Fees:							
Mid Dakota Clinic	8,300	59	-	-	-	-	-
IT Consulting:							
Sagitec Solution LLC	183,572	1,412	18,073	779	46,329	92,509	998
Agency MABU	14,876	-	-	-	3,719	6,977	-
Miscellaneous Consulting Fees:							
The Segal Company	3,374	24	1,770	-	17,995	7,006	-
Callan Associates, Inc.	3,310	23	-	-	-	-	-
Ice Miller, LLP	522	4	286	12	-	-	25
ND Attorney General	16,291	116	3,131	1,489	3,539	6,942	251
Totals	\$ 532,666	\$ 16,570	\$ 40,569	\$ 4,059	\$ 81,576	\$ 133,388	\$ 20,973

**Schedule of Consultant Expenses
Fiduciary Funds
For the Fiscal Year Ended June 30, 2015**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan
Actuary Fees:							
The Segal Company	\$ 302,090	\$ 14,200	\$ 13,300	\$ -	\$ -	\$ -	\$ 19,200
Audit/Accounting Fees:							
Brady, Martz & Associates	81,393	651	4,310	278	4,092	8,184	178
Disability Consulting Fees:							
Mid Dakota Clinic	8,600	65	-	-	-	-	-
IT Consulting							
Sagitec Solution LLC	132,336	1,060	13,483	871	33,349	66,698	558
Miscellaneous Consulting Fees:							
Callan Associates, Inc.	5,000	38	-	-	-	-	-
Eide Bailly LLP	3,675	28	-	-	-	-	-
The Segal Company	812	6	1,330	-	140	4,830	-
Ice Miller, LLP	23,846	191	1,939	125	-	-	80
ND Attorney General	15,516	124	2,068	387	2,882	6,219	700
Totals	\$ 573,268	\$ 16,363	\$ 36,430	\$ 1,661	\$ 40,463	\$ 85,931	\$ 20,716

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF APPROPRIATIONS
FOR THE YEAR ENDED JUNE 30, 2016**

	Approved 2015-2017	2015-2017 Appropriation	Adjusted 2015-2017	2016 Expenditures	Unexpended
ALL FUND TYPES					
Salaries and Wages	6,415,360	5,400	6,420,760	2,842,248	3,578,512
Accrued Leave payments	0	0	0	0	0
Operating Expenses	2,831,013	0	2,831,013	1,521,003	1,310,010
Contingency	250,000	0	250,000	0	250,000
	<u>9,496,373</u>	<u>5,400</u>	<u>9,501,773</u>	<u>4,363,251</u>	<u>5,138,522</u>

Reconciliation of Administrative Expenses to Appropriated Expenditures

Administrative expenses as reflected in the financial statements	2016
Pension trust funds	<u>4,644,496</u>
Enterprise funds - Group Insurance	<u>336,704,934</u>
Total administrative expenses	<u>341,349,430</u>
Adjustments:	
Change in accrued compensated absences	(33,795)
Change in prepaid expenses	(690)
Professional Fees, premiums and benefits paid pursuant to NDCC54-52-	(335,943,986)
Miscellaneous income reclassified to miscellaneous expense	1,932
Amortization Expense	(1,009,537)
Contribution/premium over & short	<u>(103)</u>
	<u><u>4,363,251</u></u>



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

Governor Jack Dalrymple
The Legislative Assembly

Sparb Collins, Executive Director
North Dakota Public Employees Retirement System
Bismarck, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the proprietary fund and each of the individual fiduciary funds of the North Dakota Public Employees Retirement System (the System), a department of the State of North Dakota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated November 28, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

CliftonLarsonAllen LLP

Baltimore, Maryland
November 28, 2016

**Special Comments Requested by the Legislative Audit
and Fiscal Review Committee
Year Ended June 30, 2016**

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

Audit Report Communications

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

Yes.

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

No

Audit Committee Communications

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

None

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

The valuation of alternative investments, including private equity and real asset investments, are a management estimate which is primarily based upon net asset values reported by the investment managers. The values for these investments are reported based upon the most recent financial data available and are adjusted for cash flows through June 30, 2016. Our audit procedures validated this approach through the use of confirmations sent directly to a sample of investment managers and the review of the most recent audited financial statements for these sampled funds. Furthermore, we reviewed management's estimate and found it to be reasonable.

The actuarial valuation was based on the actuarial assumptions and methods adopted by the Board, including an actuarial expected investment rate of return of 8.00% for the PERS, HPRS and RHIC plans and 7.00% for the JSND plan. The valuation takes into account all of the promised benefits to which members are entitled as of July 1, 2016 as required by the North Dakota Century Code. The valuation provides certain information required by GASB to be disclosed in the financial statements. Additionally, the valuation is used to determine the adequacy of the current employer contribution rate. Our audit procedures included reviewing the actuarial valuation and related assumptions used therein and we believe the estimate to be reasonable.

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

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

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

CliftonLarsonAllen LLP

Baltimore, Maryland
November 28, 2016