NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
Bismarck, ND

FINANCIAL STATEMENTS
June 30, 2012 and 2011

PAGE

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditors' Report

Governor Jack Dalrymple
The Legislative Assembly
Fay Kopp, Interim Executive Director
State Investment Board
Teacher's Fund for Retirement Board
North Dakota Retirement and Investment Office

We have audited the accompanying financial statements of fiduciary net assets of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements, as of and for the year end June 30, 2012. These financial statements are the responsibility of RIO's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of fiduciary net assets of RIO as of June 30, 2011, were audited by other auditors whose report dated November 8, 2011, expressed an unqualified opinion of those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the fiduciary funds of RIO as of June 30, 2012 and the respective changes in net assets where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining and individual fund financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds of RIO as of June 30, 2012 , and the results of the operations of such funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Audit Standards*, we have also issued our report dated October 19, 2012, on our consideration of RIO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions and related notes, as listed on 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 audits of the basic financial statements. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of administrative expenses, consultant expenses, investment expenses, and appropriations – budget basis – fiduciary funds, as listed on 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 financial statements. The information has been subjected to the auditing procedures applied in the audits 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Baltimore, Maryland
October 19, 2012

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governor Jack Dalrymple
The Legislative Assembly
Fay Kopp, Interim Executive Director
State Investment Board
Teacher's Fund for Retirement Board
North Dakota Retirement and Investment Office

We have audited the basic financial statements of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements, as of and for the year ended June 30, 2012 and have issued our report thereon dated October 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Audit Committee, the Board of Trustees, Management and other oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Baltimore, Maryland
October 19, 2012

We did not identify any findings that are required to be reported in accordance with *Government Auditing Standards*.

Our discussion and analysis of the ND Retirement and Investment Office's (RIO) financial performance provides an overview of RIO's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the basic financial statements, which follow this discussion.

RIO administers two fiduciary funds, a pension trust fund for the ND Teachers' Fund for Retirement (TFFR) and an investment trust fund for the ND State Investment Board (SIB) consisting of 21 investment clients in two investment pools and one individual investment account.

Financial Highlights

Total net assets increased in the fiduciary funds by $463.9 million or 8.3% from the prior year primarily due to the addition of the Legacy Fund during the fiscal year. The Legacy Fund was created by a constitutional amendment in 2010. The amendment provides that 30% of oil and gas gross production and oil extraction taxes on oil produced after June 30, 2011, be transferred to the Legacy Fund. Transfers into the Legacy Fund totaled $396.6 million during the fiscal year.

Additions in the fiduciary funds for the year decreased $801.4 million from the previous year. Net investment income decreased by $804.8 million and total contributions increased $3.9 million.

Deductions in the fiduciary funds increased over the prior year by $7.3 million or 5.2%. This increase represented a rise in the total number of retirees drawing retirement benefits from the pension fund as well as an increase in the retirement salaries of new retirees.

The TFFR funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2012, the funded ratio was approximately 60.9%.

Overview of the Financial Statements

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

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

Fund Financial Statements

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

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

Financial Analysis

RIO's fiduciary fund total assets as of June 30, 2012, were $6.1 billion and were comprised mainly of investments. Total assets increased by $463.7 million or 8.3% from the prior year primarily due to the addition of the Legacy Fund during the fiscal year.

Total liabilities as of June 30, 2012, were $6.4 million and were comprised mostly of investment expenses payable. Total liabilities decreased by $186,000 or 2.8% from the prior year due mainly to a decrease in investment expenses payable at June 30, 2012.

RIO's fiduciary fund total net assets were $6.1 billion at the close of fiscal year 2012.

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

	2012	2011	Total % Change
Assets			
Investments	$ 6,010	$ 5,553	8.2%
Receivables	35	31	13.5%
Cash & Other	15	13	11.7%
Total Assets	6,060	5,597	8.3%
Liabilities			
Accounts Payable	6	7	-2.6%
Total Liabilities	6	7	-2.6%
Total Net Assets	$ 6,054	$ 5,590	8.3%

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

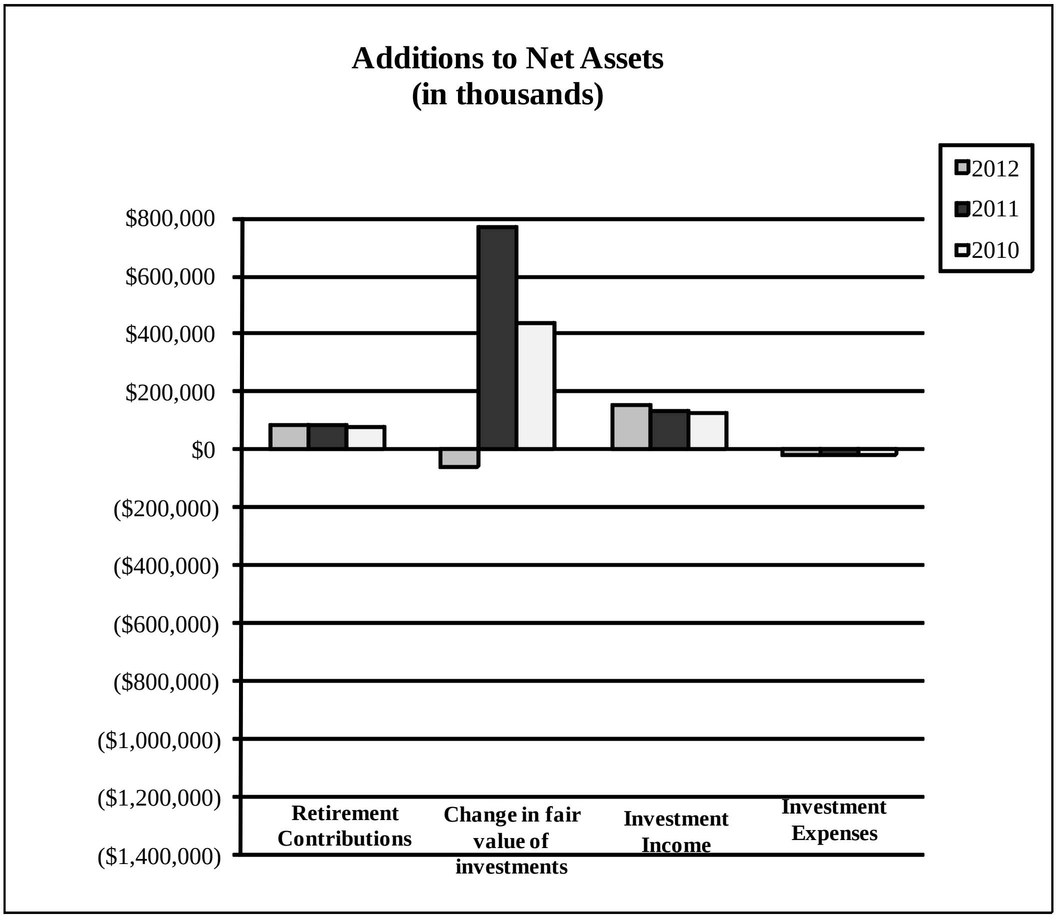
North Dakota Retirement and Investment Office
Changes in Net Assets – Fiduciary Funds
(In Millions)

	2012	2011	Total % Change
Additions:			
Contributions	$ 89	$ 85	4.5%
Investment Income	$ 79	$ 884	91.1%
Total Additions	$ 168	$ 969	82.7%
Deductions	$ 140	$ 133	5.2%
Net change from unit transactions	$ 436	$ (63)	792.0%
Total change in net assets	$ 464	$ 773	40.0%

	2011	2010	Total % Change
Additions:			
Contributions	$ 85	$ 78	9.0%
Investment Income	$ 884	$ 545	62.2%
Total Additions	$ 969	$ 623	55.5%
Deductions	$ 133	$ 129	3.1%
Net change from unit transactions	$ (63)	$ 104	160.6%
Total change in net assets	$ 773	$ 598	29.3%

Statement of Changes in Net Assets – Additions

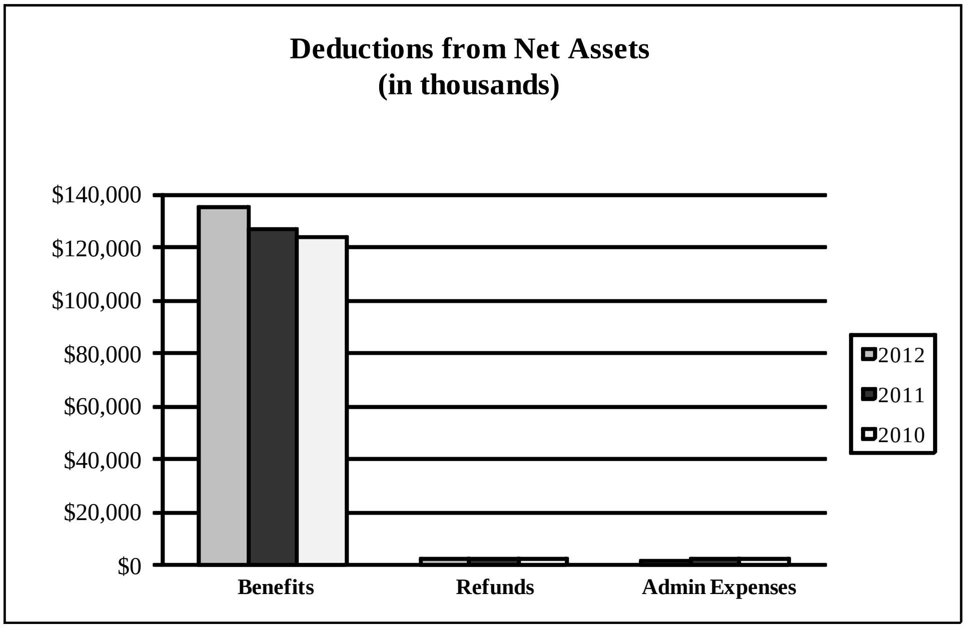
Contributions and net investment income are the two components of the fiduciary fund additions. Contributions collected by the pension trust fund increased by $3.9 million or 4.5% over the previous fiscal year. Net investment income, including securities lending activities and investment expenses, decreased by $805.3 million or 91.1% from last year. This was the result of weaker financial markets during the fiscal year.



Statement of Changes in Net Assets – Deductions

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by $7.8 million or 6.1% during the fiscal year ended June 30, 2012. This was due to an increase in the total number of retirees in the plan as well as an increased retirement salary on which the benefits are based upon. Refunds increased slightly in fiscal year 2012 by $268,500 or 12.1%.

Administrative expenses decreased by $774,500 or 26.7%, due mainly to a decrease in legal fees during FY2012. Legal fees had increased significantly in FY2011 due to the legal proceedings in the WG Trading fraud case which culminated in May, 2011, with the initial distribution of recovered assets. Legal fees continued, but at a much slower pace, in FY2012 as the SIB joined in an appeal regarding the distribution of those assets.



Conclusion

In contrast to the prior two fiscal years, which delivered strong back-to-back total fund returns, fiscal year 2012 results reflect a market environment characterized by low investment returns and high volatility. Driven by ongoing deleveraging in the private sector, uncertainty surrounding policy responses to weak global economic growth, a continuing sovereign debt crisis in Europe, and political gridlock in the U.S., financial markets alternated between risk-on and risk-off phases over the course of the fiscal year. Positive asset class performance was lead by real estate, followed by fixed income, private equity, infrastructure, and domestic equity. International equity markets were the worst performing asset class in the fiscal year, suffering low to mid-teen negative returns. Investment trust funds within the SIB's investment program are invested within their policy guidelines and are positioned to withstand short-term volatility in order to deliver the long-term returns required to meet pension and other obligations.

Historically, financial crisis recessions tend to have a longer-term recessionary drag as compared to "normal" business cycle recessions; the recovery from the current balance sheet recession is no different. Advanced economies continue to experience sub-par economic growth as global balance sheet deleveraging continues to weigh on private sector demand. Given the prospect of further deleveraging in advanced economies, we believe the investment climate will remain challenging as the structural imbalances from excess private and public sector debt are fully addressed. The SIB will continue to research and consider investment options to address funding issues in the challenging years ahead.

To address TFFR's funding shortfall, the ND State Legislature took action in 2011 and approved legislation to increase member and employer contributions and modify certain benefits. This funding recovery plan, along with solid investment performance in the future, is expected to improve TFFR's funding level over the long term. Although TFFR's funding level has been declining, and is 60.9% as of 7/1/12, funding levels are projected to begin rising after past investment losses are phased in to actuarial calculations and as 2012 and 2014 contribution increases begin to flow into the system. Protecting the long term solvency of the pension plan is the TFFR Board's fiduciary responsibility. The Board will continue to proactively address TFFR funding issues so the plan will be financially strong and sustainable for past, present, and future ND educators.

Contacting RIO Financial Management

This financial report is designed to provide our Boards, our membership, our clients and the general public with a general overview of RIO's finances and to demonstrate RIO's accountability for the money we receive. If you have any questions about this report or need additional information, contact the North Dakota Retirement and Investment Office, PO Box 7100, Bismarck, ND 58507-7100.

	Pension Trust		Investment Trust	
	2012	2011	2012	2011
Assets:				
Investments, at fair value				
Equities	$ -	$ -	$ 36,131,488	$ 34,084,756
Equity pool	812,749,740	1,049,479,984	1,312,774,041	1,411,952,870
Fixed income	-	-	806,874,577	22,935,906
Fixed income pool	370,045,662	395,005,152	1,582,382,143	2,005,016,528
Real assets pool	315,768,906	174,937,685	469,548,278	196,439,719
Private equity pool	104,823,271	63,012,510	108,766,790	67,591,681
Cash pool	21,082,755	15,900,962	69,354,213	116,312,551
Total investments	1,624,470,334	1,698,336,293	4,385,831,530	3,854,334,011
Invested securities lending collateral	-	-	-	13,600
Receivables:				
Investment income	6,832,046	7,419,806	17,254,744	12,821,803
Contributions	11,076,423	10,871,495	-	-
Miscellaneous	5,472	7,651	9,506	12,232
Total receivables	17,913,941	18,298,952	17,264,250	12,834,035
Due from other state agency	1,461	-	-	-
Cash and cash equivalents	14,370,170	12,365,575	152,772	153,724
Equipment & Software (net of depr)	762	3,050	-	-
Total assets	1,656,756,668	1,729,003,870	4,403,248,552	3,867,335,370
Liabilities:				
Accounts payable	62,950	73,258	26,714	54,288
Investment expenses payable	1,922,962	2,123,667	3,649,932	3,573,700
Securities lending collateral	-	-	-	13,600
Accrued expenses	607,086	616,348	50,425	51,601
Miscellaneous payable	-	-	13,537	18,091
Due to other state agencies	14,011	11,280	3,309	1,196
Total liabilities	2,607,009	2,824,553	3,743,917	3,712,476
Net assets:				
Held in trust for pension benefits	1,654,149,659	1,726,179,317	-	-
Held in trust for external investment pool participants:				
Pension pool	-	-	2,022,512,983	2,040,261,179
Insurance pool	-	-	2,314,911,441	1,766,310,444
Held in trust for individual investment account	-	-	62,080,211	57,051,271
Total net assets	$ 1,654,149,659	$ 1,726,179,317	$ 4,399,504,635	$ 3,863,622,894
Each participant unit is valued at $1.00				
Participant units outstanding			4,399,504,635	3,863,622,894

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

	Pension Trust		Investment Trust	
	2012	2011	2012	2011
Additions:				
Contributions:				
Employer contributions	$ 46,126,193	$ 44,545,433	$ -	$ -
Member contributions	40,254,562	38,869,260	-	-
Purchased service credit	2,417,995	1,499,748	-	-
Interest and penalties	9,854	8,809	-	-
Total contributions	88,808,604	84,923,250	-	-
Investment income:				
Net change in fair value of investments	(55,818,260)	305,331,203	(2,301,149)	461,489,827
Interest, dividends and other income	39,954,588	35,864,291	115,514,522	100,078,804
	(15,863,672)	341,195,494	113,213,373	561,568,631
Less investment expenses	5,661,973	6,430,327	12,779,965	12,614,624
Net investment income	(21,525,645)	334,765,167	100,433,408	548,954,007
Securities lending activity:				
Securities lending income	8,737	134,520	17,400	293,286
Less securities lending expenses	(5,384)	(56,544)	(3,668)	(48,354)
Net securities lending income	14,121	191,064	21,068	341,640
Total additions	67,297,080	419,879,481	100,454,476	549,295,647
Deductions:				
Benefits paid to participants	134,718,464	126,484,335	-	-
Partial lump-sum distributions	532,104	951,229	-	-
Refunds	2,479,194	2,210,738	-	-
Administrative charges	1,596,976	2,003,705	529,383	897,242
Total deductions	139,326,738	131,650,007	529,383	897,242
Net change in net assets resulting from operations	(72,029,658)	288,229,474	99,925,093	548,398,405
Unit transactions at net asset value of $1.00 per unit:				
Purchase of units	-	-	716,465,386	214,994,890
Redemption of units	-	-	(280,508,738)	(278,091,444)
Net change in assets and units resulting from unit transactions	-	-	435,956,648	(63,096,554)
Total change in net assets	(72,029,658)	288,229,474	535,881,741	485,301,851
Net assets:				
Beginning of year	1,726,179,317	$ 1,437,949,843	$ 3,863,622,894	$ 3,378,321,043
End of Year	$ 1,654,149,659	$ 1,726,179,317	$ 4,399,504,635	$ 3,863,622,894

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

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

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

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

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

Fund Financial Statement

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Fiduciary Fund

A pension trust fund and investment trust funds have been established to account for the assets held by RIO in a trustee capacity for TFFR and as an agent for other governmental units or funds which have placed certain investment assets under the management of SIB. The SIB manages two external investment pools and one individual investment account. The two external investment pools consist of a pension pool and insurance pool. SIB manages the investments of the North Dakota Public Employees Retirement System, Job Service of North Dakota, Bismarck City Employees and Police, City of Fargo Employees, City of Grand Forks Employees and Grand Forks Parks Employees pension plans in the pension pool.

The investments of Workforce Safety and Insurance, State Fire & Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Health Care Trust (closed at year-end), North Dakota Association of Counties Fund, Risk Management, Risk Management Workers Comp, PERS Group Insurance, City of Bismarck Deferred Sick Leave, City of Fargo FargoDome Permanent Fund, Cultural Endowment Fund, Department of Public Instruction (DPI) National Board Certification Fund (closed during the fiscal year), Legacy Fund and Budget Stabilization Fund are managed in the insurance pool. PERS Retiree Health investments are managed by SIB in an individual investment account.

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

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

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

Use of Estimates

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

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

Budgetary Process

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

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

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

Capital Assets and Depreciation

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

	Years
Office equipment	5
Furniture and fixtures	5

Investments

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

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

Pooled Investments

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

Investment Valuation and Income Recognition

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

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

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

Accumulated Leave

Annual leave for permanent employees of the state of North Dakota is a part of their compensation as set forth in Section 54-06-14 of the NDCC. Employees earn leave based on tenure of employment. Sick leave is also part of permanent employees' compensation as set forth in Section 54-52-04 of the NDCC. Accrued leave amounted to \$136,458 and \$129,737 at June 30, 2012 and 2011, respectively. The current portions of accrued leave amounted to \$69,848 and \$70,469 at June 30, 2012 and 2011, respectively, and are included in accrued expenses of the Fiduciary Funds in the statements of net assets.

Changes in accrued leave for the years ended June 30, 2012 and 2011 consisted of the following:

Balance, July 1, 2010	$107,984
Additions	84,726
Deductions	(62,973)
Balance, June 30, 2011	129,737
Additions	82,071
Deductions	(75,350)
Balance, June 30, 2012	$136,458

Note 2 - Cash and Cash Equivalents

Custodial Credit Risk

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, "[a]ll state funds … must be deposited in the Bank of North Dakota" or must be deposited in accordance with constitutional and statutory provisions.

Pension Trust Fund

Deposits held by the Pension Trust Fund at June 30, 2012 and 2011 were deposited in the Bank of North Dakota. At June 30, 2012 and 2011, the carrying amount of TFFR's deposits was $14,370,170 and $12,365,575, respectively, and the bank balance was $14,380,332 and $12,377,252 respectively. The difference results from checks outstanding or deposits not yet processed by the bank. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

Investment Trust Funds

Certificates of deposit and an insurance trust cash pool are recorded as investments and have a cost and carrying value of $146,245,136 and $188,347,945 at June 30, 2012 and 2011, respectively. In addition these funds carry cash and cash equivalents totaling $152,772 and $153,724 at June 30, 2012 and 2011, respectively. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits held at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

Note 3 - Investments

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

Securities Lending

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

Interest Rate Risk

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

At June 30, 2012 and 2011, the following tables show the investments by investment type and maturity (expressed in thousands).

2012	Total Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years	Maturity not Determined
Asset Backed Securities	$ 102,356	$ -	$ 48,669	$ 12,196	$ 41,491	$ -
Bank Loans	8,174	-	6,647	1,527	-	-
Collateralized Bonds	467	-	-	467	-	-
Commercial Mortgage-Backed	51,641	210	216	-	51,215	-
Commercial Paper	148,695	148,695	-	-	-	-
Corporate Bonds	654,246	37,542	300,508	149,223	166,928	45
Corporate Convertible Bonds	28,737	8,096	8,126	5,265	7,250	-
Government Agencies	122,362	6,385	85,036	16,639	14,302	-
Government Bonds	328,043	17,257	170,222	64,109	76,455	-
Gov't Mortgage Backed and CMB	457,941	-	3,530	27,893	426,518	-
Guaranteed Fixed Income	4,058	4,058	-	-	-	-
Index Linked Government Bonds	2,664	-	-	-	2,664	-
Municipal/Provincial Bonds	22,267	879	9,407	687	11,294	-
Non-Government Backed CMOs	29,353	-	6,277	5,441	17,635	-
Other Fixed Income	5,089	251	4,838	-	-	-
Short Term Bills and Notes	11,909	11,909	-	-	-	-
Funds/Pooled Investments	645,416	67,902	285,942	121,849	169,723	-
Total Debt Securities	$ 2,623,418	$ 303,184	$ 929,418	$ 405,296	$ 985,475	45

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

In the table above, the fair values of inflation indexed bonds are reflected in the columns based on their stated maturity dates. The principal balances of these bonds are adjusted every six months based on the inflation index for that period.

Some investments are more sensitive to interest rate changes than others. Variable and floating rate collateralized mortgage obligations (CMOs), asset-backed securities (ABS), interest-only and principal-only securities are examples of investments whose fair values may be highly sensitive to interest rate changes.

Interest-only (IO) and principal-only (PO) strips are transactions which involve the separation of the interest and principal components of a security. They are highly sensitive to prepayments by mortgagors, which may result from a decline in interest rates. The SIB held IOs valued at $4.8 million and $4.7 million, and POs valued at $3.2 million and $3.8 million at June 30, 2012 and 2011 respectively. The SIB has no policy regarding IO or PO strips.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Investment Board maintains a highly diversified portfolio of debt securities encompassing a wide range of credit ratings. Although the SIB has no overall policy regarding credit risk, each debt securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit the manager may invest. These ranges include investment grade and high yield categories. The following tables present the SIB's ratings as of June 30, 2012 and 2011 (expressed in thousands).

2012	Total Fair Value	A-1	A-2	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
		Credit Rating*												
Asset Backed Securities	$ 102,356	$ -	$ -	$ 66,546	$ 21,144	$ 5,400	$ 3,975	$ 959	$ 816	$ 3,382	$ 129	$ -	$ 5	$ -
Bank Loans	8,174	-	-	-	-	-	1,690	4,634	1,850	-	-	-	-	-
Collateralized Bonds	467	-	-	467	-	-	-	-	-	-	-	-	-	-
Commercial Mortgage Backed	51,641	-	-	33,073	4,007	11,746	2,752	63	-	-	-	-	-	-
Commercial Paper	148,695	6,499	142,196	-	-	-	-	-	-	-	-	-	-	-
Corporate Bonds	654,246	-	-	1,129	31,044	154,661	329,180	74,848	38,781	19,594	1,264	295	2,851	599
Corporate Convertible Bonds	28,737	-	-	-	-	9,407	-	5,359	10,241	3,730	-	-	-	-
Gov't Agencies	115,457	-	-	4,643	98,647	8,076	4,091	-	-	-	-	-	-	-
Gov't Bonds	65,005	-	-	7,479	5,142	31,203	15,591	5,590	-	-	-	-	-	-
Gov't Issued Commercial & Gov't Mortgage Backed	360,427	-	-	-	360,427	-	-	-	-	-	-	-	-	-
Guaranteed Fixed Income	4,058	-	-	-	4,058	-	-	-	-	-	-	-	-	-
Index Linked Corporate Bonds	1,117	-	-	-	-	-	1,117	-	-	-	-	-	-	-
Municipal/Provincial Bonds	22,267	-	-	5,080	7,726	6,961	896	725	-	-	-	-	-	879
Non-Gov't Backed CMOs	29,353	-	-	18,110	1,437	1,586	1,931	554	1,084	3,750	854	-	47	-
Other Fixed Income	5,089	-	-	5,089	-	-	-	-	-	-	-	-	-	-
Funds/Pooled Investments	645,416	-	-	88,548	331,989	54,842	2,609	13,303	150,277	-	-	-	-	3,848
Total Credit Risk of Debt Securities	2,242,505	$ 6,499	$ 142,196	$ 230,164	$ 865,621	$ 283,882	$ 363,832	$ 106,035	$ 203,049	$ 30,456	$ 2,247	$ 295	$ 2,903	$ 5,326
US Gov't & Agencies **	380,913													
Total Debt Securities	$ 2,623,418													

2011	Total Fair Value	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
		Credit Rating*										
Asset Backed Securities	$ 32,332	$ 12,757	$ 5,347	$ 2,923	$ 5,118	$ 333	$ 2,505	$ 2,991	$ 184	$ -	$ 174	$ -
Bank Loans	6,481	-	-	-	922	3,338	1,786	435	-	-	-	-
Commercial Mortgage Backed	35,795	26,774	2,654	4,647	1,651	69	-	-	-	-	-	-
Corporate Bonds	644,800	3,735	40,827	165,601	310,264	62,240	42,149	14,095	2,237	210	3,215	227
Corporate Convertible Bonds	59,474	590	4,448	14,314	6,311	10,579	13,493	9,739	-	-	-	-
Gov't Agencies	71,498	55,965	3,660	8,416	3,457	-	-	-	-	-	-	-
Gov't Bonds	186,165	140,409	2,948	26,425	9,906	6,068	326	83	-	-	-	-
Gov't Mortgage and Commercial Mortgage Backed	2,761	2,761	-	-	-	-	-	-	-	-	-	-
Guaranteed Fixed Income	4,498	4,498	-	-	-	-	-	-	-	-	-	-
Index Linked Gov't Bonds	3,409	2,222	-	-	-	1,187	-	-	-	-	-	-
Municipal/Provincial Bonds	25,327	7,854	4,868	9,531	1,002	2,072	-	-		-	-	-
Non-Gov't Backed CMOs	49,026	23,098	3,849	3,903	3,246	1,704	2,773	8,855	250	1	1,347	-
Short Term Bills and Notes	480	480	-	-	-	-	-	-		-	-	-
Other Fixed Income	977	977	-							-	-	
Pooled Investments	655,037	198,626	330,311	1,872	105,338	6,475	12,415	-	-	-	-	-
Total Credit Risk of Debt Securities	1,778,060	$ 480,746	$ 398,912	$ 237,632	$ 447,215	$ 94,065	$ 75,447	$ 36,198	$ 2,671	$ 211	$ 4,736	$ 227
US Gov't & Agencies	229,361											
Total Debt Securities	$ 2,007,421											

* Ratings are determined in the following order:

1. S&P rating
2. Moody's rating
3. Fitch rating
4. Manager-determined rating (internal rating)
5. If no ratings available using steps 1-4, then shown as not rated.

** US government agency securities explicitly guaranteed by the US government are categorized here. Credit ratings of US government agency securities that are only implicitly guaranteed by the US government are categorized accordingly in the main body of this table.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Although the SIB does not have a formal investment policy governing foreign currency risk, the SIB does manage its exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios to limit foreign currency and security risk. The SIB's exposure to foreign currency risk is presented in the following tables as of June 30, 2012 and 2011 (expressed in thousands).

2012

Currency	Short-Term	Debt	Equity	Total
Australian dollar	$ (11,683)	$ 11,796	$ 13,446	$ 13,559
Brazilian real	217	5,362	77	5,656
British pound sterling	6,868	7,480	64,386	78,734
Canadian dollar	338	1,249	4,004	5,591
Chilean peso	3,152	-	-	3,152
Czech koruna	136	1	-	137
Israeli shekel	21	-	1,234	1,255
Danish krone	37	-	1,600	1,637
Euro	(7,385)	3,435	98,386	94,436
Hong Kong dollar	36	-	7,471	7,507
Hungarian forint	197	3,966	-	4,163
Iceland krona	30	-	-	30
Indian rupee	-	-	-	-
Indonesian Rupiah	-	-	-	-
Japanese yen	(3,317)	-	50,209	46,892
Malaysian Ringgit	-	4,222	-	4,222
Mexican peso	200	12,493	-	12,693
New Zealand dollar	(2,382)	3,330	-	948
Norwegian krone	514	6	4,425	4,945
Philippine peso	-	2,251	-	2,251
Polish zloty	301	5,756	-	6,057
Singapore dollar	405	1	3,160	3,566
South African rand	56	3,967	-	4,023
South Korean won	-	4,428	572	5,000
Swedish krona	394	1	7,034	7,429
Swiss franc	-	-	19,809	19,809
Thai baht	-	-	-	-
Turkish lira	(307)	4,774	-	4,467
International commingled funds (various currencies)	-	94,744	280,732	375,476
Total international investment securities	$ (12,172)	$ 169,262	$ 556,545	$713,635

2011

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

Derivative Securities

Derivatives are financial arrangements between two parties whose payments are based on, or “derived” from, the performance of some agreed upon benchmark. The investment policies of the SIB’s clients allow the use of derivative securities to hedge or replicate underlying exposures but not for speculation. All derivatives are considered investment derivative instruments. The fair value of all derivative securities is reported in the Statements of Net Assets. At June 30, 2012 and 2011, the SIB had four types of derivative securities: futures, options, swaps and currency forwards.

Futures

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specific price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the SIB’s counterparty risk. The net change in the futures contracts’ value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included in net change in fair value of investments in the Statement of Changes in Net Assets and totaled $(35.0) million for fiscal year 2012 and $156.5 million for fiscal year 2011. At June 30, 2012 and 2011, the SIB investment portfolio had the notional futures balances shown below (expressed in thousands).

Futures	Notional Value	
	June 30, 2012	June 30, 2011
Cash & Cash Equivalent Derivative Futures		
Long	$ 188,297	$ 140,245
Short	(117,655)	(130,777)
Equity Derivative Futures		
Long	411,726	529,063
Short	-	-
Fixed Income Derivative Futures		
Long	4,710	13,821
Short	(31,035)	(94,484)
Total Futures	$ 456,043	$ 457,868

Options

Options represent or give buyers the right, but not the obligation, to buy (call) or sell (put) an asset at a preset price over a specified period. Options are traded on organized exchanges (exchange traded) thereby minimizing the SIB’s counterparty credit risk. The option’s price is usually a small percentage of the underlying asset’s value. As a seller of a financial option, the SIB, through its investment manager, receives a premium at the beginning of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a buyer of a financial option, the SIB, through its investment manager, pays a premium at the beginning of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Gains and losses on options are determined based on fair values and recorded with the net change in fair value of investments in the Statement of Changes in Net Assets and totaled $0.4 million for fiscal year 2012 and $(1.8) million for fiscal year 2011. At June 30, 2012 and 2011, the SIB investment portfolio had the following option balances (expressed in thousands).

Options	Fair Value June 30, 2012	Fair Value June 30, 2011
Cash & Cash Equivalent Options		
Call	$ -	$ -
Put	1	-
Equity Options		
Call	-	-
Put	-	-
Fixed Income Options		
Call	-	-
Put	5	-
Total Options	$ 6	$ -

Swaps

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

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

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

Gains and losses on swaps are determined based on fair values and are recorded with the net change in fair value of investments in the Statement of Changes in Net Assets and totaled $921 thousand for fiscal year 2012 and $(201) thousand for fiscal year 2011. The maximum loss that would be recognized at June 30, 2012 and 2011, if all counterparties failed to perform as contracted is $1.75 million and $1.25 million respectively. Swap fair values are determined by a third party pricing source. At June 30, 2012 and 2011, the SIB's investment portfolio had the swap fair value balances as shown below (expressed in thousands).

Credit Default Swaps

Counterparty/Moody's Rating	Notional Amount	Expiration Date	Fair Value June 30, 2012	Fair Value June 30, 2011
Deutsche Bank AG New York/Aa3	$ 45	3/20/2014	$ -	$ (8)
Deutsche Bank AG New York/Aa3	120	9/20/2013	-	1
Deutsche Bank AG New York/Aa3	75	3/20/2012	-	(2)
JP Morgan Chase Bank N.A./Aa3 (3 contracts)	11,000	10/12/2052	396	-
JP Morgan Chase Bank N.A./Aa3	400	3/20/2017	12	-
JP Morgan Chase Bank N.A./Aa3 (3 contracts)	12,700	6/20/2017	73	-
Deutsche Bank AG New York/A2	45	3/20/2014	(5)	-
Deutsche Bank AG New York/A2	120	9/20/2013	-	-
Morgan Stanley Cap Services NY/Baa1 (3 contracts)	300	3/20/2013	2	-
Citibank N.A. NY/A3	2,000	6/20/2017	68	-
Total Credit Default Swaps	$ 26,805		$ 546	$ (9)

Interest Rate Swaps

Counterparty	Notional Amount	Rate Range	Counterparty Rate	Expiration Date Range	Counterparty Rating (Moody's)	Fair Value June 30, 2012	Fair Value June 30, 2011
Barclays Bank PLC London (15 contracts)	(3,348)	0.283% to 7.130%	Various overnight bank rates depending on currency	12/2011 - 06/2021	Aa3		(19)
Barclays Bank PLC New York (13 contracts)	6,047	0.359% to 5.750%		08/2012 - 02/2022	A2	8	
Barclays Capital Securities London (7 contracts)	(1,229)	0.329% to 5.665%		01/2012 - 08/2020	Aa3		(5)
Barclays Capital Securities London (7 contracts)	3,124	1.10% to 6.60%		02/2013 - 02/2022	A2	20	
Citibank N.A. New York (10 contracts)	(2,193)	0.430% to 3.763%		01/2012 - 02/2021	A1		(138)
Citibank N.A. New York (11 contracts)	5,426	0.62% to 7.70%		11/2012 - 06/2022	A3	151	
Deutsche Bank Singapore (1 contract)	316	0.345%		7/21/2012	A2	(0)	
HSBC Bank USA New York (1 contract)	190	3.810%		1/3/2028	A1	75	
JP Morgan Chase Bank N.A. (4 contracts)	(4,109)	0.913% to 6.380%		07/2012 - 01/2028	Aa3	(8)	
Morgan Stanley Capital Services NY (1 contract)	290	6.370%		5/25/2022	Baa1	11	
Morgan Stanley Capital Services NY (5 contracts)	504	2.510% to 5.110%		02/2012 - 06/2021	A2		(115)
Total Interest Rate Swaps	$ 5,018					$ 257	$ (277)

Currency Forwards

Currency forwards represent forward exchange contracts that are entered into in order to manage the exposure to changes in currency exchange rates on the currency denominated portfolio holdings. A forward exchange contract is a commitment to purchase or sell a currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net change in fair value of investments in the Statement of Changes in Net Assets and totaled $0.9 million for fiscal year 2012 and $(12.9) million for fiscal year 2011. At June 30, 2012 and 2011, the SIB's investment portfolio included the currency forwards balances shown below (expressed in thousands).

				Fair Value	
Currency	Cost	Purchases	Sales	6/30/2012	6/30/2011
Australian dollar	$ (9,459)	$ 878	$ (10,337)	$ (9,486)	$ (9,842)
Brazilian real	4	2,684	(2,680)	217	(3,802)
British pound sterling	7,098	7,562	(464)	7,108	6,070
Canadian dollar	298	980	(682)	300	(1,554)
Chilean peso	3,206	3,206	-	3,152	-
Chinese yuan renminbi	-	-	-	-	4,033
Czech koruna	141	658	(517)	132	388
Euro	(3,514)	181	(3,695)	(3,451)	(2,400)
Hungarian forint	193	405	(212)	197	540
Japanese yen	(1,873)	-	(1,873)	(1,859)	(492)
Mexican peso	189	714	(525)	199	195
New Zealand dollar	(2,261)	632	(2,893)	(2,382)	(2,931)
Norwegian krone	269	1,084	(815)	263	495
Polish zloty	299	598	(299)	300	251
Singapore dollar	364	1,178	(814)	367	2,519
South African rand	63	665	(602)	55	282
Swedish krona	197	562	(365)	205	494
Swiss franc	-	-	-	-	83
Turkish lira	3,940	4,702	(762)	3,919	3,681
United States dollar	843	27,532	(26,689)	843	1,254
Total forwards subject to currency risk				$ 79	$ (736)

Derivative Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an interest rate-based derivative investment. The SIB does not have a formal investment policy regarding such derivative investments. At June 30, 2012 and 2011, the tables below show the SIB's derivative investments subject to interest rate risk (expressed in thousands).

2012

	Total Notional Value	3 months or less	3 to 6 months	6 to 12 months	1-5 years	Greater than 5 years
Futures-interest rate contracts	$ (151,319)	$ (98,853)	$ (2,736)	$ (42,526)	$ (7,204)	$ -

	Total Fair Value	3 months or less	3 to 6 months	6 to 12 months	1-5 years	Greater than 5 years
Options on interest rate futures	$ 6	$ -	$ 6	$ -	$ -	$ -
Swaps - interest rate contracts	257	6	4	16	30	201
Total	$ 263	$ 6	$ 10	$ 16	$ 30	$ 201

2011

	Total Notional Value	3 months or less	3 to 6 months	6 to 12 months	1-5 years	Greater than 5 years
Futures-interest rate contracts	$ (212,302)	$ (123,551)	$ (88,751)	$ -	$ -	$ -

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

Alternative Investments

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

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

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

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

Buyouts — these include investments in funds that seek out and purchase underperforming or undervalued companies in order to improve them and sell them or take them public many years later. These funds are also often involved in management buyouts, which are buyouts conducted by the management of the company being purchased, and they often play key roles in leveraged buyouts, which are buyouts that are funded with borrowed money.

Distressed Debt — these include investments in the debt instruments of companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments, mortgages and bank loans. The SIB is including these types of investments in its private equity asset class.

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

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

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

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

Timberland — includes investments in limited liability companies that have an ownership interest in properties where the value of the property is derived mainly from income-producing timber but also from the "higher and better use" value of the underlying land. The SIB has a dedicated asset class for these types of investments.

Infrastructure — includes investments in limited partnerships that have an ownership interest in transportation assets such as toll roads, tunnels and bridges; and regulated assets such as electricity transmission, gas and oil distribution and wastewater collection. Other possible investments would include communication assets and social infrastructure. The SIB has a dedicated asset class for these types of investments.

Securities Lending

The following represents the balances relating to the securities lending transactions at June 30, 2011 (expressed in thousands). There was no securities lending program in place for the year ended June 30, 2012.

June 30, 2011 **Securities Lent**	**Underlying Securities**	**Non-Cash Collateral Value**	**Cash Collateral Investment Value**
Lent for cash collateral:			
US agency securities	$ -	$ -	$ -
US government securities	-	-	-
US corporate fixed income securities	-	-	-
Global government fixed income securities	-	-	-
US equities	< 1	-	14
Global equities	-	-	-
Lent for non-cash collateral:			
US agency securities	-	-	-
US government securities	-	-	-
US corporate fixed income securities	-	-	-
US equities	-	-	-
Global equities	-	-	-
Total	< 1	$ -	$ 14

Note 4 - Capital Assets

	June 30, 2010	Additions	Retirements	June 30, 2011	Additions	Retirements	June 30, 2012
Office equipment	$33,911	$ -	$ (14,590)	$19,321	$ -	$0	$19,321
Less accumulated depreciation on office equipmer	(28,573)	(2,288)	14,590	(16,271)	(2,288)	-	(18,559)
Software	1,213,500	-	-	1,213,500	-	-	1,213,500
Less accumulated depreciation on software	(1,152,825)	(60,675)	-	(1,213,500)	-	-	(1,213,500)
	$66,013			$3,050			$762

Note 5 - State Agency Transactions

Due From/To Other State Agencies

Amounts due from/to other state agencies are as follows as of June 30, 2012 and 2011:

	2012	2011
Due To		
Information Technology Department	$ 6,234	$ 7,194
Office of Attorney General	1,336	1,439
Office of Management and Budget	9,750	3,843
Total due to other state agencies	$ 17,320	$ 12,476
Due From		
Public Employees Retirement System	$ 1,461	$ -
Total due from other state agencies	$ 1,461	$ -

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

Note 6 - Operating Leases

RIO leases office space under an operating lease effective July 1, 2011 through June 30, 2013. RIO also incurs rent expense at other locations on a temporary basis to sponsor retirement education for TFFR members. Rent expense totaled $77,983 and $76,104 for fiscal 2012 and 2011. Minimum payments under the lease for fiscal 2013 are $76,351.

Note 7 - Changes in Noncurrent Liabilities

Changes in noncurrent liabilities for the years ended June 30, 2012 and 2011 are summarized as follows:

	Beginning Balance 7/1/2011	Additions	Reductions	Ending Balance 6/30/2012	Amounts Due Within One Year
Accrued Leave	129,737	82,071	(75,350)	136,458	69,848

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

Pension and Investment Trust Funds liquidate the accrued annual leave.

Note 8 - North Dakota Teachers' Fund for Retirement

General

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

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

Membership

As of June 30, 2012 and 2011, the number of participating employer units was 222 and 226, respectively, consisting of the following:

	2012	2011
Public School Districts	180	181
County Superintendents	8	9
Special Education Units	19	21
Vocational Education Units	5	5
Other	10	10
Total	222	226

TFFR's membership consisted of the following:

TFFR Membership	2012	2011
Retirees and beneficiaries currently receiving benefits	7,151	6,933
Terminated employees - vested	1,483	1,463
Terminated employees - nonvested	468	407
Total	9,102	8,803
Current employees		
Vested	7,570	8,013
Nonvested	2,444	1,991
Total	10,014	10,004

Investments

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

Realized Gains and Losses

Realized gains and losses on sales of investments are components of net appreciation in fair value of investments and are computed as described in Note 1. For the years ended June 30, 2012 and 2011, TFFR had net realized gains of $10,017,507 and $103,985,143 respectively.

Investment Expenses

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

Member and Employer Contributions

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

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

Pension Benefits

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

Tier 1

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

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

Tier 2

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

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

Death and Disability Benefits

Death benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are determined by the member's vesting status prior to death. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated one year of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and assuming the member has a minimum of 20 years of credited service. There is no actuarial reduction for reason of disability retirement. (Note: Legislation approved in 2011 will modify disability eligibility requirements and benefit calculations effective 7/1/2013.)

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
2012	$ 1,748.1	$ 2,871.9	$ 1,123.8	60.9%	$ 505.3	222.4%

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

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

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

Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2012	July 1, 2011
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent of payroll, assuming payroll increases of 3.25% per annum	Level percent of payroll, assuming payroll increases of 3.25% per annum
Amortization period	30-year open period	30-year open period
Asset valuation method	Market value of assets less unrecognized returns in each of last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the actuarial value, and is recognized over a five-year period.	Market value of assets less unrecognized returns in each of last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the actuarial value, and is recognized over a five-year period.
Actuarial assumptions:		
Investment rate of return	8.00%	8.00%
Projected salary increases	4.50% to 14.75%	4.50% to 14.75%
Inflation	3.00%	3.00%
Cost of living adjustments	None	None

TFFR Plan Changes Affecting Audit Period

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

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

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

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

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

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

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

Note 9 - Public Employees Retirement System (PERS)

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

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

RIO is required to contribute to PERS at an actuarially determined rate for permanent employees. The current contribution rate (as of January 1, 2012) is 9.12% of annual covered payroll as established by the NDCC. Prior to that date the contribution rate was 8.12%. RIO's contributions to PERS for the years ended June 30, 2012, 2011, and 2010, were $102,664, $84,091, and $82,788, equal to the required contributions for each year plus a 1.14% contribution for retiree health benefits.

Note 10 - Related Parties

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

Note 11 - Commitments

The State Investment Board has at June 30, 2012 committed to fund certain alternative investment partnerships in the amount of $1.13 billion. Funding of $802.7 million has been provided leaving an unfunded commitment of approximately $325.4 million.

Note 12 - Pending Litigation

WG Trading

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

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

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

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

Tribune

The SIB has been listed as a defendant in a putative defense class action originally filed in the United States Bankruptcy Court for the District of Delaware, styled The Official Committee of Unsecured Creditors of Tribune Company v. Fitzsimmons, et al., Bankr. Case No. 10-54010 (the "Adversary Proceeding"), and subsequently transferred to a multi-district litigation proceeding in the United States District Court for the Southern District of New York, Case Nos. 12-cv-02652, and 11-md-02296.

The Adversary Proceeding arises out of a leveraged buyout by which the Tribune Company converted to a privately held company in 2007 pursuant to which beneficial owners of Tribune stock were paid $34 a share. The Official Committee of Unsecured Creditors (the "Committee") contends that there was misconduct in connection with that offering, including fraud. No such allegations have been made against the SIB. Nevertheless, the Committee seeks to recover the payments made pursuant to the offering to beneficial owners, allegedly including the SIB (among thousands of other putative shareholder defendants) in connection with the leveraged buyout. The SIB's records indicate that it received, in the aggregate, $1,003,000 in Tribune leveraged buyout payments, comprised of two separate payments.

The Committee purportedly served the SIB with a copy of the summons and complaint in the Adversary Proceeding on or about February 13, 2012. In large part, however, the Adversary Proceeding has been stayed from its inception, and no substantive motions or answers have been filed by the SIB or any other defendant in response to the complaint. The Court has preliminary indicated that motion to dismiss briefing will be due in November 2012, with a hearing sometime in March 2013. Under the circumstances, we are not able to assess the likelihood of a loss to the State or predict the probability of a favorable or unfavorable outcome or the amount of potential loss, in the event of an unfavorable outcome.

SUPPLEMENTARY INFORMATION

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

Actuarial Valuation Date July 1	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (Funded Excess)	Funded Ratio	Annual Covered Payroll	UAAL (Funded Excess) as a Percentage of Annual Covered Payroll
2007	$1,750.1	$2,209.3	$ 459.2	79.2%	$401.3	114.4%
2008	1,909.5	2,330.6	421.1	81.9	417.7	100.8
2009	1,900.3	2,445.9	545.6	77.7	440.0	124.0
2010	1,842.0	2,637.2	795.2	69.8	465.0	171.0
2011	1,822.6	2,749.8	927.2	66.3	488.8	189.7
2012	1,748.1	2,871.9	1,123.8	60.9	505.3	222.4

Schedule of Employer Contributions
North Dakota Teachers' Fund for Retirement

	GASB 25 Annual Required Contribution (ARC)		Actual Employer Contributions		Percentage of GASB ARC Contributed
Fiscal Year	% of Payroll[1]	Amount[2]	% of Payroll	Amount	
2007	12.29%	$ 50,532,462	7.75%	$ 31,865,466	63.1%
2008	10.15%	44,114,585	7.75%	33,683,550	76.4%
2009	9.24%	41,986,174	8.25%	37,487,655	89.3%
2010	10.78%	52,053,217	8.25%	39,836,646	76.5%
2011	12.79%	65,112,696	8.75%	44,545,433	68.4%
2012	13.16%	69,373,794	8.75%	46,126,193	66.5%

1. The GASB ARC for each fiscal year is based on the actuarial valuation as of the beginning of the year. Therefore, the FY2012 ARC is based on the July 1, 2011 valuation. The ARC is defined as the contribution rate required to pay the employer normal cost and to amortize the unfunded actuarial accrued liability over a 30-year period as a level percentage of payroll, but not less than the statutory contribution rate.

2. The dollar amount of the ARC is based on actual payroll for the year. The FY2012 ARC shown above differs from the estimated dollar amount shown in the July 1, 2011 actuarial valuation report because of differences between estimated and actual FY2012 payroll.

THIS PAGE LEFT INTENTIONALLY BLANK

	Pension Pool Participants							Insurance Pool Participants			
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	Job Service of North Dakota	City of Fargo Employee Pension Plan	City of Grand Forks Employee Pension Plan	City of Grand Forks Park District	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund
Assets:											
Investments											
Equities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Equity pool	890,663,278	27,342,251	13,174,506	34,308,190	15,970,037	24,097,344	2,666,215	275,288,439	8,563,036	-	-
Fixed income	-	-	-	-	-	-	-	-	-	-	-
Fixed income pool	404,805,375	19,734,123	7,403,755	50,097,236	7,036,817	10,438,691	1,102,504	1,039,343,979	13,422,707	1,658,363	3,333,169
Real assets pool	344,423,175	12,947,067	4,905,930	-	4,569,923	6,360,775	430,221	95,897,221	-	-	-
Private equity pool	103,233,766	640,767	823,410	-	1,593,469	2,230,176	245,202	-	-	-	-
Cash pool	28,494,539	502,582	260,798	284,806	425,720	826,921	54,165	14,199,479	2,408,042	1,370,919	3,372,174
Total investments	1,771,620,133	61,166,790	26,568,399	84,690,232	29,595,966	43,953,907	4,498,307	1,424,729,118	24,393,785	3,029,282	6,705,343
Invested sec lending collateral	-	-	-	-	-	-	-	-	-	-	-
Investment income receivable	2,692,043	26,690	23,238	63,276	(36,514)	(9,727)	(2,930)	9,979,790	129,089	26,945	58,092
Operating Cash	66,326	-	-	-	-	-	-	53,797	988	1,117	1,015
Miscellaneous receivable	4,369	-	-	-	-	-	-	3,441	59	7	16
Total assets	1,774,382,871	61,193,480	26,591,637	84,753,508	29,559,452	43,944,180	4,495,377	1,434,766,146	24,523,921	3,057,351	6,764,466
Liabilities:											
Investment expenses payable	2,089,183	75,461	32,581	69,349	35,545	52,570	4,292	936,846	19,874	941	1,902
Securities lending collateral	-	-	-	-	-	-	-	-	-	-	-
Accounts payable	12,705	-	-	-	-	-	-	9,544	167	20	46
Accrued expenses	24,906	-	-	-	-	-	-	19,414	359	42	114
Miscellaneous payable	-	2,277	1,001	3,275	1,141	1,465	250	-	-	-	-
Due to other state agencies	1,521	-	-	-	-	-	-	1,198	21	3	6
Total liabilities	2,128,315	77,738	33,582	72,624	36,686	54,035	4,542	967,002	20,421	1,006	2,068
Net assets held in trust for external investment pool participants	$ 1,772,254,556	$ 61,115,742	$ 26,558,055	$ 84,680,884	$ 29,522,766	$ 43,890,145	$ 4,490,835	$ 1,433,799,144	$ 24,503,500	$ 3,056,345	$ 6,762,398
Each participant unit is valued at $100											
Participant units outstanding	1,772,254,556	61,115,742	26,558,055	84,680,884	29,522,766	43,890,145	4,490,835	1,433,799,144	24,503,500	3,056,345	6,762,398

North Dakota Retirement and Investment Office

Combining Statement of Net Assets – Investment Trust Funds – Fiduciary Funds

June 30, 2012 (with Comparative Totals for 2011)

Insurance Pool Participants										Individual Investment Acct.		
Insurance Regulatory Trust Fund	Cultural Endowment Fund	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n. of Counties Fund	PERS Group Insurance	Budget Stabilization Fund	Legacy Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	PERS Retiree Health Credit Fund	Totals 2012	Totals 2011
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 36,131,488	$ 36,131,488	$ 34,084,756
289,174	156,681	1,586,358	1,894,470	493,924	-	-	-	276,579	16,003,559	-	1,312,774,041	1,411,952,870
-	-	-	-	-	-	383,678,688	397,275,464	-	-	25,920,425	806,874,577	22,935,906
332,773	105,304	3,276,241	2,966,252	945,998	-	-	-	603,062	15,775,794	-	1,582,382,143	2,005,016,528
-	13,966	-	-	-	-	-	-	-	-	-	469,548,278	196,439,719
-	-	-	-	-	-	-	-	-	-	-	108,766,790	67,591,681
331,606	8,150	254,671	147,249	210,472	6,899,785	8,940,825	38,124	45,332	277,854	-	69,354,213	116,312,551
953,553	284,101	5,117,270	5,007,971	1,650,394	6,899,785	392,619,513	397,313,588	924,973	32,057,207	62,051,913	4,385,831,530	3,854,334,011
-	-	-	-	-	-	-	-	-	-	-	-	13,600
8,819	83	49,270	6,621	1,987	19	2,447,112	1,691,686	1,501	30,127	67,527	17,254,744	12,821,803
874	361	979	1,004	-	-	13,524	12,787	-	-	-	152,772	153,724
2	1	11	10	-	-	948	642	-	-	-	9,506	12,232
963,248	284,546	5,167,530	5,015,606	1,652,381	6,899,804	395,081,097	399,018,703	926,474	32,087,334	62,119,440	4,403,248,552	3,867,335,370
614	265	3,938	4,131	1,244	-	119,850	129,089	736	34,467	37,054	3,649,932	3,573,700
-	-	-	-	-	-	-	-	-	-	-	-	13,600
8	2	31	28	-	-	2,482	1,681	-	-	-	26,714	54,288
15	4	62	53	-	-	3,629	1,827	-	-	-	50,425	51,601
-	-	-	-	250	250	-	-	250	1,203	2,175	13,537	18,091
-	-	4	3	-	-	330	223	-	-	-	3,309	1,196
637	271	4,035	4,215	1,494	250	126,291	132,820	986	35,670	39,229	3,743,917	3,712,476
$ 962,611	$ 284,275	$ 5,163,495	$ 5,011,391	$ 1,650,887	$ 6,899,554	$ 394,954,806	$ 398,885,883	$ 925,488	$ 32,051,664	$ 62,080,211	$ 4,399,504,635	$ 3,863,622,894
962,611	284,275	5,163,495	5,011,391	1,650,887	6,899,554	394,954,806	398,885,883	925,488	32,051,664	62,080,211	4,399,504,635	3,863,622,894

	Pension Pool Participants							Insurance Pool Participants				
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	Job Service of North Dakota	City of Fargo Employee Pension Plan	City of Grand Forks Employee Pension Plan	City of Grand Forks Park District	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund
Additions:												
Investment income:												
Net change in fair value of investments	$ (40,138,712)	$ 176,642	$ (10,241)	$ 456,149	$ (294,620)	$ (429,165)	$ (60,414)	$ 39,444,727	$ 387,069	$ 80,255	$ 161,701	$ (49,067)
Interest, dividends and other income	43,094,734	1,664,728	673,595	2,908,939	688,900	1,003,146	111,050	47,896,009	819,440	79,056	161,523	43,279
	2,956,022	1,841,370	663,354	3,365,088	394,280	573,981	50,636	87,340,736	1,206,509	159,311	323,224	(5,788)
Less investment expenses	6,284,634	213,743	92,910	264,891	100,760	151,256	14,575	4,683,033	58,902	3,503	7,093	2,259
Net investment income	(3,328,612)	1,627,627	570,444	3,100,197	293,520	422,725	36,061	82,657,703	1,147,607	155,808	316,131	(8,047)
Securities lending activity:												
Securities lending income	10,138	303	143	436	165	227	28	5,619	118	13	25	11
Less Securities lending expenses	(1,505)	(60)	(26)	(73)	(26)	(37)	(6)	(1,749)	(53)	3	7	(9)
Net securities lending income	11,643	363	169	509	191	264	34	7,368	171	10	18	20
Total Additions	(3,316,969)	1,627,990	570,613	3,100,706	293,711	422,989	36,095	82,665,071	1,147,778	155,818	316,149	(8,027)
Deductions:												
Administrative Expenses	265,959	-	-	-	-	-	-	186,926	3,340	990	1,008	996
Net change in net assets resulting from operations	(3,582,928)	1,627,990	570,613	3,100,706	293,711	422,989	36,095	82,478,145	1,144,438	154,828	315,141	(9,023)
Unit transactions at net asset value of $1 per unit:												
Purchase of units	-	6,000,000	1,500,000	-	1,000,000	4,004,185	259,727	24,000,000	-	-	-	-
Redemption of units	(24,500,000)	-	-	(4,137,055)	(575,000)	(3,550,470)	(218,759)	(22,500,000)	(1,800,000)	-	-	(2,700,000)
Net change in net assets and units resulting from unit transactions	(24,500,000)	6,000,000	1,500,000	(4,137,055)	425,000	453,715	40,968	1,500,000	(1,800,000)	-	-	(2,700,000)
Total change in net assets	(28,082,928)	7,627,990	2,070,613	(1,036,349)	718,711	876,704	77,063	83,978,145	(655,562)	154,828	315,141	(2,709,023)
Net assets:												
Beginning of year	1,800,337,484	53,487,752	24,487,442	85,717,233	28,804,055	43,013,441	4,413,772	1,349,820,999	25,159,062	2,901,517	6,447,257	3,671,634
End of year	$ 1,772,254,556	$ 61,115,742	$ 26,558,055	$ 84,680,884	$ 29,522,766	$ 43,890,145	$ 4,490,835	$ 1,433,799,144	$ 24,503,500	$ 3,056,345	$ 6,762,398	$ 962,611
	1,772,254,556	61,115,742	26,558,055	84,680,884	29,522,766	43,890,145	4,490,835	1,433,799,144	24,503,500	3,056,345	6,762,398	962,611

North Dakota Retirement and Investment Office
Combining Statement of Changes in Net Assets – Investment Trust Funds – Fiduciary Funds
Year Ended June 30, 2012 (with Comparative Totals for 2011)

Insurance Pool Participants											Individual Investment Acct.	Totals	
Health Care Trust Fund	Cultural Endowment Fund	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n of Counties Fund	PERS Group Insurance	Budget Stabilization Fund	Legacy Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	DPI Board Certification Fund	PERS Retiree Health Credit Fund	2012	2011
$ -	$ 4,789	$ 188,985	$ 167,998	$ (21,216)	$ -	$ (2,472,612)	$ (50,393)	$ 19,419	$ (25,951)	$ -	$ 163,508	$ (2,301,149)	$ 461,489,827
4,137	8,718	159,639	135,705	53,400	34,885	10,787,170	2,594,368	32,907	972,310	57	1,586,827	115,514,522	100,078,804
4,137	13,507	348,624	303,703	32,184	34,885	8,314,558	2,543,975	52,326	946,359	57	1,750,335	113,213,373	561,568,631
-	890	10,414	9,803	4,749	1,000	396,900	227,390	3,235	101,630	-	146,395	12,779,965	12,614,624
4,137	12,617	338,210	293,900	27,435	33,885	7,917,658	2,316,585	49,091	844,729	57	1,603,940	100,433,408	548,954,007
-	1	23	18	7	-	-	-	5	120	-	-	17,400	293,286
-	(1)	6	4	(4)	-	-	-	(2)	(137)	-	-	(3,668)	(48,354)
-	2	17	14	11	-	-	-	7	257	-	-	21,068	341,640
4,137	12,619	338,227	293,914	27,446	33,885	7,917,658	2,316,585	49,098	844,986	57	1,603,940	100,454,476	549,295,647
742	402	985	987	-	-	50,498	16,360	-	-	190	-	529,383	897,242
3,395	12,217	337,242	292,927	27,446	33,885	7,867,160	2,300,225	49,098	844,986	(133)	1,603,940	99,925,093	548,398,405
-	-	500,000	1,000,000	-	216,776,254	61,414,562	396,585,658	-	-	-	3,425,000	716,465,386	214,994,890
(2,325,883)	-	-	-	-	(215,500,000)	-	-	-	(2,200,000)	(501,571)	-	(280,508,738)	(278,091,444)
(2,325,883)	-	500,000	1,000,000	-	1,276,254	61,414,562	396,585,658	-	(2,200,000)	(501,571)	3,425,000	435,956,648	(63,096,554)
(2,322,488)	12,217	837,242	1,292,927	27,446	1,310,139	69,281,722	398,885,883	49,098	(1,355,014)	(501,704)	5,028,940	535,881,741	485,301,851
2,322,488	272,058	4,326,253	3,718,464	1,623,441	5,589,415	325,673,084	-	876,390	33,406,678	501,704	57,051,271	3,863,622,894	3,378,321,043
$ -	$ 284,275	$ 5,163,495	$ 5,011,391	$ 1,650,887	$ 6,899,554	$ 394,954,806	$ 398,885,883	$ 925,488	$ 32,051,664	$ -	$ 62,080,211	$ 4,399,504,635	$ 3,863,622,894
-	284,275	5,163,495	5,011,391	1,650,887	6,899,554	394,954,806	398,885,883	925,488	32,051,664	-	62,080,211	4,399,504,635	

North Dakota Retirement and Investment Office

Pension and Investment Trust Funds – Schedule of Administrative Expenses

Years Ended June 30, 2012 and 2011

	Pension Trust		Investment Trust	
	2012	2011	2012	2011
Salaries and wages:				
Salaries and wages	$624,735	$609,564	$445,615	$409,882
Fringe benefits	227,391	223,493	124,842	106,270
Total salaries and wages	852,126	833,057	570,457	516,152
Operating expenses:				
Information services	74,036	74,221	11,899	10,594
Intergovernmental services	6,210	5,644	2,790	2,087
Professional services	161,937	512,737	45,650	382,628
Rent of building space	54,665	55,018	23,318	21,086
Mailing services and postage	39,147	52,399	23,926	31,648
Travel and lodging	21,665	25,680	25,454	33,831
Printing	10,498	23,125	5,345	9,170
Supplies	1,658	5,087	847	3,369
Professional development	9,819	11,201	1,882	3,173
Outside services	8,421	7,948	2,679	90,957
Small office equipment expense	700	10,900	2,527	2,115
Miscellaneous fees	3,771	3,000	2,908	3,867
Resource and reference materials	443	507	2,149	1,411
IT contractual services	154,436	102,492	1,326	1,982
Repairs - office equipment	9	68	340	24
Insurance	754	588	279	218
Total operating expenses	548,170	890,615	153,319	598,160
Pension trust portion of investment program expenses	194,393	217,070	(194,393)	(217,070)
Depreciation	2,288	62,963	-	-
Total administrative expenses	1,596,976	2,003,705	529,383	897,242
Less - nonappropriated items:				
Professional fees	161,937	512,737	45,650	382,628
Other operating fees paid under continuing appropriation	19,305	22,997	40,136	45,695
Depreciation	2,288	62,963	-	-
Accrual adjustments to employee benefits	5,557	15,457	1,164	6,295
Total nonappropriated items	189,087	614,154	86,951	434,618
Total appropriated expenditures	$ 1,407,890	$ 1,389,551	$ 442,432	$ 462,625

	Pension Trust		Investment Trust	
	2012	2011	2012	2011
Actuary fees:				
Gabriel, Roeder, Smith & Co.	$ -	$254,291	$ -	$ -
Segal Company	93,777	-	-	-
Auditing fees:				
CliftonLarsonAllen LLP	44,755	-	24,220	-
Eide Bailly, P.C.	(5,461)	46,768	(2,789)	23,882
CliftonGunderson LLP	-	24,379	-	53,271
Total Auditing Fees	39,294	71,147	21,431	77,153
Disability consulting fees:				
Dr. G.M. Lunn	300	500	-	-
Legal fees:				
Calhoun Law Group P.C.	5,748	16,348	-	-
K&L Gates LLP	6,778	136,904	8,471	261,400
Jenner & Block	978	13,268	1,903	25,102
ND Attorney General	15,098	20,279	13,808	18,973
Total legal fees:	28,602	186,799	24,183	305,475
Total consultant expenses	$ 161,973	$512,737	$ 45,614	$382,628

North Dakota Retirement and Investment Office

Pension and Investment Trust Funds – Schedule of Investment Expenses

Years Ended June 30, 2012 and 2011

	Pension Trust		Investment Trust	
	2012	2011	2012	2011
Investment managers' fees:				
Global equity managers	$ 628,427	$ -	793,618	$ -
Domestic large cap equity managers	1,162,581	2,137,914	1,814,098	3,200,378
Domestic small cap equity managers	674,689	1,224,383	1,105,160	1,701,887
International equity managers	1,027,046	1,354,642	1,586,203	1,401,715
Emerging markets equity managers	428,517	1,058,054	590,141	1,211,990
Domestic fixed income managers	712,767	1,511,673	3,985,356	5,264,491
Below investment grade fixed income managers	990,581	2,783,656	1,264,007	2,483,649
Inflation protected assets managers	-	-	2,324,656	1,648,218
International fixed income managers	293,376	293,805	370,977	360,280
Real estate managers	1,628,104	1,952,869	2,784,378	2,224,531
Infrastructure managers	886,429	-	1,266,196	-
Timber managers	451,879	-	584,518	-
Private equity managers	2,798,325	1,261,507	2,920,720	1,351,879
Short term fixed income managers	-	-	564,284	217,963
Cash & equivalents managers	23,326	24,577	49,510	38,069
Balanced account managers	-	-	249,704	224,707
Total investment managers' fees	11,706,050	13,603,080	22,253,527	21,329,758
Custodian fees	247,562	321,522	552,859	606,384
Investment consultant fees	96,205	150,457	232,947	229,819
SIB Service Fees	-	-	45,891	70,980
Total investment expenses	$ 12,049,817	$ 14,075,059	$ 23,085,224	$ 22,236,940
Securities lending fees	$ (5,384)	$ (56,544)	$ (3,668)	$ (48,354)

Reconciliation of investment expenses to financial statements:

	2012	2011	2012	2011
Investment expenses as reflected in the financial statements	$ 5,661,973	$ 6,430,327	$ 12,779,965	$ 12,614,624
Plus investment management fees included in investment income				
Domestic large cap equity managers	136,427	445,019	197,944	708,369
Domestic small cap equity managers	437,092	858,551	547,055	986,777
International equity managers	179,602	234,358	281,501	275,330
Emerging markets equity managers	101,321	649,968	137,180	742,194
Domestic fixed income managers	403,043	910,025	2,073,076	2,314,772
Below investment grade fixed income managers	664,742	2,394,957	857,137	2,136,880
Inflation protected assets managers	-	-	1,228,180	451,705
Real estate managers	871,583	1,020,107	832,223	661,497
Infrastructure managers	446,542	-	622,240	-
Timber managers	451,879	-	584,518	-
Private equity managers	2,695,613	1,115,854	2,814,550	1,195,895
Short term fixed income managers	-	-	18,401	22,674
Cash equivalents managers	-	15,893	-	25,401
Balanced account managers	-	-	111,255	100,823
Investment expenses per schedule	$ 12,049,817	$ 14,075,059	$ 23,085,224	$ 22,236,940

	Approved 2011-2013 Appropriation	2009-2011 Appropriation Adjustment	Adjusted 2011-2013 Appropriation	Fiscal 2012 Expenses	Unexpended Appropriations
All Fund Types:					
Salaries and wages	$ 3,203,114	$ -	$ 3,203,114	$ 1,415,862	$ 1,787,252
Operating expenses	947,840	-	947,840	434,460	513,380
Contingency	82,000	-	82,000	-	82,000
Total	$ 4,232,954	$ -	$ 4,232,954	$ 1,850,322	$ 2,382,632

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

Reconciliation of Administrative Expenses
to Appropriated Expenditures

	2012
Administrative expenses as reflected in the financial statements	2,126,359
Less:	
Professional fees*	(207,587)
Other operating fees paid under continuing appropriations*	(59,441)
Depreciation expense	(2,288)
Changes in annual leave and FICA payments	(6,721)
Total appropriated expenses	$1,850,322

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

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Special Comments Requested by the Legislative Audit and Fiscal Review Committee Year Ended June 30, 2012

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

Audit Report Communications

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

Unqualified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

There were no prior year findings or recommendations.

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

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

Audit Committee Communications

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

   None

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

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

   The actuarial valuation was based on the actuarial assumptions and methods adopted by the Board, including an actuarial expected investment rate of return of 8.0% per annum compounded annually. The valuation takes into account all of the promised benefits to which members are entitled as of July 1, 2012 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. **3.** Identify any significant audit adjustments

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

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

   None

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

   None

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

   None

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

   None

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

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

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

CliftonLarsonAllen LLP

Baltimore, Maryland
October 19, 2012