NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Bismarck, ND

FINANCIAL STATEMENTS

June 30, 2013 and 2012

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

Report on the Financial Statements

We have audited the accompanying financial statements of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of changes in net position for the years then ended, and the related notes to the financial statements, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements as of and for the years ended June 30, 2013 and 2012, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RIO as of June 30, 2013 and 2012, and the respective changes in financial position for the years then ended in accordance 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, 2013 and 2012, and the results of the changes in financial position of such funds for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of RIO are intended to present the financial position and the changes in financial position of only that portion of the State of North Dakota that is attributable to the transactions of RIO. They do not purport to, and do not, present fairly the financial position of State of North Dakota as of June 30, 2013 and 2012, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise RIO's basic financial statements and the combining and individual fund financial statements. The schedules of administrative expenses, consultant expenses, investment expenses, and appropriations – budget basis – fiduciary funds, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Audit Standards*, we have also issued our report dated October 24, 2013, 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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 24, 2013

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2013, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2013.

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 RIO's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RIO's internal control over financial reporting.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

CliftonLarsonAllen LLP

Baltimore, Maryland
October 24, 2013

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, 2013. 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 position increased in the fiduciary funds by $1.42 billion or 23.5% from the prior year. Over 50% of that increase is due to the growth of the Legacy Fund. 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 $791.1 million during the fiscal year.

Additions in the fiduciary funds for the year increased $585.9 million from the previous year. Net investment income increased by $558.9 million and total contributions increased $27.0 million.

Deductions in the fiduciary funds increased over the prior year by $11.3 million or 8.1%. 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, 2013, the funded ratio was approximately 58.8%.

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 position and a statement of changes in net position.

Financial Analysis

RIO's fiduciary fund total assets as of June 30, 2013, were $7.5 billion and were comprised mainly of investments. Total assets increased by $1.4 billion or 23.5% from the prior year primarily due to the growth of the Legacy Fund.

Total liabilities as of June 30, 2013, were $7 million and were comprised mostly of investment expenses payable. Total liabilities increased by $1.1 million or 18.5% from the prior year due mainly to an increase in investment expenses payable at June 30, 2013.

RIO's fiduciary fund total net position was $7.5 billion at the close of fiscal year 2013.

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

	2013	2012	Total % Change
Assets			
Investments	$ 7,422	$ 6,010	23.5%
Receivables	44	35	25.4%
Cash & Other	16	15	11.6%
Total Assets	7,482	6,060	23.5%
Liabilities			
Accounts Payable	7	6	18.5%
Total Liabilities	7	6	18.5%
Total Net Position	$ 7,475	$ 6,054	23.5%

	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 Position	$ 6,054	$ 5,590	8.3%

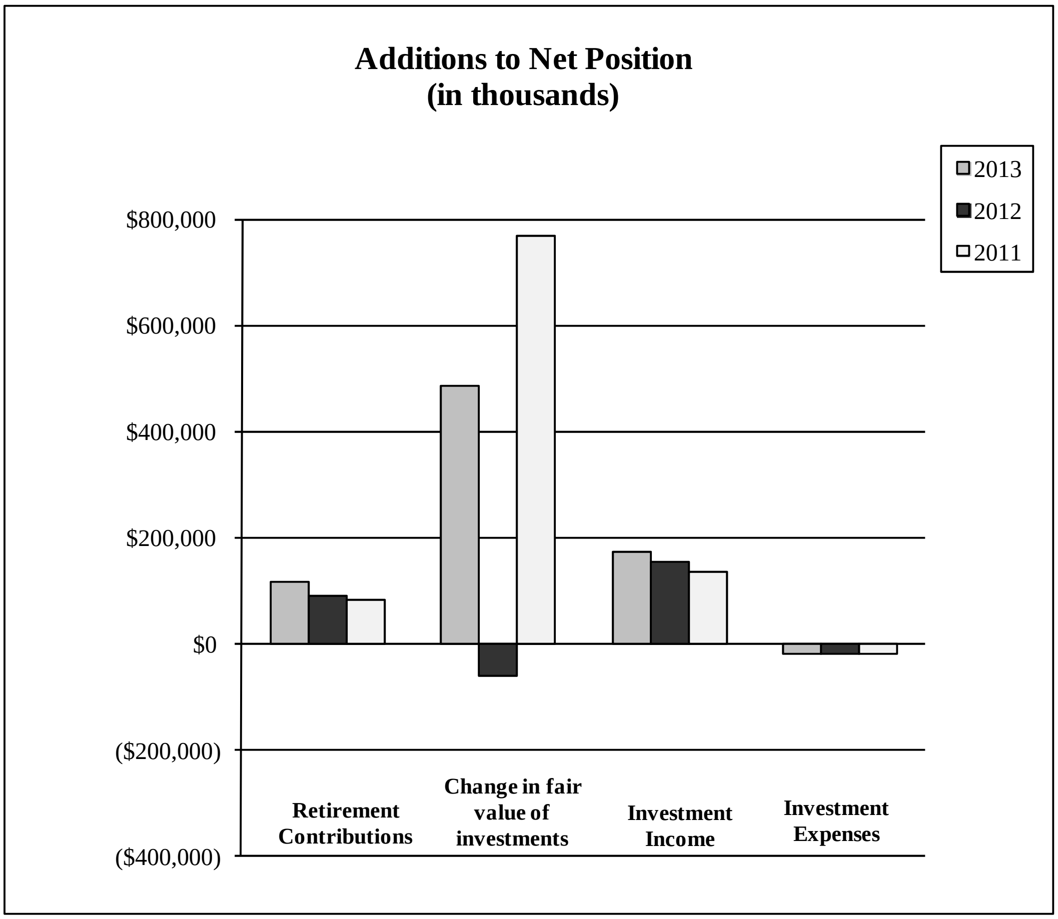
North Dakota Retirement and Investment Office
Changes in Net Position – Fiduciary Funds
(In Millions)

	2013	2012	Total % Change
Additions:			
Contributions	$ 116	$ 89	30.4%
Investment Income	638	79	707.9%
Total Additions	754	168	349.3%
Deductions	151	140	8.1%
Net change from unit transactions	818	436	87.7%
Total change in net position	$ 1,421	$ 464	206.3%

	2012	2011	Total % Change
Additions:			
Contributions	$ 89	$ 85	4.6%
Investment Income	79	884	91.1%
Total Additions	168	969	82.7%
Deductions	140	133	5.5%
Net change from unit transactions	436	(63)	790.9%
Total change in net position	$ 464	$ 773	40.0%

Statement of Changes in Net Position – Additions

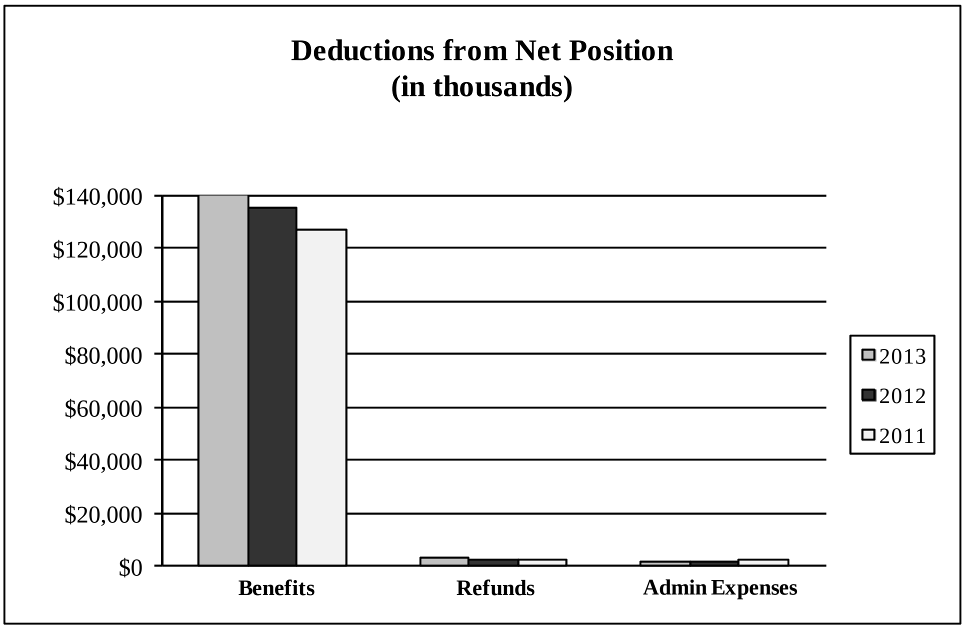
Contributions and net investment income are the two components of the fiduciary fund additions. Contributions collected by the pension trust fund increased by $27.0 million or 30.4% over the previous fiscal year. The increase is due to an increase in the statutorily required contribution rates for members and employers that took effect July 1, 2012. Member contribution rates increased from 7.75% to 9.75% and employer contribution rates increased from 8.75% to 10.75%. Net investment income (net of investment expenses) increased by $558.9 million or 708% from last year. This was the result of stronger financial markets during the fiscal year.



Statement of Changes in Net Position – Deductions

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by $10.7 million or 7.9% during the fiscal year ended June 30, 2013. 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 2013 by $574,201 or 23.2%.

Administrative expenses increased by $56,023 or 2.6%.



Conclusion

Following a challenging market environment the prior fiscal year, financial markets performed well in fiscal year 2013. Aggressive efforts by central banks in developed markets to stimulate economic growth fostered a favorable backdrop for investing, in general. For the year, most developed stock markets advanced to levels exceeding that achieved during the last market cycle. On an absolute basis, all asset and sub-asset classes overseen by the State Investment Board generated positive returns. Relative to underlying benchmarks, most asset classes performed in-line or outperformed.

Despite a barrage of policy initiatives, including near-zero interest rates and interference in financial markets by central banks and policy makers, the leading economies remain generally fragile, underscoring the structural (rather than cyclical) nature of the challenges faced in the post-credit crisis era. Of little doubt, however, are the distorting effects of policy settings designed explicitly to shield financial asset prices from normal market forces and the threat that it may lead to a heightening of the very risks which gave the financial system its dependency on central bank support in the first place.

In this environment, financial markets are, we anticipate, likely to remain unstable. To meet this challenge, the State Investment Board will continue to research strategies 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. The first phase of the funding improvement plan went into effect on July 1, 2012 with 2% member and 2% employer contribution increases. 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 58.8% as of 7/1/13, 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. Increased contribution rates will be in effect until TFFR reaches 100% funding on an actuarial basis. 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.

North Dakota Retirement and Investment Office
Statement of Net Position – Fiduciary Funds
June 30, 2013 and 2012

	Pension Trust		Investment Trust	
	2013	2012	2013	2012
Assets:				
Investments, at fair value				
Equities	$ -	$ -	$ 43,854,432	$ 36,131,488
Equity pool	951,272,867	812,749,740	1,543,210,098	1,312,774,041
Fixed income	-	-	1,611,285,649	806,874,577
Fixed income pool	392,807,091	370,045,662	1,692,041,813	1,582,382,143
Real assets pool	340,442,941	315,768,906	516,202,669	469,548,278
Private equity pool	94,185,760	104,823,271	111,364,820	108,766,790
Cash pool	24,369,601	21,082,755	100,765,983	69,354,213
Total investments	1,803,078,260	1,624,470,334	5,618,725,464	4,385,831,530
Invested securities lending collateral	-	-	-	-
Receivables:				
Investment income	7,657,195	6,832,046	20,787,440	17,254,744
Contributions	15,648,020	11,076,423	-	-
Miscellaneous	5,172	5,472	12,752	9,506
Total receivables	23,310,387	17,913,941	20,800,192	17,264,250
Due from other state agency	616	1,461	-	-
Cash and cash equivalents	16,044,045	14,370,170	159,403	152,772
Equipment & Software (net of depr)	-	762	-	-
Total assets	1,842,433,308	1,656,756,668	5,639,685,059	4,403,248,552
Liabilities:				
Accounts payable	69,417	62,950	50,916	26,714
Investment expenses payable	2,113,717	1,922,962	4,549,821	3,649,932
Securities lending collateral	-	-	-	-
Accrued expenses	658,494	607,086	60,040	50,425
Miscellaneous payable	-	-	17,382	13,537
Due to other state agencies	7,720	14,011	1,235	3,309
Total liabilities	2,849,348	2,607,009	4,679,394	3,743,917
Net position:				
Held in trust for pension benefits	1,839,583,960	1,654,149,659	-	-
Held in trust for external investment pool participants:				
Pension pool	-	-	2,276,983,263	2,022,512,983
Insurance pool	-	-	3,284,399,099	2,314,911,441
Held in trust for individual investment account	-	-	73,623,303	62,080,211
Total net position	$ 1,839,583,960	$ 1,654,149,659	$ 5,635,005,665	$ 4,399,504,635
Each participant unit is valued at $1.00				
Participant units outstanding			5,635,005,665	4,399,504,635

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

North Dakota Retirement and Investment Office
Statement of Changes in Net Position – Fiduciary Funds
Years Ended June 30, 2013 and 2012

	Pension Trust		Investment Trust	
	2013	2012	2013	2012
Additions:				
Contributions:				
Employer contributions	$ 59,352,860	$ 46,126,193	$ -	$ -
Member contributions	53,824,557	40,254,562	-	-
Purchased service credit	2,641,019	2,417,995	-	-
Interest and penalties	30,912	9,854	-	-
Total contributions	115,849,348	88,808,604	-	-
Investment income:				
Net change in fair value of investments	185,196,374	(55,818,260)	299,338,412	(2,301,149)
Interest, dividends and other income	41,018,935	39,954,588	132,358,789	115,514,522
	226,215,309	(15,863,672)	431,697,201	113,213,373
Less investment expenses	6,010,000	5,661,973	14,116,162	12,779,965
Net investment income	220,205,309	(21,525,645)	417,581,039	100,433,408
Securities lending activity:				
Securities lending income	-	8,737	-	17,400
Less securities lending expenses	-	(5,384)	-	(3,668)
Net securities lending income	-	14,121	-	21,068
Total additions	336,054,657	67,297,080	417,581,039	100,454,476
Deductions:				
Benefits paid to participants	145,079,333	134,718,464	-	-
Partial lump-sum distributions	863,990	532,104	-	-
Refunds	3,053,395	2,479,194	-	-
Administrative charges	1,623,638	1,596,976	558,744	529,383
Total deductions	150,620,356	139,326,738	558,744	529,383
Net change in net position resulting from operations	185,434,301	(72,029,658)	417,022,295	99,925,093
Unit transactions at net position value of $1.00 per unit:				
Purchase of units	-	-	1,053,337,604	716,465,386
Redemption of units	-	-	(234,858,869)	(280,508,738)
Net change in position and units resulting from unit transactions	-	-	818,478,735	435,956,648
Total change in net position	185,434,301	(72,029,658)	1,235,501,030	535,881,741
Net position:				
Beginning of year	1,654,149,659	$ 1,726,179,317	$ 4,399,504,635	$ 3,863,622,894
End of Year	$ 1,839,583,960	$ 1,654,149,659	$ 5,635,005,665	$ 4,399,504,635

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 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 position. 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, 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, 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, Risk Management, Risk Management Workers Comp, Cultural Endowment 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 statements of net position.

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 $147,115 and $136,458 at June 30, 2013 and 2012, respectively. The current portions of accrued leave amounted to $71,864 and $69,848 at June 30, 2013 and 2012, respectively, and are included in accrued expenses of the Fiduciary Funds in the statements of net position.

Changes in accrued leave for the years ended June 30, 2013 and 2012 consisted of the following:

Balance, July 1, 2011	$129,737
Additions	82,071
Deductions	(75,350)
Balance, June 30, 2012	136,458
Additions	94,877
Deductions	(84,220)
Balance, June 30, 2013	$147,115

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, 2013 and 2012 were deposited in the Bank of North Dakota. At June 30, 2013 and 2012, the carrying amount of TFFR's deposits was $16,044,045 and $14,370,170, respectively, and the bank balance was $16,055,352 and $14,380,332 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 $188,293,365 and $146,245,136 at June 30, 2013 and 2012, respectively. In addition these funds carry cash and cash equivalents totaling $159,403 and $152,772 at June 30, 2013 and 2012, 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 years ended June 30, 2013 and 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, 2013 and 2012, the following tables show the investments by investment type and maturity (expressed in thousands).

2013	Total Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years
Asset Backed Securities	$ 199,406	$ 301	$ 99,376	$ 24,782	$ 74,947
Bank Loans	2,928	-	2,447	481	-
Collateralized Bonds	325	-	-	325	-
Commercial Mortgage-Backed	72,266	-	205	1,011	71,050
Commercial Paper	325,951	325,951	-	-	-
Corporate Bonds	895,610	70,183	536,976	140,078	148,373
Corporate Convertible Bonds	23,851	237	11,481	3,071	9,062
Government Agencies	136,027	37,219	76,811	10,765	11,232
Government Bonds	439,887	99,659	261,554	30,147	48,527
Gov't Mortgage Backed and CMB	521,193	-	3,742	15,179	502,272
Guaranteed Fixed Income	-	-	-	-	-
Index Linked Government Bonds	12,289	1,442	6,894	-	3,953
Municipal/Provincial Bonds	17,273	-	7,244	867	9,162
Non-Government Backed CMOs	25,052	-	3,054	729	21,269
Other Fixed Income	9,901	482	9,419	-	-
Short Term Bills and Notes	31,442	31,442	-	-	-
Funds/Pooled Investments	924,518	5,430	554,075	120,030	244,983
Total Debt Securities	$ 3,637,919	$ 572,346	$ 1,573,278	$ 347,465	$ 1,144,830

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

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 $4.2 million and $4.8 million, and POs valued at $3.4 million and $3.2 million at June 30, 2013 and 2012 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, 2013 and 2012 (expressed in thousands).

2013	Total Fair Value	Credit Rating*												
		A-1	A-2	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset Backed Securities	$ 199,406	$ -	$ -	$ 115,713	$ 41,692	$ 24,401	$ 10,545	$ 3,274	$ 2,011	$ 1,623	$ 145	$ -	$ 2	$ -
Bank Loans	2,928	-	-	-	-	-	291	2,066	571	-	-	-	-	-
Collateralized Bonds	325	-	-	325	-	-	-	-	-	-	-	-	-	-
Commercial Mortgage Backed	70,815	-	-	39,405	12,598	14,157	3,507	1,148	-	-	-	-	-	-
Commercial Paper	325,951	14,692	311,259	-	-	-	-	-	-	-	-	-	-	-
Corporate Bonds	895,610	-	-	3,853	43,139	225,872	462,032	102,342	37,470	18,932	1,529	-	441	-
Corporate Convertible Bonds	23,851	-	-	-	-	2,170	1,522	11,692	6,876	1,591	-	-	-	-
Gov't Agencies	136,027	-	-	8,534	118,474	5,256	3,763	-	-	-	-	-	-	-
Gov't Bonds	86,364	-	-	500	12,507	27,039	34,309	9,386	164	-	-	-	-	2,459
Gov't Issued Commercial & Gov't Mortgage Backed	398,611	-	-	705	397,906	-	-	-	-	-	-	-	-	-
Guaranteed Fixed Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Index Linked Corporate Bonds	1,300	-	-	-	-	-	1,300	-	-	-	-	-	-	-
Municipal/Provincial Bonds	17,273	-	-	4,868	4,166	5,375	2,346	518	-	-	-	-	-	-
Non-Gov't Backed CMOs	23,956	-	-	1,804	5,922	6,108	5,328	234	63	3,529	623	276	69	-
Other Fixed Income	9,901	-	-	9,901	-	-	-	-	-	-	-	-	-	-
Short Term Bills & Notes	15,626	-	-	-	15,626	-	-	-	-	-	-	-	-	-
Funds/Pooled Investments	924,518	-	-	216,755	399,773	32,218	61,911	-	17,519	-	-	196,342	-	-
Total Credit Risk of Debt Securities	3,132,462	$ 14,692	$ 311,259	$ 402,363	$ 1,051,803	$ 342,596	$ 586,854	$ 130,660	$ 64,674	$ 25,675	$ 2,297	$ 196,618	$ 512	$ 2,459
US Gov't & Agencies **	505,457													
Total Debt Securities	$ 3,637,919													

2012	Total Fair Value	Credit Rating*												
		A-1	A-2	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
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													

* 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. Implicitly guaranteed agency securities included in the *Gov't Mortgage Backed, Gov't Agencies,* and *Short Term Bills and Notes* categories are issued by FNMA, FDIC, FHLB, FHLMC, Federal Financing Corp., SBA, Farmer Mac and Federal Farm Credit.

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, 2013 and 2012 (expressed in thousands).

2013

Currency	Short-Term	Debt	Equity	Total
Australian dollar	$ (7,940)	$ 10,481	$ 13,350	$ 15,891
Brazilian real	1,898	4,833	6,905	13,636
British pound sterling	13,886	5,191	71,637	90,714
Canadian dollar	132	830	17,011	17,973
Chilean peso	3,297	(2)	-	3,295
Chinese yuan renminbi	137	(2)	-	135
Columbian peso	100	14	-	114
Czech koruna	(1)	2	1,922	1,923
Israeli shekel	42	-	1,590	1,632
Danish krone	-	-	1,328	1,328
Euro	(15,889)	22,493	127,923	134,527
Hong Kong dollar	128	-	18,215	18,343
Hungarian forint	(16)	4,004	1,034	5,022
Iceland krona	31	-	-	31
Indian rupee	4,605	8	-	4,613
Indonesian Rupiah	-	-	56	56
Japanese yen	14,150	72	64,525	78,747
Malaysian Ringgit	94	4,209	2,173	6,476
Mexican peso	317	19,102	-	19,419
New Zealand dollar	(2,692)	3,040	-	348
Norwegian krone	449	9	3,193	3,651
Peruvian nuevo sol	(61)	-	-	(61)
Philippine peso	-	2,219	-	2,219
Polish zloty	65	4,204	1,239	5,508
Russian ruble	15	(9)	-	6
Singapore dollar	450	(1)	4,233	4,682
South African rand	91	3,100	4,024	7,215
South Korean won	(4,224)	4,435	8,344	8,555
Swedish krona	1,067	-	7,447	8,514
Swiss franc	-	-	29,353	29,353
Thai baht	56	1	1,172	1,229
Turkish lira	(394)	3,220	997	3,823
International commingled funds (various currencies)	-	91,153	327,274	418,427
Total international investment securities	$ 9,793	$ 182,606	$ 714,945	$ 907,344

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

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 position. At June 30, 2013 and 2012, 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 statements of changes in net position and totaled $90.1 million for fiscal year 2013 and $(35.0) million for fiscal year 2012. At June 30, 2013 and 2012, the SIB investment portfolio had the notional futures balances shown below (expressed in thousands).

Futures	Notional Value	
	June 30, 2013	June 30, 2012
Cash & Cash Equivalent Derivative Futures		
Long	$ 180,058	$ 188,297
Short	(165,105)	(117,655)
Equity Derivative Futures		
Long	478,996	411,726
Short	-	-
Fixed Income Derivative Futures		
Long	3,124	4,710
Short	(64,623)	(31,035)
Total Futures	$ 432,450	$ 456,043

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 statements of changes in net position and totaled $43,000 for fiscal year 2013 and $0.4 million for fiscal year 2012. At June 30, 2013 and 2012, the SIB investment portfolio had the following option balances (expressed in thousands).

Options	Fair Value June 30, 2013	Fair Value June 30, 2012
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 statements of changes in net position and totaled $(933) thousand for fiscal year 2013 and $921 thousand for fiscal year 2012. The maximum loss that would be recognized at June 30, 2013 and 2012, if all counterparties failed to perform as contracted is $4.25 million and $1.75 million respectively. Swap fair values are determined by a third party pricing source. At June 30, 2013 and 2012, 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, 2013	Fair Value June 30, 2012
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/Aa3	45	3/20/2014	-	(5)
Deutsche Bank AG New York/Aa3	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
Bank of America N.A./A3	1,560	12/20/2017	6	-
Credit Suisse International London/A1	240	12/20/2016	(15)	-
Deutsche Bank AG New York/A2 (3 contracts)	2,160	12/20/2016	(135)	-
Deutsche Bank AG New York/A2	120	9/20/2013	-	-
Deutsche Bank AG New York/A2	1,560	6/20/2017	1	-
Deutsche Bank AG New York/A2 (2 contracts)	(3,250)	12/20/2017	34	-
Deutsche Bank London/A2	1,560	6/20/2017	1	-
Deutsche Bank London/A2	1,560	12/20/2017	6	-
JP Morgan Chase U.S. NYC/Aa3	400	3/20/2017	-	-
JP Morgan Chase N.A./Aa3 (4 contracts)	12,700	6/20/2017	(140)	-
JP Morgan Chase N.A./Aa3 (2 contracts)	4,400	12/20/2017	(46)	-
JP Morgan Chase N.A./Aa3 (3 contracts)	30	10/12/2052	1	-
Total Credit Default Swaps	$ 49,605		$ (287)	$ 546

Interest Rate Swaps

Counterparty	Notional Amount	Rate Range	Counterparty Rate	Expiration Date Range	Counterparty Rating (Moody's)	Fair Value June 30, 2013	Fair Value June 30, 2012
Bank of Nova Scotia (4 contracts)	$ (493)	0.751% to 1.355%	Various overnight bank rates depending on currency	08/2013 - 10/2019	Aa2	$ 34	
Barclays Bank PLC London (2 contracts)	(53)	2.065% to 4.423%		12/2027 - 12/2032	A2	2	
Barclays Bank PLC New York (13 contracts)	6,047	0.359% to 5.750%		08/2012 - 02/2022	A2		8
Barclays Bank PLC New York (6 contracts)	4,240	0.00% to 5.48%		07/2013 - 12/2037	A2	(108)	
Barclays Capital Securities London (7 contracts)	3,124	1.10% to 6.60%		02/2013 - 02/2022	A2		20
Barclays Capital Securities London (9 contracts)	1,800	0.00% to 7.42%		09/2013 - 05/2023	A2	(19)	-
Citibank N.A. New York (11 contracts)	5,426	0.62% to 7.70%		11/2012 - 06/2022	A3		151
Citibank N.A. New York (14 contracts)	(2,094)	0.349% to 4.50%		12/2014 - 04/2023	A3	57	
Citibank London (3 contracts)	1,364	0.695% to 4.42%		01/2016 - 06/2017	A3	(58)	
Credit Suisse First Boston Corporation (5 contracts)	1,783	0.689% to 7.25%		06/2018 - 05/2023	A1	(6)	
Deutsche Bank London (2 contracts)	670	1.96% to 3.12%		10/2013 - 01/2014	A2	-	
Deutsche Bank Singapore (1 contract)	316	0.345%		7/21/2012	A2		(0)
Goldman Sachs Bank USA (2 contracts)	233	0.52% to 1.438%		4/19/2020	A2	3	
HSBC Bank USA New York (1 contract)	190	3.810%		1/3/2028	A1		75
HSBC Bank USA New York (6 contracts)	2,277	0.38% to 3.81%		07/2013 - 01/2028	A1	54	
JP Morgan Chase Bank N.A. (4 contracts)	(4,109)	0.913% to 6.380%		07/2012 - 01/2028	Aa3		(8)
JP Morgan Chase Bank N.A. (5 contracts)	206	0.654% to 4.74%		07/2013 - 08/2016	Aa3	(23)	
Morgan Stanley Capital Services NY (1 contract)	290	6.370%		5/25/2022	Baa1		11
Morgan Stanley Capital Services NY (1 contract)	299	6.370%		5/25/2022	Baa1	(4)	
Morgan Stanley Capital Group Inc. NY (1 contract)	1,090	1.355%		2/15/2020	Baa1	(48)	
Morgan Stanley & Co. Inc. NY (5 contracts)	(2,435)	1.155% to 6.06%		10/2013 - 05/2022	Baa1	27	
Total Interest Rate Swaps	$ 20,171					$ (89)	$ 257

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 statements of changes in net position and totaled $0.2 million for fiscal year 2013 and $0.9 million for fiscal year 2012. At June 30, 2013 and 2012, the SIB's investment portfolio included the currency forwards balances shown below (expressed in thousands).

				Fair Value	
Currency	Cost	Purchases	Sales	6/30/2013	6/30/2012
Australian dollar	$ (10,009)	$ 1,996	$ (12,005)	$ (8,874)	$ (9,486)
Brazilian real	2,087	2,087	-	1,899	217
British pound sterling	8,263	9,121	(858)	8,074	7,108
Canadian dollar	108	1,259	(1,151)	98	300
Chilean peso	3,369	3,501	(132)	3,296	3,152
Chinese yuan renminbi	132	522	(390)	138	-
Colombian peso	102	102	-	101	-
Czech koruna	1	606	(605)	(2)	132
Euro	(23,251)	638	(23,889)	(23,087)	(3,451)
Hungarian forint	(35)	836	(871)	(35)	197
Indian rupee	4,741	4,803	(62)	4,605	-
Japanese yen	(353)	604	(957)	(345)	(1,859)
South Korean won	(4,365)	68	(4,433)	(4,225)	-
Malaysian ringgit	68	68	-	68	-
Mexican peso	323	1,465	(1,142)	317	199
New Zealand dollar	(2,720)	1,260	(3,980)	(2,694)	(2,382)
Norwegian krone	402	2,269	(1,867)	373	263
Peruvian nuevo sol	(61)	56	(117)	(61)	-
Polish zloty	81	864	(783)	66	300
Russian ruble	32	2,180	(2,148)	15	-
Singapore dollar	394	2,063	(1,669)	378	367
South African rand	-	-	-	-	55
Swedish krona	409	1,779	(1,370)	388	205
Turkish lira	(425)	420	(845)	(395)	3,919
United States dollar	20,705	59,271	(38,566)	20,705	843
Total forwards subject to currency risk				$ 803	$ 79

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, 2013 and 2012, the tables below show the SIB's derivative investments subject to interest rate risk (expressed in thousands).

2013

	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	$ (218,918)	$ (38,025)	$ (98,722)	$ (89,857)	$ 7,686	$ -

	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	(90)	22	10	(31)	(142)	51
Total	$ (90)	$ 22	$ 10	$ (31)	$ (142)	$ 51

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

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 within 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

There was no securities lending program in place for the fiscal years ended June 30, 2013 and 2012.

Note 4 - Capital Assets

	June 30, 2011	Additions	Retirements	June 30, 2012	Additions	Retirements	June 30, 2013
Office equipment	$19,321	$ -	$ -	$19,321	$ -	$ -	$19,321
Less accumulated depreciation on office equipment	(16,271)	(2,288)	-	(18,559)	(762)	-	(19,321)
Software	1,213,500	-	-	1,213,500	-	-	1,213,500
Less accumulated depreciation on software	(1,213,500)	-	-	(1,213,500)	-	-	(1,213,500)
	$3,050			$762			$0

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, 2013 and 2012:

	2013	2012
Due To		
Information Technology Department	$ 7,010	$ 6,234
Office of Attorney General	1,035	1,336
Office of Management and Budget	910	9,750
Total due to other state agencies	$ 8,955	$ 17,320
Due From		
Public Employees Retirement System	$ 616	$ 1,461
Total due from other state agencies	$ 616	$ 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 $77,948 and $77,983 for fiscal 2013 and 2012. Minimum payments under the lease for fiscal 2014 are $78,467.

Note 7 - Changes in Noncurrent Liabilities

Changes in noncurrent liabilities for the years ended June 30, 2013 and 2012 are summarized as follows:

	Beginning Balance 7/1/2012	Additions	Reductions	Ending Balance 6/30/2013	Amounts Due Within One Year
Accrued Leave	$136,458	$94,877	($84,220)	$147,115	$71,864

	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

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, 2013 and 2012, the number of participating employer units was 220 and 222, respectively, consisting of the following:

	2013	2012
Public School Districts	179	180
County Superintendents	7	8
Special Education Units	19	19
Vocational Education Units	5	5
Other	10	10
Total	220	222

TFFR's membership consisted of the following:

	2013	2012
Retirees and beneficiaries currently receiving benefits	7,489	7,151
Terminated employees - vested	1,500	1,483
Terminated employees - nonvested	563	468
Total	9,552	9,102
Current employees		
Vested	7,465	7,570
Nonvested	2,673	2,444
Total	10,138	10,014

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, 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, 2013 and 2012, TFFR had net realized gains of $73,604,646 and $10,017,507 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 9.75% 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 10.75% of the teacher's salary. Member contributions will increase to 11.75% on 7/1/2014. Employer contributions will increase to 12.75% on 7/1/2014. Member and employer contributions will be reduced to 7.75% each when the fund reaches 100% 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
2013	$ 1,762.3	$ 2,997.1	$ 1,234.8	58.8%	$ 526.7	234.4%

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, 2013	July 1, 2012
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 closed period, effective July 1, 2013	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 market value, and is recognized over a five-year period. The actuarial value is further adjusted, if necessary, to be within 20% of the market value.	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 market 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. Effective with the July 1, 2013 actuarial valuation, the Trustees adopted an Actuarial Funding Policy, which includes the following:

   - Actuarial Cost Method: The Entry Age Normal method shall be applied to the projected benefits in determining the Normal Cost and the Actuarial Accrued Liability. The Normal Cost shall be determined as a level percentage of pay on an individual basis for each active member based on the benefit provisions applicable to that member.
   - Asset Smoothing Method: The investment gains or losses of each valuation period, as a result of comparing the actual market return to the expected market return, shall be recognized in level amounts over 5 years in calculating the Actuarial Value of Assets. Deferred investment gains or losses cannot exceed a corridor of 20% of the Market Value of Assets (i.e., the Actuarial Value of Assets cannot be more than 120%, nor less than 80%, of the Market Value of Assets as of any valuation date).

- Amortization Policy: The Unfunded Actuarial Accrued Liability shall be amortized over a "closed" 30-year period that began July 1, 2013.

2. Prior to adoption of the Actuarial Funding Policy, the Actuarial Cost Method used for valuation purposes was "ultimate" entry age normal with normal cost determined for each member based on the ultimate schedule of benefits (e.g., the normal cost for a Tier 1 Grandfathered member was based on the benefits applicable to Tier 2 members). The change in Entry Age Normal valuation approach resulted in a decrease in accrued liability of $11,150,759.

3. The employer statutory contribution rate for the fiscal year beginning July 1, 2013 under the North Dakota Century Code is equal to 10.75% of payroll for employers. Compared to the annual required contribution of 10.26% of payroll, the contribution sufficiency is 0.49% of payroll as of July 1, 2013.

4. The 2011 legislative changes included increases to the statutory contribution rates: 2% each for employer and member effective July 1, 2012 and an additional 2% each for employer and member effective July 1, 2014. Employer and member contributions will be reset to 7.75% each once the Fund reaches a 100% funded ratio, measured using the actuarial value of assets. The 10.26% annual required contribution stated above reflects the actuarial present value of the increased statutory contributions scheduled to occur July 1, 2014.

5. The funding ratio based on the actuarial value of assets over the actuarial accrued liability as of July 1, 2013, is 58.8%, compared to 60.9% as of July 1, 2012. This ratio is a measure of funding status, its history is a measure of funding progress, and is the ratio required to be reported under GASB 25. The total 8% increase in the statutory contribution rates is expected to improve the funding ratio of the plan over time.

6. For the year ended June 30, 2013, Segal has determined that the asset return on a market value basis was 13.4%. After gradual recognition of investment gains and losses under the actuarial smoothing method, the actuarial rate of return was 2.7%. This represents an experience loss when compared to the assumed rate of 8%. As of June 30, 2013, the actuarial value of assets ($1.762 billion) represented 95.8% of the market value ($1.840 billion).

7. The portion of deferred investment gains and losses recognized during the calculation of the July 1, 2013, actuarial value of assets contributed to a loss of $91,132,324. In addition, the demographic and liability experience resulted in a $4,300,712 loss.

8. As mentioned above, the current method used to determine the actuarial value of assets yields an amount that is 95.8% of the market value of assets as of June 30, 2013. 95.8% falls within the 20% corridor, so no further adjustment to the actuarial value of assets is necessary. Guidelines in Actuarial Standard of Practice No. 44 (Selection and Use of Asset Valuation Methods for Pension Valuations) recommend that asset values fall within a reasonable range around the corresponding market value. The actuarial asset method complies with these guidelines.

9. The actuarial valuation report as of July 1, 2013, is based on financial data as of the date. Changes in the value of assets subsequent to that date are not reflected. Declines in asset values will increase the cost of the plan, while increases in asset values (in excess of expected) will decrease the cost of the plan.

10. The Fund's cash flow (contributions minus benefit payments, refunds, and expenses) as a percentage of the market value of assets is -1.9% as of June 30, 2013, compared to -3.1% as of June 30, 2012. The scheduled increases in the employer and member contribution rates will continue to improve the cash flow percentage, assuming all other experience emerges as expected.

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, 2013) is 10.12% of annual covered payroll as established by the NDCC. Prior to that date the contribution rate was 9.12% (as of January 1, 2012) and 8.12% prior to January 1, 2012. RIO's contributions to PERS for the years ended June 30, 2013, 2012, and 2011, were $108,353, $102,664 and $84,091, 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, 2013, committed to fund certain alternative investment partnerships in the amount of $900.0 million. Funding of $694.1 million has been provided leaving an unfunded commitment of approximately $205.9 million.

Note 12 - 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 SIB did not agree with the method used to distribute the assets, and along with the other WGTC limited partners appealed the District Court's ruling. It was the SIB's position that the District Court incorrectly determined the amount of the distribution; and that the audited limited partners were entitled to a greater share of the recovered assets than the unaudited note holders. In April, 2013, the District Court's original ruling was upheld by the United States Court of Appeals for the Second Circuit and the SIB received an additional $3.1 million *pro rata* distribution, bringing the total distributions received to $67.1 million. It should be noted that the receiver continues to pursue certain "clawback" actions and to dispose of various real and personal property held by the receiver in order to recover additional funds that may eventually be distributed to the investors, including the SIB. While future additional distributions are possible, the amount of any additional distributions to the SIB will likely be small as compared to the prior distributions. Total distributions to date have resulted in a net realized loss attributable to the fraud of $8.2 million which was allocated to the participating pooled funds as follows (expressed in thousands):

	Initial Recovery April 2011 (in thousands)	Subsequent Recovery April 2013 (in thousands)	Cost Basis (in thousands)	Net Realized loss (in thousands)
Teachers' Fund for Retirement	$ 23,001	$ 1,129	$ 27,080	$ (2,950)
Public Employees Retirement System	26,012	1,277	30,626	(3,337)
Bismarck City Employee Pension Plan	503	25	592	(64)
Bismarck City Police Pension Plan	268	13	316	(35)
Job Service of ND	1,408	69	1,657	(180)
City of Fargo Employee Pension Plan	445	22	524	(57)
Workforce Safety & Insurance	10,616	521	12,499	(1,362)
State Fire & Tornado	512	25	603	(66)
State Bonding	51	2	60	(7)
Risk Mgmt	88	4	104	(12)
Risk Mgmt Work Comp	63	3	74	(8)
Insurance Regulatory Trust Fund	16	1	18	(1)
Petroleum Tank Release Comp Fund	155	8	182	(19)
ND Ass'n of Counties Fund	54	3	64	(7)
City of Bismarck Deferred Sick Leave	13	1	15	(1)
City of Fargo FargoDome Permanent Fund	718	35	846	(93)
Cultural Endowment Fund	8	-	10	(2)
Totals	$ 63,931	$ 3,138	$ 75,270	$ (8,201)

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. In addition to the Adversary Proceeding, other Tribune creditors have filed numerous state court actions (the "State Court Actions") to assert fraudulent transfer claims against certain recipients of the offering described below. The SIB was not named in any of these actions, which have since been consolidated and transferred to the MDL Proceeding (the State Court Actions together with the Adversary Proceeding, the "Tribune LBO Litigation").

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

The Committee purportedly served the SIB with a copy of the summons and complaint in the Adversary Proceeding on or about February 13, 2012. On July 26, 2013, the Court granted the Litigation Trustee leave to file a Fifth Amended Complaint. A response to the Litigation Trustee's Fifth Amended Complaint will not yet be required, and the Court has stayed all discovery pending its disposition of a Motion to Dismiss in the State Court Actions. The Court held a hearing on the Motion on May 23, 2013, and took the matter under advisement. In large part, however, the Adversary Proceeding has been stayed from its inception, and continues to be stayed. No substantive motions or answers have been filed by the SIB or any other defendant in response to the complaint. 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
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
2013	1,762.3	2,997.1	1,234.8	58.8	526.7	234.4

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	
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%
2013	9.49%[3]	52,396,153	10.75%	59,352,860	113.3%

1. The GASB ARC for each fiscal year is based on the actuarial valuation as of the beginning of the year. Therefore, the FY 2013 ARC is based on the July 1, 2012 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. For FY 2005 and prior years, the unfunded actuarial accrued liability is amortized over a 20-year period as a level dollar amount.

2. The dollar amount of the ARC is based on actual payroll for the year. The FY 2013 ARC shown above differs from the estimated dollar amount shown in the July 1, 2012 actuarial valuation report because of differences between estimated and actual FY 2013 payroll.

3. The FY 2013 ARC reflects the actuarial present value of the increased statutory contributions scheduled to occur July 1, 2014 and has been restated in this valuation report.

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	1,051,393,689	29,432,743	14,093,881	36,368,800	18,847,898	27,730,342	3,059,307	329,124,548	9,440,169	-	-
Fixed income	-	-	-	-	-	-	-	-	-	-	-
Fixed income pool	441,491,591	23,397,268	8,696,450	53,427,026	8,217,984	12,062,393	1,278,331	1,096,297,039	14,640,443	1,683,588	3,323,991
Real assets pool	375,048,624	13,198,095	5,559,176	-	4,979,280	7,531,092	479,034	109,390,403	-	-	-
Private equity pool	102,930,687	2,434,322	1,481,843	-	1,681,860	2,585,280	250,828	-	-	-	-
Cash pool	26,448,952	305,985	207,675	601,042	425,132	223,873	42,581	14,537,107	2,446,147	1,433,736	3,463,508
Total investments	1,997,313,543	68,768,413	30,039,025	90,396,868	34,152,154	50,132,980	5,110,081	1,549,349,097	26,526,759	3,117,324	6,787,499
Invested sec lending collateral	-	-	-	-	-	-	-	-	-	-	-
Investment income receivable	3,585,793	54,434	33,794	45,896	(18,483)	15,081	(770)	8,370,189	106,658	23,894	51,984
Operating Cash	56,297	-	-	-	-	-	-	53,954	775	916	1,078
Miscellaneous receivable	5,107	-	-	-	-	-	-	4,057	70	8	18
Total assets	2,000,960,740	68,822,847	30,072,819	90,442,764	34,133,671	50,148,061	5,109,311	1,557,777,297	26,634,262	3,142,142	6,840,579
Liabilities:											
Investment expenses payable	2,346,133	81,902	37,038	78,952	39,384	57,491	4,486	1,015,148	19,127	843	1,674
Securities lending collateral	-	-	-	-	-	-	-	-	-	-	-
Accounts payable	22,629	-	-	-	-	-	-	15,669	316	37	85
Accrued expenses	27,231	-	-	-	-	-	-	21,341	394	45	121
Miscellaneous payable	-	2,691	1,180	3,954	1,369	1,765	250	-	-	-	-
Due to other state agencies	495	-	-	-	-	-	-	393	7	-	2
Total liabilities	2,396,488	84,593	38,218	82,906	40,753	59,256	4,736	1,052,551	19,844	925	1,882
Net position held in trust for external investment pool participants	$ 1,998,564,252	$ 68,738,254	$ 30,034,601	$ 90,359,858	$ 34,092,918	$ 50,088,805	$ 5,104,575	$ 1,556,724,746	$ 26,614,418	$ 3,141,217	$ 6,838,697
Each participant unit is valued at $1.00											
Participant units outstanding	1,998,564,252	68,738,254	30,034,601	90,359,858	34,092,918	50,088,805	5,104,575	1,556,724,746	26,614,418	3,141,217	6,838,697

			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 2013	Totals 2012
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 43,854,432	$ 43,854,432	$ 36,131,488
	312,902	178,141	1,874,447	1,958,548	815,897	-	-	-	305,919	18,272,867	-	1,543,210,098	1,312,774,041
	-	-	-	-	-	-	392,878,101	1,188,657,699	-	-	29,749,849	1,611,285,649	806,874,577
	351,942	118,892	3,954,801	3,126,548	1,541,597	-	-	-	658,600	17,773,329	-	1,692,041,813	1,582,382,143
	-	16,965	-	-	-	-	-	-	-	-	-	516,202,669	469,548,278
	-	-	-	-	-	-	-	-	-	-	-	111,364,820	108,766,790
	370,477	9,936	315,768	161,256	360,305	42,792,860	6,132,284	71,022	51,836	364,501	-	100,765,983	69,354,213
	1,035,321	323,934	6,145,016	5,246,352	2,717,799	42,792,860	399,010,385	1,188,728,721	1,016,355	36,410,697	73,604,281	5,618,725,464	4,385,831,530
	-	-	-	-	-	-	-	-	-	-	-	-	-
	8,326	(20)	42,282	1,096	(355)	18	2,342,796	6,050,472	479	894	72,982	20,787,440	17,254,744
	890	166	1,072	1,071	-	-	12,878	30,306	-	-	-	159,403	152,772
	3	1	15	11	-	-	1,038	2,424	-	-	-	12,752	9,506
	1,044,540	324,081	6,188,385	5,248,530	2,717,444	42,792,878	401,367,097	1,194,811,923	1,016,834	36,411,591	73,677,263	5,639,685,059	4,403,248,552
	577	275	4,160	3,821	1,762	1	202,045	568,043	711	34,952	51,296	4,549,821	3,649,932
	-	-	-	-	-	-	-	-	-	-	-	-	-
	12	4	64	48	-	-	3,614	8,438	-	-	-	50,916	26,714
	16	4	72	57	-	-	3,940	6,819	-	-	-	60,040	50,425
	-	-	-	-	250	1,565	-	-	250	1,444	2,664	17,382	13,537
	-	-	1	1	-	-	101	235	-	-	-	1,235	3,309
	605	283	4,297	3,927	2,012	1,566	209,700	583,535	961	36,396	53,960	4,679,394	3,743,917
	$ 1,043,935	$ 323,798	$ 6,184,088	$ 5,244,603	$ 2,715,432	$ 42,791,312	$ 401,157,397	$ 1,194,228,388	$ 1,015,873	$ 36,375,195	$ 73,623,303	$ 5,635,005,665	$ 4,399,504,635
	1,043,935	323,798	6,184,088	5,244,603	2,715,432	42,791,312	401,157,397	1,194,228,388	1,015,873	36,375,195	73,623,303	5,635,005,665	4,399,504,635

	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
Additions:											
Investment income:											
Net change in fair value of investments	$ 200,819,548	$ 6,237,415	$ 2,898,709	$ 7,978,316	$ 3,464,908	$ 4,988,932	$ 561,321	$ 75,120,636	$ 1,873,759	$ 16,248	$ 35,781
Interest, dividends and other income	44,790,884	1,613,666	680,528	2,248,708	763,619	1,104,377	97,383	48,176,241	803,166	73,189	148,726
	245,610,432	7,851,081	3,579,237	10,227,024	4,228,527	6,093,309	658,704	123,296,877	2,676,925	89,437	184,507
Less investment expenses	6,656,785	228,569	102,691	242,783	112,375	162,026	14,622	4,698,342	62,939	3,575	7,178
Net investment income	238,953,647	7,622,512	3,476,546	9,984,241	4,116,152	5,931,283	644,082	118,598,535	2,613,986	85,862	177,329
Securities lending activity:											
Securities lending income	-	-	-	-	-	-	-	-	-	-	-
Less Securities lending expenses	-	-	-	-	-	-	-	-	-	-	-
Net securities lending income	-	-	-	-	-	-	-	-	-	-	-
Total Additions	238,953,647	7,622,512	3,476,546	9,984,241	4,116,152	5,931,283	644,082	118,598,535	2,613,986	85,862	177,329
Deductions:											
Administrative Expenses	254,826	-	-	-	-	-	-	172,933	3,068	990	1,030
Net change in net position resulting from operations	238,698,821	7,622,512	3,476,546	9,984,241	4,116,152	5,931,283	644,082	118,425,602	2,610,918	84,872	176,299
Unit transactions at net position value of $1 per unit:											
Purchase of units	-	-	-	-	740,000	4,148,698	236,892	26,500,000	-	-	-
Redemption of units	(12,389,125)	-	-	(4,305,267)	(286,000)	(3,881,321)	(267,234)	(22,000,000)	(500,000)	-	(100,000)
Net change in net position and units resulting from unit transactions	(12,389,125)	-	-	(4,305,267)	454,000	267,377	(30,342)	4,500,000	(500,000)	-	(100,000)
Total change in net position	226,309,696	7,622,512	3,476,546	5,678,974	4,570,152	6,198,660	613,740	122,925,602	2,110,918	84,872	76,299
Net position:											
Beginning 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
End of year	$ 1,998,564,252	$ 68,738,254	$ 30,034,601	$ 90,359,858	$ 34,092,918	$ 50,088,805	$ 5,104,575	$ 1,556,724,746	$ 26,614,418	$ 3,141,217	$ 6,838,697
	1,998,564,252	68,738,254	30,034,601	90,359,858	34,092,918	50,088,805	5,104,575	1,556,724,746	26,614,418	3,141,217	6,838,697

North Dakota Retirement and Investment Office

Combining Statement of Changes in Net Position – Investment Trust Funds – Fiduciary Funds

Year Ended June 30, 2013 (with Comparative Totals for 2012)

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 2013	Totals 2012
$ 61,472	$ 35,577	$ 352,442	$ 349,656	$ 107,664	$ -	$ (3,112,671)	$ (12,331,605)	$ 60,827	$ 3,435,467	$ 6,384,010	$ 299,338,412	$ (2,301,149)
22,735	9,320	181,504	144,640	63,052	129,167	10,804,040	17,696,018	32,997	997,950	1,776,879	132,358,789	115,514,522
84,207	44,897	533,946	494,296	170,716	129,167	7,691,369	5,364,413	93,824	4,433,417	8,160,889	431,697,201	113,213,373
1,886	925	12,368	10,097	6,171	3,819	407,183	1,070,706	3,439	109,886	197,797	14,116,162	12,779,965
82,321	43,972	521,578	484,199	164,545	125,348	7,284,186	4,293,707	90,385	4,323,531	7,963,092	417,581,039	100,433,408
-	-	-	-	-	-	-	-	-	-	-	-	17,400
-	-	-	-	-	-	-	-	-	-	-	-	(3,668)
-	-	-	-	-	-	-	-	-	-	-	-	21,068
82,321	43,972	521,578	484,199	164,545	125,348	7,284,186	4,293,707	90,385	4,323,531	7,963,092	417,581,039	100,454,476
997	449	985	987	-	-	44,798	77,681	-	-	-	558,744	529,383
81,324	43,523	520,593	483,212	164,545	125,348	7,239,388	4,216,026	90,385	4,323,531	7,963,092	417,022,295	99,925,093
-	-	500,000	1,000,000	900,000	224,605,535	-	791,126,479	-	-	3,580,000	1,053,337,604	716,465,386
-	(4,000)	-	(1,250,000)	-	(188,839,125)	(1,036,797)	-	-	-	-	(234,858,869)	(280,508,738)
-	(4,000)	500,000	(250,000)	900,000	35,766,410	(1,036,797)	791,126,479	-	-	3,580,000	818,478,735	435,956,648
81,324	39,523	1,020,593	233,212	1,064,545	35,891,758	6,202,591	795,342,505	90,385	4,323,531	11,543,092	1,235,501,030	535,881,741
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
$ 1,043,935	$ 323,798	$ 6,184,088	$ 5,244,603	$ 2,715,432	$ 42,791,312	$ 401,157,397	$ 1,194,228,388	$ 1,015,873	$ 36,375,195	$ 73,623,303	$ 5,635,005,665	$ 4,399,504,635
1,043,935	323,798	6,184,088	5,244,603	2,715,432	42,791,312	401,157,397	1,194,228,388	1,015,873	36,375,195	73,623,303	5,635,005,665	4,399,504,635

North Dakota Retirement and Investment Office

Pension and Investment Trust Funds – Schedule of Administrative Expenses

Years Ended June 30, 2013 and 2012

	Pension Trust		Investment Trust	
	2013	2012	2013	2012
Salaries and wages:				
Salaries and wages	$661,555	$624,735	$370,585	$445,615
Fringe benefits	250,440	227,391	116,457	124,842
Total salaries and wages	911,995	852,126	487,042	570,457
Operating expenses:				
Information services	66,750	74,036	12,415	11,899
Intergovernmental services	5,558	6,210	2,616	2,790
Professional services	166,169	161,937	51,949	45,650
Rent of building space	52,299	54,665	25,649	23,318
Mailing services and postage	49,934	39,147	25,483	23,926
Travel and lodging	21,359	21,665	12,056	25,454
Printing	21,859	10,498	6,550	5,345
Supplies	3,446	1,658	1,674	847
Professional development	10,344	9,819	5,939	1,882
Outside services	8,033	8,421	51,005	2,679
Small office equipment expense	2,040	700	2,483	2,527
Miscellaneous fees	2,642	3,771	30,341	2,908
Resource and reference materials	427	443	1,270	2,149
IT contractual services	125,506	154,436	15,018	1,326
Repairs - office equipment	510	9	215	340
Insurance	709	754	334	279
Total operating expenses	537,585	548,170	244,997	153,319
Pension trust portion of investment program expenses	173,295	194,393	(173,295)	(194,393)
Depreciation	763	2,288	-	-
Total administrative expenses	1,623,638	1,596,976	558,744	529,383
Less - nonappropriated items:				
Professional fees	166,169	161,937	51,949	45,650
Other operating fees paid under continuing appropriation	20,607	19,305	47,831	40,136
Depreciation	763	2,288	-	-
Accrual adjustments to employee benefits	10,118	5,557	539	1,164
Total nonappropriated items	197,657	189,087	100,319	86,951
Total appropriated expenditures	$ 1,425,981	$ 1,407,890	$ 458,425	$ 442,432

	Pension Trust		Investment Trust	
	2013	2012	2013	2012
Actuary fees:				
Segal Company	$ 94,848	$ 93,777	$ -	$ -
Auditing fees:				
CliftonLarsonAllen LLC	45,385	44,755	26,290	24,220
Eide Bailly, P.C.	-	(5,461)	-	(2,789)
Total Auditing Fees	45,385	39,294	26,290	21,431
Disability consulting fees:				
Dr. G.M. Lunn	775	300	-	-
Legal fees:				
Calhoun Law Group P.C.	-	5,748	-	-
K&L Gates LLP	9,073	6,742	10,692	8,508
Jenner & Block	2,337	978	3,644	1,903
ND Attorney General	13,751	15,098	11,323	13,808
Total legal fees:	25,161	28,566	25,659	24,219
Total consultant expenses	$ 166,169	$ 161,937	$ 51,949	$ 45,650

North Dakota Retirement and Investment Office

Pension and Investment Trust Funds – Schedule of Investment Expenses

Years Ended June 30, 2013 and 2012

	Pension Trust 2013	Pension Trust 2012	Investment Trust 2013	Investment Trust 2012
Investment managers' fees:				
Global equity managers	$ 1,403,825	$ 628,427	1,761,085	793,618
Domestic large cap equity managers	661,279	1,162,581	1,201,040	1,814,098
Domestic small cap equity managers	656,041	674,689	1,111,392	1,105,160
International equity managers	911,366	1,027,046	1,630,296	1,586,055
Emerging markets equity managers	378,684	428,517	559,955	590,141
Domestic fixed income managers	2,787,286	712,767	10,394,210	3,985,356
Below investment grade fixed income managers	1,604,541	990,581	2,108,519	1,264,007
Inflation protected assets managers	-	-	1,782,509	2,324,656
International fixed income managers	317,489	293,376	395,909	370,977
Real estate managers	1,863,035	1,628,104	3,090,481	2,784,378
Infrastructure managers	939,370	886,429	1,148,077	1,266,196
Timber managers	349,639	451,879	422,177	584,518
Private equity managers	1,850,618	2,798,325	2,148,730	2,920,720
Short term fixed income managers	-	-	1,235,929	564,284
Cash & equivalents managers	26,873	23,326	34,063	49,510
Balanced account managers	-	-	294,454	249,704
Total investment managers' fees	13,750,046	11,706,050	29,318,826	22,253,378
Custodian fees	257,367	247,562	717,989	552,859
Investment consultant fees	198,775	96,205	412,898	232,947
SIB Service Fees	-	-	47,331	45,891
Total investment expenses	$ 14,206,188	$ 12,049,817	$ 30,497,044	$ 23,085,076
Securities lending fees	$ -	$ (5,384)	$ -	$ (3,668)

Reconciliation of investment expenses to financial statements

	2013	2012	2013	2012
Investment expenses as reflected in the financial statements	$ 6,010,000	$ 5,661,973	$ 14,116,162	$ 12,779,965
Plus investment management fees included in investment income				
Domestic large cap equity managers	61,579	136,427	103,667	197,944
Domestic small cap equity managers	365,861	437,092	468,421	547,055
International equity managers	177,806	179,602	318,745	281,352
Emerging markets equity managers	94,991	101,321	140,772	137,180
Domestic fixed income managers	2,595,308	403,043	8,593,171	2,073,076
Below investment grade fixed income managers	1,227,212	664,742	1,603,162	857,137
Inflation protected assets managers	-	-	729,506	1,228,180
Real estate managers	1,076,639	871,583	1,257,309	832,223
Infrastructure managers	466,573	446,542	571,119	622,240
Timber managers	349,639	451,879	422,177	584,518
Private equity managers	1,780,580	2,695,613	2,068,299	2,814,550
Short term fixed income managers	-	-	-	18,401
Cash equivalents managers	-	-	-	-
Balanced account managers	-	-	104,534	111,255
Investment expenses per schedule	$ 14,206,188	$ 12,049,817	$ 30,497,044	$ 23,085,076

	Approved 2011-2013 Appropriation	2011-2013 Appropriation Adjustment	Adjusted 2011-2013 Appropriation	Fiscal 2012 Expenses	Fiscal 2013 Expenses	Unexpended Appropriations
All Fund Types:						
Salaries and wages	$ 3,203,114	$ -	$ 3,203,114	$ 1,415,862	$ 1,388,380	$ 398,872
Operating expenses	947,840	-	947,840	434,460	447,938	65,442
Contingency	82,000	-	82,000	-	48,088	33,912
Total	$ 4,232,954	$ -	$ 4,232,954	$ 1,850,322	$ 1,884,406	$ 498,226

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

Reconciliation of Administrative Expenses
to Appropriated Expenditures

	2013	2012
Administrative expenses as reflected in the financial statements	$ 2,182,382	$ 2,126,359
Less:		
Professional fees*	(218,118)	(207,587)
Other operating fees paid under continuing appropriations*	(68,438)	(59,441)
Depreciation expense	(763)	(2,288)
Changes in annual leave and FICA payments	(10,657)	(6,721)
Total appropriated expenses	$1,884,406	$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, 2013

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

Audit Report Communications

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

   Unmodified

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

   Yes

3. Was internal control adequate and functioning effectively?

   Yes

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

   No

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

   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 no recommendations included in the management letter.

Audit Committee Communications

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

   For the year ended June 30, 2013, the financial statements include the impact of adoption of Governmental Accounting Standards Board Statement (GASBS) numbers 62 and 63.

   GASBS 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, supersedes GASBS 20. GASBS 20 gave governments the choice to elect to follow only the authoritative literature of the Governmental Accounting Standards Board (GASB) or to follow Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements that did not conflict with GASB pronouncements. Upon adoption of GASBS 62, all governmental accounting guidance is codified into the GASB literature.

   GASBS 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides guidance on reporting deferred outflows and inflows of resources. It also renames the residual of all other amounts presented in the statement of financial position from “net assets” to “net position.” The financial statements include the statement of net position, which reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Adoption of future GASB standards will include reporting of some items previously reported as assets and liabilities as deferred outflows and inflows of resources.

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.

   The valuation of alternative investments, including private equity and real asset investments, are a management estimate which is primarily based upon net asset values reported by the investment managers and comprise 14% of the total investment portfolio. The values for these investments are reported based upon the most recent financial data available and are adjusted for cash flows through June 30, 2013. Our audit procedures validated this approach through the use of confirmations sent directly to a sample of investment managers and the review of the most recent audited financial statements for these funds. Furthermore, we reviewed management’s estimate and found it to be reasonable.

   The actuarial valuation was based on the actuarial assumptions and methods adopted by the Board, including an actuarial expected investment rate of return of 8.0% per annum compounded annually. The valuation takes into account all of the promised benefits to which members are entitled as of July 1, 2013 as required by the North Dakota Century Code. The valuation provides certain information required by GASB to be disclosed in the financial statements. Additionally, the valuation is used to determine the adequacy of the current employer contribution rate. Our audit procedures included reviewing the actuarial valuation and related assumptions used therein and we believe the estimate to be reasonable.

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

7. Identify any management consultations with other 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 Office'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 24, 2013