NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Bismarck, ND

FINANCIAL STATEMENTS

June 30, 2014 and 2013

PAGE

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 – fiduciary funds as of June 30, 2014 and 2013, and the related statements of changes in net position – fiduciary funds 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, 2014 and 2013, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2014 and 2013, 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, 2014 and 2013, 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 the State of North Dakota as of June 30, 2014 and 2013, 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 changes in net pension liability and related ratios, employer contributions and investment returns and related notes, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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 audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 November 11, 2014, 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

Baltimore, Maryland
November 11, 2014

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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 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 – fiduciary funds, the related statements of changes in net position – fiduciary funds, and the combining and individual fund financial statements, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 11, 2014.

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 audits, 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 audits 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 audits, 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
November 11, 2014

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, 2014. 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 24 investment clients in two investment pools and one individual investment account.

Financial Highlights

Total net position increased in the fiduciary funds by $1.95 billion or 26.1% 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 $907.2 million during the fiscal year.

Additions in the fiduciary funds for the year increased $354.9 million from the previous year. Net investment income increased by $349.7 million and total contributions increased $5.1 million.

Deductions in the fiduciary funds increased over the prior year by $13.7 million or 8.8%. 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 on which the benefits of new retirees are based.

The TFFR funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2014, the TFFR pension plan had a Net Pension Liability (NPL) of $1.0 billion and Plan Fiduciary Net Position as a percent of Total Pension Liability (TPL) of 66.6%.

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, 2014, were $9.4 billion and were comprised mainly of investments. Total assets increased by nearly $2 billion or 26.2% from the prior year primarily due to the growth of the Legacy Fund and strong financial markets.

Total liabilities as of June 30, 2014, were $11 million and were comprised mostly of investment expenses payable. Total liabilities increased by $3.2 million or 41.9% from the prior year due mainly to an increase in investment expenses payable at June 30, 2014, caused by the timing of the payment of those expenses.

RIO's fiduciary fund total net position was $9.4 billion at the close of fiscal year 2014.

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

	2014	2013	Total % Change
Assets			
Investments	$ 9,374	$ 7,422	26.3%
Receivables	48	44	9.2%
Cash & Other	17	16	5.9%
Total Assets	9,439	7,482	26.2%
Liabilities			
Accounts Payable	11	7	41.9%
Total Liabilities	11	7	41.9%
Total Net Position	$ 9,428	$ 7,475	26.1%

	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%

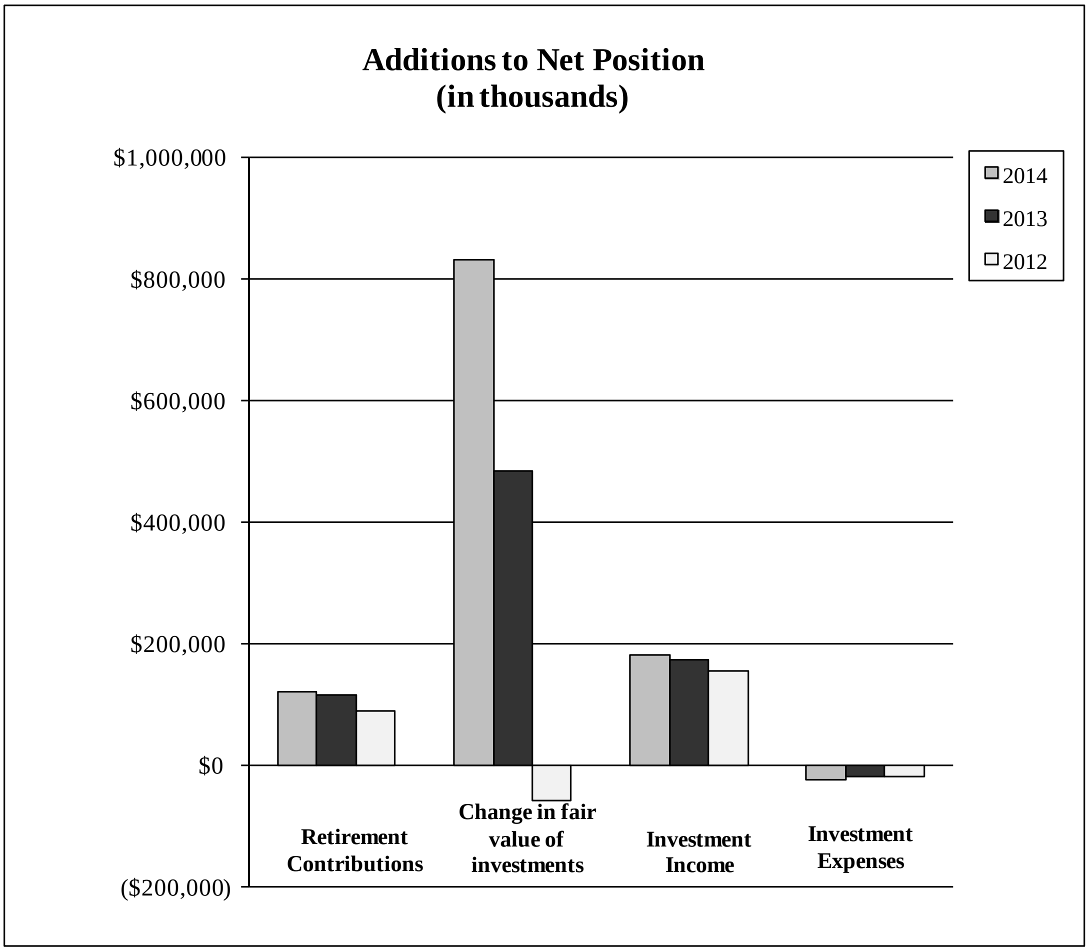
North Dakota Retirement and Investment Office
Changes in Net Position – Fiduciary Funds
(In Millions)

	2014	2013	Total % Change
Additions:			
Contributions	$ 121	$ 116	4.4%
Investment Income	988	638	54.8%
Total Additions	1,109	754	47.1%
Deductions	165	151	8.8%
Net change from unit transactions	1,010	818	23.4%
Total change in net position	$ 1,954	$ 1,421	37.5%

	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%

Statement of Changes in Net Position – Additions

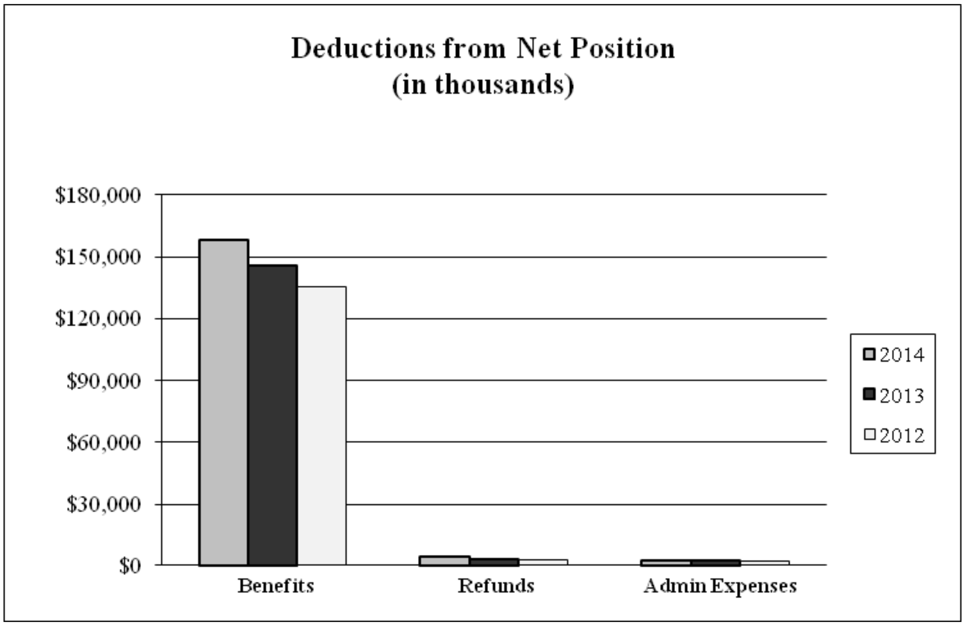
Contributions and net investment income are the two components of the fiduciary fund additions. Contributions collected by the pension trust fund increased by $5.1 million or 4.4% over the previous fiscal year. There was no contribution rate increase in FY2014. The increase is due to an increase in the salaries on which the contributions are collected and an increase in the number of members on which contributions are collected. Net investment income (net of investment expenses) increased by $349.7 million or 54.8% from last year. This was the result of strong 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 $12.4 million or 8.5% during the fiscal year ended June 30, 2014. 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 in fiscal year 2014 by $0.9 million or 28.0%.

Administrative expenses increased by $97,558 or 4.5%. This increase over the previous year's administrative expenses is due to the filling of the Executive Director/CIO position in December 2013. That position had been vacant since May 2012.



Conclusion

As consistent with the prior fiscal year, financial markets performed well. 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 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. Benefit changes for non-grandfathered employees became effective July 1, 2013. The final phase of rate increases will go into effect on July 1, 2014 with 2% member and 2% employer contribution increases. Increased contribution rates will be in effect until TFFR reaches 100% funding on an actuarial basis. This comprehensive funding recovery plan, along with solid investment performance in the future, is expected to improve TFFR's funding level over the long term. As of July 1, 2014 TFFR's funding level was 61.8% on an actuarial basis, and is projected to reach 100% within 30 years. Protecting the long term solvency of the pension plan is the TFFR Board's fiduciary responsibility. The Board will continue to proactively address TFFR funding issues so the plan will be financially strong and sustainable for past, present, and future ND educators.

Contacting RIO Financial Management

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

	Pension Trust		Investment Trust	
	2014	2013	2014	2013
Assets:				
Investments, at fair value				
Equities	$ -	$ -	$ 55,112,752	$ 43,854,432
Equity pool	1,089,067,377	951,272,867	2,787,747,097	1,543,210,098
Fixed income	-	-	533,078,401	1,611,285,649
Fixed income pool	478,677,486	392,807,091	3,083,559,151	1,692,041,813
Real assets pool	369,078,739	340,442,941	645,467,366	516,202,669
Private equity pool	97,357,862	94,185,760	114,064,794	111,364,820
Cash pool	20,045,640	24,369,601	100,251,550	100,765,983
Total investments	2,054,227,104	1,803,078,260	7,319,281,111	5,618,725,464
Receivables:				
Investment income	7,457,808	7,657,195	24,467,745	20,787,440
Contributions	16,233,852	15,648,020	-	-
Miscellaneous	4,362	5,172	11,316	12,752
Total receivables	23,696,022	23,310,387	24,479,061	20,800,192
Due from other state agency	-	616	-	-
Cash and cash equivalents	17,012,740	16,044,045	145,652	159,403
Total assets	2,094,935,866	1,842,433,308	7,343,905,824	5,639,685,059
Liabilities:				
Accounts payable	58,356	69,417	39,232	50,916
Investment expenses payable	3,262,454	2,113,717	6,599,159	4,549,821
Accrued expenses	631,740	658,494	70,572	60,040
Miscellaneous payable	-	-	14,804	17,382
Due to other state agencies	6,260	7,720	1,169	1,235
Total liabilities	3,958,810	2,849,348	6,724,936	4,679,394
Net position:				
Held in trust for pension benefits	2,090,977,056	1,839,583,960	-	-
Held in trust for external investment pool participants:				
Pension pool	-	-	2,603,764,672	2,276,983,263
Insurance pool	-	-	4,643,121,726	3,284,399,099
Held in trust for individual investment account	-	-	90,294,490	73,623,303
Total net position	$ 2,090,977,056	$ 1,839,583,960	$ 7,337,180,888	$ 5,635,005,665
Each participant unit is valued at $1.00				
Participant units outstanding			7,337,180,888	5,635,005,665

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

	Pension Trust		Investment Trust	
	2014	2013	2014	2013
Additions:				
Contributions:				
Employer contributions	$ 62,355,146	$ 59,300,720	$ -	$ -
Member contributions	56,554,767	53,784,461	-	-
Purchased service credit	2,034,289	2,641,019	-	-
Interest, penalties and other	47,766	123,148	-	-
Total contributions	120,991,968	115,849,348	-	-
Investment income:				
Net change in fair value of investments	264,759,565	185,196,374	567,151,376	299,338,412
Interest, dividends and other income	36,744,024	41,018,935	144,142,458	132,358,789
	301,503,589	226,215,309	711,293,834	431,697,201
Less investment expenses	7,257,140	6,010,000	18,023,588	14,116,162
Net investment income	294,246,449	220,205,309	693,270,246	417,581,039
Total additions	415,238,417	336,054,657	693,270,246	417,581,039
Deductions:				
Benefits paid to participants	157,529,892	145,079,333	-	-
Partial lump-sum distributions	820,463	863,990	-	-
Refunds	3,908,921	3,053,395	-	-
Administrative expenses	1,586,045	1,623,638	693,895	558,744
Total deductions	163,845,321	150,620,356	693,895	558,744
Net change in net position resulting from operations	251,393,096	185,434,301	692,576,351	417,022,295
Unit transactions at net position value of $1.00 per unit:				
Purchase of units	-	-	1,360,499,546	1,053,337,604
Redemption of units	-	-	(350,900,674)	(234,858,869)
Net change in position and units resulting from unit transactions	-	-	1,009,598,872	818,478,735
Total change in net position	251,393,096	185,434,301	1,702,175,223	1,235,501,030
Net position:				
Beginning of year	1,839,583,960	$ 1,654,149,659	$ 5,635,005,665	$ 4,399,504,635
End of Year	$ 2,090,977,056	$ 1,839,583,960	$ 7,337,180,888	$ 5,635,005,665

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

Note 1 - Summary of Significant Accounting Policies

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 accounted for within the pension and investment trust funds and are shown, by fund, 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.

Reclassification

Certain 2013 amounts have been reclassified in conformity with the 2014 presentation. These reclassifications had no effect on net position or changes therein.

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, ND State Board of Medical Examiners, 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 $130,567 and $147,115 at June 30, 2014 and 2013, respectively. The current portions of accrued leave amounted to $80,686 and $71,864 at June 30, 2014 and 2013, 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, 2014 and 2013 consisted of the following:

Balance, July 1, 2012	$ 136,458
Additions	94,877
Deductions	(84,220)
Balance, June 30, 2013	147,115
Additions	91,844
Deductions	(108,392)
Balance, June 30, 2014	$ 130,567

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, 2014 and 2013 were deposited in the Bank of North Dakota. At June 30, 2014 and 2013, the carrying amount of TFFR's deposits was $17,012,740 and $16,044,045, respectively, and the bank balance was $17,015,906 and $16,055,352 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 (cash pool as of June 30, 2013 only) are recorded as investments and have a cost and carrying value of $106,948,787 and $188,293,365 at June 30, 2014 and 2013, respectively. In addition these funds carry cash deposits totaling $145,652 and $159,403 at June 30, 2014 and 2013, respectively. These cash deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these cash deposits are held at the Bank of North Dakota and 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.

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, 2014 and 2013, the following tables show the investments by investment type and maturity (expressed in thousands).

2014	Total Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years
Asset Backed Securities	$ 176,669	$ 284	$ 70,094	$ 20,166	$ 86,125
Bank Loans	5,064	-	2,364	2,700	-
Collateralized Bonds	-	-	-	-	-
Commercial Mortgage-Backed	99,632	-	971	534	98,127
Commercial Paper	94,092	94,092	-	-	-
Corporate Bonds	1,091,736	48,549	543,307	254,173	245,707
Corporate Convertible Bonds	23,368	2,237	11,021	3,176	6,934
Government Agencies	114,149	7,696	92,328	3,027	11,098
Government Bonds	555,494	110,533	245,140	117,872	81,949
Gov't Mortgage Backed and CMB	555,576	-	6,919	12,327	536,330
Repurchase Agreements	21,700	21,700	-	-	-
Index Linked Government Bonds	7,854	1,663	-	5,109	1,082
Municipal/Provincial Bonds	25,393	1,813	1,795	2,002	19,783
Non-Government Backed CMOs	35,264	-	3,587	3,312	28,365
Other Fixed Income	13,191	1,926	11,265	-	-
Short Term Bills and Notes	58,075	58,075	-	-	-
Funds/Pooled Investments	1,312,173	4,223	228,429	689,626	389,895
Total Debt Securities	$ 4,189,430	$ 352,791	$ 1,217,220	$ 1,114,024	$ 1,505,395

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

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 $6.6 million and $4.2 million, and POs valued at $3.3 million and $3.4 million at June 30, 2014 and 2013 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, 2014 and 2013 (expressed in thousands).

		Credit Rating*												
2014	Total Fair Value	A-1	A-2	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset Backed Securities	$ 176,669	$ -	$ -	$ 91,996	$ 33,423	$ 23,358	$ 13,390	$ 2,085	$ 2,789	$ 8,881	$ 285	$ -	$ 462	$ -
Bank Loans	5,064	-	-	-	-	-	745	3,169	1,150	-	-	-	-	-
Commercial Mortgage Backed	82,222	-	-	45,984	13,950	5,659	8,276	1,890	5,949	302	-	-	212	-
Commercial Paper	94,092	-	55,026	-	-	11,372	27,694	-	-	-	-	-	-	-
Corporate Bonds	1,091,736	-	-	4,268	38,299	230,481	597,349	156,864	42,974	21,107	-	-	394	-
Corporate Convertible Bonds	23,368	-	-	-	-	1,634	3,017	10,451	7,565	701	-	-	-	-
Gov't Agencies	109,616	-	-	4,682	94,785	4,413	5,736	-	-	-	-	-	-	-
Gov't Bonds	110,146	-	-	-	14,875	33,686	47,799	13,089	697	-	-	-	-	-
Gov't Issued Commercial & Gov't Mortgage Backed	395,225	-	-	-	395,225	-	-	-	-	-	-	-	-	-
Index Linked Bonds	169	-	-	-	-	169	-	-	-	-	-	-	-	-
Municipal/Provincial Bonds	25,393	-	-	6,161	6,089	8,292	4,434	417	-	-	-	-	-	-
Non-Gov't Backed CMOs	34,576	-	-	3,224	6,513	6,912	8,193	560	2,772	3,108	182	-	3,112	-
Other Fixed Income	13,191	-	-	974	8,211	488	3,277	241	-	-	-	-	-	-
Repurchase Agreements	21,700		-	21,700	-	-	-	-	-	-	-	-	-	-
Short Term Bills & Notes	56,219	-	-	-	49,394	5,438	500	-	887	-	-	-	-	-
Funds/Pooled Investments	1,312,173	-	-	362,413	368,683	361,285	18,038	22,714	19,107	-	-	159,933	-	-
Total Credit Risk of Debt Securities	3,551,559	$ -	$ 55,026	$ 541,402	$ 1,029,447	$ 693,187	$ 738,448	$ 211,480	$ 83,890	$ 34,099	$ 467	$ 159,933	$ 4,180	$ -
US Gov't & Agencies **	637,871													
Total Debt Securities	$ 4,189,430													

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	-	-	-	-	-	-	-	-	-
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													

* 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.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single issuer. As of June 30, 2014 and 2013, the SIB's portfolio has no single issuer exposure that comprises 5% or more of the overall portfolio, excluding investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments. Therefore, there is no concentration of credit risk.

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, 2014 and 2013 (expressed in thousands).

2014

Currency	Short-Term	Debt	Equity	Total
Australian dollar	$ (5,730)	$ 13,470	$ 33,756	$ 41,496
Brazilian real	(300)	8,533	7,204	15,437
British pound sterling	(128)	7,322	161,777	168,971
Canadian dollar	568	-	27,981	28,549
Chilean peso	9,453	1,051	-	10,504
Chinese yuan renminbi	380	-	-	380
Columbian peso	1	-	-	1
Czech koruna	2	-	1,491	1,493
Israeli shekel	57	-	3,121	3,178
Danish krone	(435)	-	6,918	6,483
Euro	(22,927)	20,730	246,579	244,382
Hong Kong dollar	152	-	38,146	38,298
Hungarian forint	50	4,188	1,325	5,563
Iceland krona	34	-	-	34
Indian rupee	377	-	-	377
Indonesian Rupiah	-	4,155	198	4,353
Japanese yen	(5,479)	576	156,421	151,518
Malaysian Ringgit	310	2,375	-	2,685
Mexican peso	2,735	25,359	-	28,094
New Zealand dollar	(2,657)	3,339	923	1,605
Norwegian krone	142	-	12,972	13,114
Peruvian nuevo sol	(56)	-	-	(56)
Philippine peso	-	2,209	-	2,209
Polish zloty	(4,162)	4,987	2,853	3,678
Russian ruble	359	-	-	359
Singapore dollar	355	-	6,904	7,259
South African rand	345	3,734	3,967	8,046
South Korean won	33	5,052	12,814	17,899
Swedish krona	(233)	-	19,287	19,054
Swiss franc	222	54	63,763	64,039
Thai baht	103	-	1,997	2,100
Turkish lira	288	1,529	1,483	3,300
International commingled funds (various currencies)	-	115,294	697,197	812,491
Total international investment securities	$ (26,141)	$ 223,957	$ 1,509,077	$ 1,706,893

Negative amounts represent short positions.

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

Negative amounts represent short positions

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, 2014 and 2013, 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 $101.2 million for fiscal year 2014 and $90.1 million for fiscal year 2013. At June 30, 2014 and 2013, the SIB investment portfolio had the notional futures balances shown below (expressed in thousands).

Futures	Notional Value June 30, 2014	Notional Value June 30, 2013
Cash & Cash Equivalent Derivative Futures		
Long	$ 35,663	$ 180,058
Short	(511,036)	(165,105)
Equity Derivative Futures		
Long	486,293	478,996
Short	-	-
Fixed Income Derivative Futures		
Long	27,888	3,124
Short	(61,524)	(64,623)
Total Futures	$ (22,716)	$ 432,450

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 $801,500 for fiscal year 2014 and $43,000 for fiscal year 2013. At June 30, 2014 and 2013, the SIB investment portfolio had the following option balances (expressed in thousands).

Options	Fair Value	
	June 30, 2014	June 30, 2013
Cash & Other Options		
Call	$ 988	$ -
Put	(39)	-
Fixed Income Options		
Call	(170)	-
Put	(11)	-
Total Options	$ 768	$ -

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.

Currency risk represents the exposure to fair value losses arising from the change in price of one currency against another. A currency swap is a foreign-exchange agreement between two parties to exchange principal and interest in one currency for the same in another currency.

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 $17 thousand for fiscal year 2014 and $(933) thousand for fiscal year 2013. The maximum loss that would be recognized at June 30, 2014 and 2013, if all counterparties failed to perform as contracted is $3.25 million and $4.25 million respectively. Swap fair values are determined by a third party pricing source. At June 30, 2014 and 2013, 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 June 30, 2014	Notional Amount June 30, 2013	Expiration Date	Fair Value June 30, 2014	Fair Value June 30, 2013
Bank of America/A2	$ -	$ 1,560	12/20/2017	$ -	$ 6
Bank of America/A2	(500)	-	6/20/2019	(7)	-
Barclays/A2 (6 contracts)	(1,400)	-	6/20/2019	35	-
BNP Paribas/A2 (2 contracts)	(800)	-	6/20/2019	(25)	-
Citibank/A3	(100)	-	6/20/2016	(7)	-
Citibank/A3 (2 contracts)	(5,800)	-	12/20/2017	80	-
Citibank/A3	(400)	-	6/20/2019	(9)	-
Citigroup Global Markets/A1	(6,500)	-	12/20/2018	142	-
Credit Suisse First Boston/A1	(11,200)	-	12/20/2017	243	-
Credit Suisse First Boston/A1 (8 contracts)	(2,793)	-	6/20/2019	104	-
Credit Suisse International/A1	240	240	12/20/2016	(18)	(15)
Credit Suisse International/A1	(400)	-	9/20/2018	3	-
Credit Suisse International/A1	(400)	-	6/20/2019	11	-
Deutsche Bank/A2	-	120	9/20/2013	-	-
Deutsche Bank/A2 (3 contracts)	2,160	2,160	12/20/2016	(167)	(135)
Deutsche Bank/A2 (2 contracts)	2,400	3,120	6/20/2017	(62)	2
Deutsche Bank/A2 (3 contracts)	-	(1,690)	12/20/2017	-	40
Deutsche Bank/A2 (2 contracts)	(700)	-	6/20/2019	18	-
Goldman Sachs/A3 (5 contracts)	(4,900)	-	6/20/2019	30	-
HSBC Bank/A1 (3 contracts)	(4,000)	-	6/20/2019	49	-
HSBC Bank/A1	(450)	-	9/20/2019	(17)	-
JP Morgan Chase/Aa3	400	400	3/20/2017	-	-
JP Morgan Chase/Aa3 (4 contracts)	-	12,700	6/20/2017	-	(140)
JP Morgan Chase/Aa3 (2 contracts)	-	4,400	12/20/2017	-	(46)
JP Morgan Chase/Aa3	6,500	-	12/20/2018	(142)	-
JP Morgan Chase/Aa3	(600)	-	3/20/2019	117	-
JP Morgan Chase/Aa3 (5 contracts)	(2,100)	-	6/20/2019	103	-
JP Morgan Chase/Aa3 (4 contracts)	12	30	10/12/2052	-	1
Total Credit Default Swaps	$ (31,331)	$ 23,040		$ 481	$ (287)

The notional amount may be positive or negative depending on whether the position is long or short, respectively.

Currency Swaps

Counterparty/Moody's Rating	Notional Amount June 30, 2014	Notional Amount June 30, 2013	Expiration Date	Fair Value June 30, 2014	Fair Value June 30, 2013
Barclays/A2	$ 310	$ -	7/22/2018	$ (7)	$ -
Barclays/A2	330	-	7/23/2018	(8)	-
Citibank N.A. NY/A3	49	49	5/2/2015	2	-
Deutsche Bank London/A2	281	-	5/14/2017	(2)	-
HSBC Bank USA/A1	500	-	9/5/2015	11	-
Total Currency Swaps	$ 1,470	$ 49		$ (4)	$ -

The notional amount may be positive or negative depending on whether the position is long or short, respectively.

Interest Rate Swaps

Counterparty	Notional Amount June 30, 2014	Notional Amount June 30, 2013	Rate Range	Counterparty Rate	Expiration Date Range	Counterparty Rating (Moody's)	Fair Value June 30, 2014	Fair Value June 30, 2013
Bank of Nova Scotia	$ (315)	$ -	1.888%		10/2/2019	Aa2	$ 8	$ -
Bank of Nova Scotia (4 contracts)	-	(493)	0.751 - 1.355%	Various overnight bank rates depending on currency	8/2013 - 10/2019	Aa2	-	34
Barclays (26 contracts)	2,029,119	-	0 - 7.42%		7/2014 - 12/2032	A2	(62)	-
Barclays (17 contracts)	-	5,986	0 - 7.42%		7/2013 - 12/2032	A2	-	(125)
BNP Paribas	5,957	-	12.255%		1/2/2017	A2	103	-
Citibank (18 contracts)	3,626	-	0 - 4.845%		11/2014 - 5/2023	A3	317	-
Citibank (17 contracts)	-	(730)	0 - 4.42%		12/2014 - 12/2032	A3	-	(1)
Citigroup Global Markets (4 contracts)	(7,855)	-	0.56 - 2.49%		9/2015 - 8/2020	A1	(97)	-
Credit Suisse First Boston (26 contracts)	280,000	-	1.00 - 8.19%		9/2014 - 9/2044	A1	9	-
Credit Suisse First Boston (5 contracts)	-	1,785	0.689 - 7.25%		6/2018 - 5/2023	A1	-	(6)
Deutsche Bank (5 contracts)	268,701	-	0 - 6.54%		11/2018 - 10/2023	A2	37	-
Deutsche Bank (2 contracts)	-	670	1.96 - 3.12%		10/2013 - 1/2014	A2	-	(0)
Goldman Sachs (4 contracts)	(48,140)	-	1.755 - 6.3%		8/2018 - 4/2024	A3	(186)	-
Goldman Sachs (2 contracts)	-	233	0.52 - 1.4375%		4/19/2020	A3	-	3
HSBC Bank (6 contracts)	15,807	-	0 - 8.97%		6/2015 - 9/2033	A1	(218)	-
HSBC Bank (6 contracts)	-	2,277	0 - 2.965%		7/2013 - 1/2028	A1	-	54
JP Morgan Chase (22 contracts)	113,840	-	0.22 - 7.2%		9/2015 - 3/2044	Aa3	205	-
JP Morgan Chase (5 contracts)	-	206	0 - 4.74%		7/2013 - 8/2016	Aa3	-	(24)
Morgan Stanley (2 contracts)	7,400	-	5.08 - 6.37%		1/2015 - 5/2022	Baa1	18	-
Morgan Stanley (8 contracts)	-	(1,046)	0 - 6.37%		10/2013 - 5/2022	Baa1	-	(24)
Total Interest Rate Swaps	$ 2,668,140	$ 8,888					$ 135	$ (89)

The notional amount may be positive or negative, depending on whether the position is long (fixed rate payer) or short (floating rate payer), respectively.

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 (positive) or sell (negative) 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 $2.2 million for fiscal year 2014 and $0.2 million for fiscal year 2013. At June 30, 2014 and 2013, the SIB's investment portfolio included the currency forwards balances shown below (expressed in thousands).

				Fair Value	
Currency	Cost	Purchases	Sales	6/30/2014	6/30/2013
Australian dollar	$ (6,188)	$ 1,970	$ (8,158)	$ (6,290)	$ (8,874)
Brazilian real	290	834	(544)	293	1,899
British pound sterling	(174)	933	(1,107)	(181)	8,074
Canadian dollar	637	1,895	(1,259)	643	98
Chilean peso	9,436	9,436	-	9,451	3,296
Chinese yuan renminbi	397	5,228	(4,830)	379	138
Colombian peso	(4)	460	(463)	-	101
Czech koruna	-	-	-	-	(2)
Euro	(23,914)	1,344	(25,258)	(23,813)	(23,087)
Hungarian forint	(49)	786	(835)	(55)	(35)
Indian rupee	380	380	-	377	4,605
Israeli shekel	(23)	-	(23)	(23)	-
Japanese yen	(5,855)	1,525	(7,380)	(5,890)	(345)
South Korean won	228	228	-	240	(4,225)
Malaysian ringgit	232	452	(220)	236	68
Mexican peso	(2,774)	3,404	(6,178)	(2,820)	317
New Zealand dollar	(2,633)	1,127	(3,761)	(2,653)	(2,694)
Norwegian krone	150	949	(799)	135	373
Peruvian nuevo sol	(55)	-	(56)	(56)	(61)
Polish zloty	(4,207)	873	(5,080)	(4,219)	66
Russian ruble	385	695	(311)	379	15
Singapore dollar	292	1,120	(827)	291	378
South African rand	77	956	(879)	80	-
Swedish krona	(4)	627	(631)	(6)	388
Swiss franc	(57)	-	(57)	(58)	-
Turkish lira	(267)	634	(901)	(287)	(395)
United States dollar	33,700	69,557	(35,857)	33,700	20,705
Total forwards subject to currency risk				$ (147)	$ 803

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, 2014 and 2013, the tables below show the SIB's derivative investments subject to interest rate risk (expressed in thousands).

2014

	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	$ (509,009)	$ (454,788)	$ (55,927)	$ -	$ 1,706	$ -

	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	$ (166)	$ (51)	$ (115)	$ -	$ -	$ -
Options - interest rate contracts	(15)	(15)	-	-	-	-
Swaps - interest rate contracts	135	27	18	10	(43)	123
Total	$ (46)	$ (39)	$ (97)	$ 10	$ (43)	$ 123

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

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.

Note 4 - Capital Assets

	June 30, 2012	Additions	Retirements	June 30, 2013	Additions	Retirements	June 30, 2014
Office equipment	$19,321	$ -	$ -	$19,321	$ -	$ -	$19,321
Less accumulated depreciation on office equipment	(18,559)	(762)	-	(19,321)	-	-	(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)
	$762			$0			$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, 2014 and 2013:

	2014	2013
Due To		
Information Technology Department	$ 6,605	$ 7,010
Office of Attorney General	468	1,035
Office of Management and Budget	281	910
University System	75	-
Total due to other state agencies	$ 7,429	$ 8,955
Due From		
Public Employees Retirement System	$ -	$ 616
Total due from other state agencies	$ -	$ 616

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, 2013 through June 30, 2015. RIO also incurs rent expense at other locations on a temporary basis to sponsor retirement education for TFFR members. Rent expense totaled $79,668 and $77,948 for fiscal 2014 and 2013. Minimum payments under the lease for fiscal 2015 are $78,467.

Note 7 - Changes in Noncurrent Liabilities

Changes in noncurrent liabilities for the years ended June 30, 2014 and 2013 are summarized as follows:

	Beginning Balance 7/1/2013	Additions	Reductions	Ending Balance 6/30/2014	Amounts Due Within One Year
Accrued Leave	$147,115	$91,844	($108,392)	$130,567	$80,686

	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

Pension and Investment Trust Funds liquidate the accrued annual leave.

Note 8 - North Dakota Teachers' Fund for Retirement

Administration

The following brief description of TFFR is provided for general informational 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.

Responsibility for administration of the TFFR benefits program is assigned to a seven-member Board of Trustees (Board). The Board consists of the State Treasurer, the Superintendent of Public Instruction, and five members appointed by the Governor. The appointed members serve five-year terms which end on June 30 of alternate years. The appointed Board members must include two active teachers, one active school administrator, and two retired members. The TFFR Board submits any necessary or desirable changes in statutes relating to the administration of the fund, including benefit terms, to the Legislative Assembly for consideration. The Legislative Assembly has final authority for changes to benefit terms and contribution rates.

Membership

As of June 30, 2014 and 2013, the number of participating employer units was 219 and 220, respectively, consisting of the following:

	2014	2013
Public School Districts	178	179
County Superintendents	7	7
Special Education Units	19	19
Vocational Education Units	5	5
Other	10	10
Total	219	220

TFFR's membership consisted of the following:

	2014	2013
Retirees and beneficiaries currently receiving benefits	7,747	7,489
Terminated employees - vested	1,509	1,500
Terminated employees - nonvested	661	563
Total	9,917	9,552
Current employees		
Vested	7,406	7,465
Nonvested	2,899	2,673
Total	10,305	10,138

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 three categories. Tier 1 grandfathered and Tier 1 non-grandfathered members are those with service credit on file as of July 1, 2008. Tier 2 members are those newly employed and returning refunded members on or after July 1, 2008.

Tier 1 Grandfathered

A Tier 1 grandfathered 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 1 Non-grandfathered

A Tier 1 non-grandfathered 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 has reached age 60 and 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 8% per year from the earlier of age 60/Rule of 90 or age 65. 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 has reached age 60 and 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 8% per year from the earlier of age 60/Rule of 90 or age 65. 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 five years 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 uses the member's actual years of credited service. There is no actuarial reduction for reason of disability retirement.

Investment Policy

The TFFR Board is responsible for establishing investment policy for the fund assets under NDCC 15-39.1-05.2. Benefit payments are projected to occur over a long period of time. This allows TFFR to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact of funded status and contribution rates. The following was the TFFR Board's adopted asset allocation policy as of June 30, 2014 and 2013.

Asset Class	Target Allocation
Global Equity	57.0%
Global Fixed Income	22.0%
Global Real Assets	20.0%
Cash Equivalents	1.0%
Total	100.0%

Private equity is included in the Global Equity asset class.

Investment Rate of Return

The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 16.35% and 13.60% for the years ended June 30, 2014 and 2013, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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, 2014 and 2013, TFFR had net realized gains of $129,815,358 and $73,604,646 respectively.

Net Pension Liability

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

	June 30, 2014	June 30, 2013
Total pension liability	3,138,799,773	2,997,139,087
Plan fiduciary net position	(2,090,977,056)	(1,839,583,960)
Net pension liability (NPL)	1,047,822,717	1,157,555,127
Plan fiduciary net position as a percentage of the total pension liability	66.6%	61.4%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2014 and 2013, using the following actuarial assumptions:

Valuation date	July 1, 2014	July 1, 2013
Inflation	3.00%	3.00%
Salary increases	4.50% to 14.75%; varying by service, including inflation and productivity	4.50% to 14.75%
Cost of living adjustments	None	None
Investment rate of return	8% net of pension plan investment expense	8% net of pension plan investment expense

Mortality rates were based on the following:

For active members, mortality rates were based on the post-retirement mortality rates multiplied by 60% for males and 40% for females. For inactive members and healthy retirees, mortality rates were based on 80% of GRS Table 378 and 75% of GRS Table 379. For disabled retirees, mortality rates were based on the RP-2000 Disabled-Life tables for Males and Females multiplied by 80% and 95% respectively.

The actuarial assumptions used in the July 1, 2014 and 2013 valuations were based on the results of an actuarial experience study dated January 21, 2010, for the period July 1, 2004 – June 30, 2009. An actuarial experience study is generally conducted every five years.

The long-term expected rate of return on TFFR investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the TFFR target asset allocation as of June 30, 2014 (see the discussion of TFFR investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Global Equity	7.5%
Global Fixed Income	1.4%
Global Real Assets	5.4%
Cash Equivalents	0.0%

Discount Rate

The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that member and employer contributions will be made at rates equal to those based on the July 1, 2014 Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, TFFR's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members as of July 1, 2014. Therefore, the long-term expected rate of return on TFFR investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

Sensitivity of Net Pension Liability

The following presents the net pension liability of the TFFR employers calculated using the discount rate of 8 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

2014	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employers' net pension liability	$ 1,414,755,083	$ 1,047,822,717	$ 739,221,908

2013	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employers' net pension liability	$ 1,511,142,356	$ 1,157,555,127	$ 860,669,595

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, 2014) is 11.12% of annual covered payroll as established by the NDCC. Prior to that date the contribution rate was 10.12% (as of January 1, 2013), 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, 2014, 2013, and 2012, were $128,657, $108,353 and $102,664, 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, 2014, committed to fund certain alternative investment partnerships in the amount of $982.4 million. Funding of $741.7 million has been provided leaving an unfunded commitment of approximately $240.7 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, which represents approximately 89% of its remaining cost basis with WGTC. 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. The receiver has also indicated that it intends to make a third distribution to the investors. While future additional distributions are possible, the amount of any additional distributions to the SIB will likely be small as compared to the initial 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 Company

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

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

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

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

SUPPLEMENTARY INFORMATION

Schedule of Changes in Net Pension Liability and Related Ratios
North Dakota Teachers' Fund for Retirement
(Dollars in thousands)

	2014
Total pension liability	
Service cost	$ 56,752
Interest	237,821
Changes of benefit terms	-
Differences between expected and actual experience	9,347
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(162,259)
Net change in total pension liability	141,661
Total pension liability - beginning	2,997,139
Total pension liability - ending (a)	$ 3,138,800
Plan fiduciary net position	
Contributions - employer	$ 64,437
Contributions - member	56,555
Net investment income	294,246
Benefit payments, including refunds of member contributions	(162,259)
Administrative expenses	(1,586)
Net change in plan fiduciary net position	251,393
Plan fiduciary net position - beginning	1,839,584
Plan fiduciary net position - ending (b)	$ 2,090,977
Plan's net pension liability - ending (a) - (b)	$ 1,047,823
Plan fiduciary net position as a percentage of the total pension liability	66.6%
Covered-employee payroll	$ 580,053
Plan's net pension liability as a percentage of covered-employee payroll	180.6%

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

Schedule of Employer Contributions
North Dakota Teachers' Fund for Retirement
(Dollars in thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	59,530	52,396	69,374	65,113	52,053	41,986	44,115	50,532	48,747	44,472
Contributions in relation to the actuarially determined contribution	62,355	59,301	46,126	44,545	39,837	37,488	33,684	31,865	31,171	30,388
Contribution deficiency (excess)	(2,825)	(6,905)	23,248	20,568	12,216	4,498	10,431	18,667	17,576	14,084
Covered-employee payroll	580,053	551,656	527,156	509,091	482,868	454,396	434,626	411,167	402,204	392,107
Contributions as a percentage of covered-employee payroll	10.75%	10.75%	8.75%	8.75%	8.25%	8.25%	7.75%	7.75%	7.75%	7.75%

Notes to Schedule

Valuation Date: Actuarially determined contributions for each fiscal year are based on the actuarial valuation as of the beginning of the year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	29 years
Asset valuation method	5-year smoothed market
Inflation	3.0%
Salary increases	4.50% - 14.75%, including inflation
Investment rate of return	8.0%, net of investment expenses, including inflation
Retirement age	Expected retirement ages of plan members were last adjusted in 2010 to more closely reflect actual experience.
Mortality	Assumed life expectancies were last adjusted in 2010 to more closely reflect actual experience.

Schedule of Investment Returns
North Dakota Teachers' Fund for Retirement

	2014	2013
Annual money-weighted rate of return, net of investment expense	16.35%	13.60%

Note: Annual money-weighted rates of return not available prior to 2013.

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	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	1,240,186,948	33,059,580	15,915,819	38,686,267	-	31,708,081	3,547,605	345,060,125	10,163,695	-	-
Fixed income	-	-	-	-	-	-	-	-	-	-	-
Fixed income pool	548,850,746	27,909,773	10,682,370	58,655,436	-	14,646,475	1,549,489	1,239,423,556	15,990,674	1,774,399	3,495,009
Real assets pool	407,588,841	14,271,144	6,159,738	-	-	7,951,362	534,099	101,294,503	-	-	-
Private equity pool	106,067,699	3,024,449	1,680,352	-	-	3,006,188	286,106	-	-	-	-
Cash pool	26,700,028	489,498	173,510	387,369	10,985	579,384	23,046	6,638,123	2,896,957	1,465,300	3,535,361
Total investments	2,329,394,262	78,754,444	34,611,789	97,729,072	10,985	57,891,490	5,940,345	1,692,416,307	29,051,326	3,239,699	7,030,370
Investment income receivable	3,349,776	49,882	31,415	96,697	(1,283)	5,121	(1,352)	11,571,673	172,381	29,292	62,628
Operating Cash	64,856	-	-	-	-	-	-	46,849	684	940	875
Miscellaneous receivable	3,920	-	-	-	-	-	-	2,901	50	6	12
Due from other state agency											
Total assets	2,332,812,814	78,804,326	34,643,204	97,825,769	9,702	57,896,611	5,938,993	1,704,037,730	29,224,441	3,269,937	7,093,885
Liabilities:											
Investment expenses payable	3,693,696	126,248	56,233	140,392	1	89,373	8,087	825,816	14,559	699	1,388
Accounts payable	14,500	-	-	-	-	-	-	9,981	187	21	47
Accrued expenses	28,991	-	-	-	-	-	-	21,885	404	45	120
Miscellaneous payable	-	2,493	1,101	3,218	48	1,711	250	-	-	-	-
Due to other state agencies	405	-	-	-	-	-	-	300	5	-	1
Total liabilities	3,737,592	128,741	57,334	143,610	49	91,084	8,337	857,982	15,155	765	1,556
Net position held in trust for external investment pool participants	$ 2,329,075,222	$ 78,675,585	$ 34,585,870	$ 97,682,159	$ 9,653	$ 57,805,527	$ 5,930,656	$ 1,703,179,748	$ 29,209,286	$ 3,269,172	$ 7,092,329
Each participant unit is valued at $1.00											
Participant units outstanding	2,329,075,222	78,675,585	34,585,870	97,682,159	9,653	57,805,527	5,930,656	1,703,179,748	29,209,286	3,269,172	7,092,329

Insurance Pool Participants											Individual Investment Acct.	Totals	
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	State Board of Medical Examiners	PERS Retiree Health Credit Fund	2014	2013
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 55,112,752	$ 55,112,752	$ 43,854,432
344,076	200,031	2,075,168	2,196,838	1,029,070	-	-	1,042,136,352	253,348	20,785,567	398,527	-	2,787,747,097	1,543,210,098
-	-	-	-	-	-	-	497,915,992	-	-	-	35,162,409	533,078,401	1,611,285,649
392,563	135,647	4,476,835	3,582,058	1,966,431	-	579,361,741	548,141,701	552,213	20,527,401	1,444,634	-	3,083,559,151	1,692,041,813
-	18,318	-	-	-	-	-	107,610,970	-	-	38,391	-	645,467,366	516,202,669
-	-	-	-	-	-	-	-	-	-	-	-	114,064,794	111,364,820
399,306	10,163	338,346	172,488	443,593	37,425,118	3,987,057	14,138,522	41,433	387,637	8,326	-	100,251,550	100,765,983
1,135,945	364,159	6,890,349	5,951,384	3,439,094	37,425,118	583,348,798	2,209,943,537	846,994	41,700,605	1,889,878	90,275,161	7,319,281,111	5,618,725,464
10,093	820	57,813	13,938	6,279	449	2,851,083	5,997,605	2,824	75,387	19	85,205	24,467,745	20,787,440
649	398	1,131	1,127	-	-	12,961	15,182	-	-	-	-	145,652	159,403
2	1	12	10	-	-	1,030	3,372	-	-	-	-	11,316	12,752
1,146,689	365,378	6,949,305	5,966,459	3,445,373	37,425,567	586,213,872	2,215,959,696	849,818	41,775,992	1,889,897	90,360,366	7,343,905,824	5,639,685,059
441	216	3,462	3,209	1,599	137	204,189	1,337,566	419	27,381	925	63,123	6,599,159	4,549,821
8	3	42	37	-	-	3,371	11,035	-	-	-	-	39,232	50,916
16	4	79	68	-	-	5,235	13,725	-	-	-	-	70,572	60,040
-	-	-	-	250	1,256	-	-	250	1,307	167	2,753	14,804	17,382
-	-	1	1	-	-	107	349	-	-	-	-	1,169	1,235
465	223	3,584	3,315	1,849	1,393	212,902	1,362,675	669	28,688	1,092	65,876	6,724,936	4,679,394
$ 1,146,224	$ 365,155	$ 6,945,721	$ 5,963,144	$ 3,443,524	$ 37,424,174	$ 586,000,970	$ 2,214,597,021	$ 849,149	$ 41,747,304	$ 1,888,805	$ 90,294,490	$ 7,337,180,888	$ 5,635,005,665
1,146,224	365,155	6,945,721	5,963,144	3,443,524	37,424,174	586,000,970	2,214,597,021	849,149	41,747,304	1,888,805	90,294,490	7,337,180,888	5,635,005,665

	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	$ 293,366,241	$ 8,799,404	$ 4,059,353	$ 10,466,656	$ 3,209,058	$ 7,198,621	$ 768,855	$ 147,114,353	$ 2,812,662	$ 81,431	$ 160,709
Interest, dividends and other income	40,924,671	1,414,916	615,490	1,725,637	312,254	947,544	82,159	36,959,249	634,670	50,268	99,366
	334,290,912	10,214,320	4,674,843	12,192,293	3,521,312	8,146,165	851,014	184,073,602	3,447,332	131,699	260,075
Less investment expenses	8,155,526	276,989	123,574	304,454	50,674	198,607	18,886	3,940,613	49,301	2,761	5,481
Net investment income	326,135,386	9,937,331	4,551,269	11,887,839	3,470,638	7,947,558	832,128	180,132,989	3,398,031	128,938	254,594
Total Additions	326,135,386	9,937,331	4,551,269	11,887,839	3,470,638	7,947,558	832,128	180,132,989	3,398,031	128,938	254,594
Deductions:											
Administrative Expenses	274,416	-	-	-	-	-	-	177,987	3,163	983	962
Net change in net position resulting from operations	325,860,970	9,937,331	4,551,269	11,887,839	3,470,638	7,947,558	832,128	179,955,002	3,394,868	127,955	253,632
Unit transactions at net position value of $1 per unit:											
Purchase of units	7,250,000	-	-	-	-	4,111,083	293,605	4,000,000	-	-	-
Redemption of units	(2,600,000)	-	-	(4,565,538)	(37,553,903)	(4,341,919)	(299,652)	(37,500,000)	(800,000)	-	-
Net change in net position and units resulting from unit transactions	4,650,000	-	-	(4,565,538)	(37,553,903)	(230,836)	(6,047)	(33,500,000)	(800,000)	-	-
Total change in net position	330,510,970	9,937,331	4,551,269	7,322,301	(34,083,265)	7,716,722	826,081	146,455,002	2,594,868	127,955	253,632
Net position:											
Beginning 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
End of year	$ 2,329,075,222	$ 78,675,585	$ 34,585,870	$ 97,682,159	$ 9,653	$ 57,805,527	$ 5,930,656	$ 1,703,179,748	$ 29,209,286	$ 3,269,172	$ 7,092,329
	2,329,075,222	78,675,585	34,585,870	97,682,159	9,653	57,805,527	5,930,656	1,703,179,748	29,209,286	3,269,172	7,092,329

North Dakota Retirement and Investment Office
Combining Statement of Changes in Net Position – Investment Trust Funds – Fiduciary Funds
Year Ended June 30, 2014 (with Comparative Totals for 2013)

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	State Board of Medical Examiners	PERS Retiree Health Credit Fund	Totals 2014	Totals 2013
$ 87,259	$ 47,641	$ 618,416	$ 598,129	$ 267,459	$ -	$ (2,296,687)	$ 74,027,273	$ 88,516	$ 5,037,808	$ 17,764	$ 10,620,455	$ 567,151,376	$ 299,338,412
17,515	8,031	154,962	131,002	66,825	5,659	13,897,151	43,256,691	22,312	823,378	8,273	1,984,435	144,142,458	132,358,789
104,774	55,672	773,378	729,131	334,284	5,659	11,600,464	117,283,964	110,828	5,861,186	26,037	12,604,890	711,293,834	431,697,201
1,491	796	10,776	9,613	6,192	4,539	574,726	3,956,722	2,552	89,077	1,535	238,703	18,023,588	14,116,162
103,283	54,876	762,602	719,518	328,092	1,120	11,025,738	113,327,242	108,276	5,772,109	24,502	12,366,187	693,270,246	417,581,039
103,283	54,876	762,602	719,518	328,092	1,120	11,025,738	113,327,242	108,276	5,772,109	24,502	12,366,187	693,270,246	417,581,039
994	519	969	977	-	-	59,345	173,580	-	-	-	-	693,895	558,744
102,289	54,357	761,633	718,541	328,092	1,120	10,966,393	113,153,662	108,276	5,772,109	24,502	12,366,187	692,576,351	417,022,295
-	-	-	-	400,000	249,000,000	181,060,584	907,214,971	-	1,000,000	1,864,303	4,305,000	1,360,499,546	1,053,337,604
-	(13,000)	-	-	-	(254,368,258)	(7,183,404)	-	(275,000)	(1,400,000)	-	-	(350,900,674)	(234,858,869)
-	(13,000)	-	-	400,000	(5,368,258)	173,877,180	907,214,971	(275,000)	(400,000)	1,864,303	4,305,000	1,009,598,872	818,478,735
102,289	41,357	761,633	718,541	728,092	(5,367,138)	184,843,573	1,020,368,633	(166,724)	5,372,109	1,888,805	16,671,187	1,702,175,223	1,235,501,030
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
$ 1,146,224	$ 365,155	$ 6,945,721	$ 5,963,144	$ 3,443,524	$ 37,424,174	$ 586,000,970	$ 2,214,597,021	$ 849,149	$ 41,747,304	$ 1,888,805	$ 90,294,490	$ 7,337,180,888	$ 5,635,005,665
1,146,224	365,155	6,945,721	5,963,144	3,443,524	37,424,174	586,000,970	2,214,597,021	849,149	41,747,304	1,888,805	90,294,490	7,337,180,888	5,635,005,665

North Dakota Retirement and Investment Office
Pension and Investment Trust Funds – Schedule of Administrative Expenses
Years Ended June 30, 2014 and 2013

	Pension Trust		Investment Trust	
	2014	2013	2014	2013
Salaries and wages:				
Salaries and wages	$670,233	$661,555	$474,880	$370,585
Fringe benefits	237,322	250,440	140,156	116,457
Total salaries and wages	907,555	911,995	615,036	487,042
Operating expenses:				
Information services	75,839	66,750	12,874	12,415
Intergovernmental services	5,374	5,558	2,529	2,616
Professional services	138,963	166,169	55,382	51,949
Rent of building space	53,314	52,299	26,353	25,649
Mailing services and postage	48,393	49,934	28,108	25,483
Travel and lodging	20,759	21,359	25,186	12,056
Printing	13,485	21,859	5,412	6,550
Supplies	2,879	3,446	1,671	1,674
Professional development	9,045	10,344	3,205	5,939
Outside services	10,832	8,033	64,927	51,005
Small office equipment expense	431	2,040	129	2,483
Miscellaneous fees	6,620	2,642	4,784	30,341
Resource and reference materials	601	427	342	1,270
IT contractual services	108,723	125,506	30,432	15,018
Repairs - office equipment	94	510	50	215
Insurance	417	709	196	334
Total operating expenses	495,769	537,585	261,580	244,997
Pension trust portion of investment program expenses	182,721	173,295	(182,721)	(173,295)
Depreciation	-	763	-	-
Total administrative expenses	1,586,045	1,623,638	693,895	558,744
Less - nonappropriated items:				
Professional fees	138,963	166,169	55,382	51,949
Other operating fees paid under continuing appropriation	28,224	20,607	73,573	47,831
Depreciation	-	763	-	-
Accrual adjustments to employee benefits	(14,644)	10,118	(1,902)	539
Total nonappropriated items	152,542	197,657	127,053	100,319
Total appropriated expenditures	$ 1,433,503	$ 1,425,981	$ 566,841	$ 458,425

	Pension Trust		Investment Trust	
	2014	2013	2014	2013
Actuary fees:				
Segal Company	$ 71,264	$ 94,848	$ -	$ -
Auditing fees:				
CliftonLarsonAllen LLC	45,942	45,385	28,423	26,290
Disability consulting fees:				
Dr. G.M. Lunn	375	775	-	-
Legal fees:				
K&L Gates LLP	11,474	9,073	15,585	10,692
Jenner & Block	-	2,337	-	3,644
ND Attorney General	9,908	13,751	11,374	11,323
Total legal fees:	21,381	25,161	26,959	25,659
Total consultant expenses	$ 138,963	$ 166,169	$ 55,382	$ 51,949

North Dakota Retirement and Investment Office

Pension and Investment Trust Funds – Schedule of Investment Expenses

Years Ended June 30, 2014 and 2013

	Pension Trust 2014	Pension Trust 2013	Investment Trust 2014	Investment Trust 2013
Investment managers' fees:				
Global equity managers	$ 2,605,453	$ 1,403,825	$ 3,315,966	$ 1,761,085
Domestic large cap equity managers	1,018,026	661,279	2,189,555	1,201,040
Domestic small cap equity managers	551,815	656,041	1,244,211	1,111,392
International equity managers	822,849	911,366	2,303,178	1,630,296
Emerging markets equity managers	258,679	378,684	374,705	559,955
Domestic fixed income managers	1,585,083	2,787,286	6,614,783	10,394,210
Below investment grade fixed income managers	747,407	1,604,541	958,784	2,108,519
Inflation protected assets managers	-	-	1,515,030	1,782,509
International fixed income managers	340,634	317,489	422,383	395,909
Real estate managers	1,899,944	1,863,035	3,468,358	3,090,481
Infrastructure managers	676,349	939,370	824,064	1,148,077
Timber managers	341,757	349,639	405,526	422,177
Private equity managers	2,433,316	1,850,618	2,850,600	2,148,730
Short term fixed income managers	-	-	1,562,163	1,235,929
Cash & equivalents managers	23,964	26,873	201,708	34,063
Balanced account managers	-	-	352,919	294,454
Total investment managers' fees	13,305,276	13,750,046	28,603,933	29,318,826
Custodian fees	293,776	257,367	850,504	717,989
Investment consultant fees	172,148	198,775	365,242	412,898
SIB Service Fees	-	-	48,498	47,331
Total investment expenses	$ 13,771,200	$ 14,206,188	$ 29,868,177	$ 30,497,044

Reconciliation of investment expenses to financial statements

	2014	2013	2014	2013
Investment expenses as reflected in the financial statements	$ 7,257,140	$ 6,010,000	$ 18,023,588	$ 14,116,162
Plus investment management fees included in investment income				
Domestic large cap equity managers	260,958	61,579	481,686	103,667
Domestic small cap equity managers	363,661	365,861	470,141	468,421
International equity managers	225,470	177,806	568,360	318,745
Emerging markets equity managers	89,760	94,991	129,633	140,772
Domestic fixed income managers	1,322,680	2,595,308	4,388,520	8,593,171
Below investment grade fixed income managers	285,306	1,227,212	367,748	1,603,162
Inflation protected assets managers	-	-	488,078	729,506
Real estate managers	1,003,875	1,076,639	1,176,368	1,257,309
Infrastructure managers	225,341	466,573	273,692	571,119
Timber managers	341,757	349,639	405,526	422,177
Private equity managers	2,395,252	1,780,580	2,805,772	2,068,299
Cash equivalents managers	-	-	163,876	-
Balanced account managers	-	-	125,189	104,534
Investment expenses per schedule	$ 13,771,200	$ 14,206,188	$ 29,868,177	$ 30,497,044

	Approved 2013-2015 Appropriation	2013-2015 Appropriation Adjustment	Adjusted 2013-2015 Appropriation	Fiscal 2014 Expenses	Unexpended Appropriations
All Fund Types:					
Salaries and wages	$ 3,772,504	$ -	$ 3,772,504	$ 1,501,994	$ 2,270,510
Accrued Leave Payments	71,541		71,541	37,144	34,397
Operating expenses	973,324	-	973,324	399,219	574,105
Contingency	82,000	-	82,000	61,987	20,013
Total	$ 4,899,369	$ -	$ 4,899,369	$ 2,000,344	$ 2,899,025

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

Reconciliation of Administrative Expenses
to Appropriated Expenditures

	2014
Administrative expenses as reflected in the financial statements	2,279,940
Less:	
Professional fees*	(194,345)
Other operating fees paid under continuing appropriations*	(101,797)
Changes in annual leave and FICA payments	16,546
Total appropriated expenses	$2,000,344

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

Special Comments Requested by the Legislative Audit and Fiscal Review Committee Year Ended June 30, 2014

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

Audit Report Communications

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

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, 2014, the financial statements include the impact of adopting Governmental Accounting Standards Board Statement (GASB) number 67.

   GASB 67, Financial Reporting for Pension Plans, is effective to fiscal years ending after June 15, 2014 and has been implemented in the financial statements prepared by RIO for the fiscal year ended June 30, 2014. This statement addresses accounting and financial reporting requirements for pension plans that are administered though trusts. GASB 67 requires a change in actuarial calculation of total and net pension liability in addition to changes in the presentation of plan financial statements, expanded note disclosures and additional required supplementary information.

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 13% 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, 2014. 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, 2014 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
November 11, 2014