2010

COMPREHENSIVE ANNUAL FINANCIAL REPORT

RIO

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

An Agency of the State of North Dakota

For the year ended June 30, 2010

North Dakota

Retirement and Investment Office

An Agency of the State of North Dakota

Comprehensive Annual Financial Report

Prepared by the ND Retirement and Investment Office Staff
1930 Burnt Boat Drive, P.O. Box 7100
Bismarck, ND 58507-7100
Phone: (701) 328-9885
www.nd.gov/rio

For the Fiscal Year Ended June 30, 2010

All printed materials can be made available in alternate formats.
Contact the administrative office should this be necessary.

Table of Contents

Introductory Section

Financial Section

Investment Section

Actuarial Section

Statistical Section

INTRODUCTORY SECTION

ND Retirement and Investment Office

State Investment Board
Teachers' Fund for Retirement

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
Toll Free 800-952-2970
Fax 701-328-9897
www.nd.gov/rio

November 30, 2010

Members of the
North Dakota State Investment Board
North Dakota Teachers' Fund for Retirement Board

Dear Board Members:

With pleasure we present to you the June 30, 2010, Comprehensive Annual Financial Report (CAFR) for the North Dakota Retirement and Investment Office (RIO). The report is a complete review of the financial, investment, and actuarial conditions of the two programs for which you are responsible. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of RIO.

Generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. RIO's MD&A can be found immediately following the report of the independent auditors in the Financial Section.

RIO is an agency of the State of North Dakota. The agency was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of two important long-standing state programs – the retirement program of the Teachers' Fund for Retirement (TFFR) and the investment program of the State Investment Board (SIB).

Established in 1913, TFFR is one of the oldest retirement plans in the nation. TFFR is a qualified defined benefit public pension plan covered under Section 401(a) of the Internal Revenue Code. North Dakota Century Code Chapter 15-39.1 contains the actual language governing the fund. The plan covers North Dakota public school teachers and administrators. The TFFR plan is funded on an actuarial reserve basis. Benefit funding comes from member and employer contributions and investment earnings. TFFR serves over 9,900 teachers from 231 employer groups and pays benefits to more than 6,600 retirees and beneficiaries. High quality member services and outreach programs are offered to members and employers as part of the continuing effort to keep them informed about the retirement program.

The SIB is responsible for setting policies and procedures guiding the investment of $4.8 billion in assets for eight pension funds and 17 other insurance-type funds. Their investments are divided into two investment trust funds and one individual investment account. The following table details the participants in each trust fund as of June 30, 2010:

Pension Investment Pool Participants

Teachers' Fund for Retirement
Public Employees Retirement Fund
City of Bismarck Employees Pension Fund
City of Bismarck Police Pension Fund
Job Service of North Dakota Pension Fund
City of Fargo Employee Pension Fund
City of Grand Forks Employee Pension Fund
Grand Forks Park District Pension Fund

Individual Investment Account

PERS Retiree Health Insurance Credit Fund

Insurance Investment Pool Participants

Workforce Safety & Insurance (WSI) Fund
State Fire and Tornado Fund
State Bonding Fund
Insurance Regulatory Trust Fund
Petroleum Tank Release Compensation Fund
ND Health Care Trust Fund
State Risk Management Fund
State Risk Management Workers Compensation Fund
Cultural Endowment Fund
Budget Stabilization Fund
ND Association of Counties Fund
ND Association of Counties Program Savings Fund
City of Bismarck Deferred Sick Leave Fund
NDPERS Group Insurance Account
City of Fargo FargoDome Permanent Fund
National Board Certification Fund

The pension investment pool is made up of only qualified pension funds whose monies must be invested exclusively for the benefit of their participants. The insurance investment pool is made up of mainly insurance-type funds, but also includes other funds that do not qualify as pension funds and would like to benefit from the cost savings of being pooled with other funds' assets. All of these funds are invested in accordance with the "Prudent Investor Rule."

An important aspect of the prudent investor rule is that individual investments are considered not in isolation but in the context of the trust portfolio as a whole. Some new opportunities may appear risky when viewed alone. However, when part of a diversified mix of investments in stocks, bonds and other assets, they can increase returns often without increasing the overall portfolio risk and, in some cases, may help decrease the overall portfolio's risk.

The pension investment pool was created in July 1989 with the pooling of selected investments of TFFR and the Public Employees Retirement System (PERS). Assets from the City of Bismarck Employees and Police pension funds were added later that same fiscal year. In April 1994, Job Service of North Dakota made their initial contribution to the pool. The City of Fargo Employees pension plan joined the pension pool in December 2007 and the City of Grand Forks Employees pension plan in May 2009. Most recently, the Grand Forks Park District pension plan began participating in the pension pool in December 2009.

The insurance investment pool began in December 1993 with the pooling of the assets of the WSI, Fire and Tornado, Bonding, Insurance Regulatory, and Petroleum Tank Release funds.

Other additions to this pool have occurred as follows:

- The Risk Management Fund was added in October 1996.
- The two North Dakota Association of Counties funds were added during fiscal year 1999, in January and March.
- The City of Bismarck Deferred Sick Leave and PERS Group Insurance funds were both added in July 1999.
- The ND Health Care Trust fund was added in July 2001 by legislative mandate.
- The City of Fargo FargoDome Permanent Fund was added in October 2002.
- The Risk Management Workers Compensation Fund was added in October 2003.
- The Cultural Endowment Fund was added by the 2005 legislature and funded in July 2005.
- The Budget Stabilization Fund joined the pool in September 2005 upon reaching statutorily designated levels.
- The National Board Certification Fund was added by the 2009 legislature and funded in July 2009.

Four funds have left the insurance investment pool after having been included in it at some point during its existence - the Veterans' Home Improvement Fund was added in July 1996 and removed in August 1997, the National Guard Tuition Waiver Fund was added in June 1996 and removed in June 1999, the Veterans Post War Trust Fund was added in December 1997 and left the pool in September 2005, and the Veterans Cemetery Trust joined the pool in August 1997 and was removed in August 2007.

MAJOR INITIATIVES

Retirement Program

- The 2009 Legislature approved two bills affecting TFFR:

  2009 Supplemental Retiree Payment - This one-time payment was paid to TFFR retirees and beneficiaries who retired before January 1, 2009, and were receiving annuity benefits on December 1, 2009. The payment was equal to an amount determined by taking $20 per year of service credit, plus $15 per year of retirement. The supplemental payment was made in December 2009 and was paid from the TFFR trust fund.

  Employer Contribution Increase - Effective July 1, 2010, employer contributions increased from 8.25% to 8.75% to offset the cost of the one-time TFFR retiree supplemental benefit payment and to improve TFFR's funding level. The 8.75% employer rate will remain in effect until TFFR reaches 90% funded level on an actuarial basis.

- In 2009-10, the TFFR Board initiated a study to address the impact of the global market decline on the TFFR trust fund. The board gathered input from member and employer interest groups, evaluated various options for improving TFFR's financial well being, and developed legislative proposals with five core values in mind: (1) Restore the financial health of the TFFR plan for past, present, and future ND educators; (2) maintain adequate retirement security; (3) share responsibility with employees, employers, and the state; (4) phase changes over time; and (5) protect benefits of those employees closest to retirement.

- The TFFR Board submitted three proposals to interim Legislative Employee Benefits Programs Committee for study :

  Bill No. 54 - Base Funding Improvements. 4% employee contribution increase and 4% employer contribution increase phased in over two bienniums; require re-employed retirees to pay employee contributions; reduce disability retirement benefits; increase normal retirement age to minimum age 60 with the Rule of 90 for those employees who are more than 10 years away from retirement eligibility. Employees who are less than 10 years away from retirement eligibility would be grandfathered under current Rule of 85 eligibility provisions. Also increase reduction factor for early reduced benefits.

  Bill No. 55 – Base Funding Improvements (from Bill 54) plus $75 million general fund appropriation.

  Bill No. 56 – Technical/Administrative Changes. Update definition of beneficiary, definition of eligible retirement salary, payment of death benefits, and incorporate federal tax law changes as they relate to qualified governmental plans.

- In an effort to provide additional information to members, employers, and the public about TFFR's funding improvement study and proposed legislation, the following activities were conducted: (1) Developed two web based presentations about TFFR's Funding Challenge (Part 1 – Exploring Options, Part 2 – Legislative Proposals); (2) distributed Special Edition newsletter relating to legislative proposals; (3) held statewide legislative informational meetings in Grand Forks, Fargo, Minot, and Bismarck; posted additional presentations and materials to TFFR website; presented at numerous member and employer interest group meetings.

- Every five years, the TFFR Board has an experience study performed. The 2009 study conducted by Gabriel, Roeder, and Smith (GRS) indicated that while most actuarial assumptions remain appropriate, there were a few that needed to be updated in order to more accurately reflect actual experience. The most significant findings were that retirees are continuing to live longer, salary increases for active members were higher than assumed, and fewer members retired than assumed. The assumption changes approved by the Board resulted in a $65 million increase in TFFR's liability.
- Every five years, the TFFR Board also has an asset liability study performed. Callan Associates is in the process of conducting the 2010 study.
- As part of the ongoing effort to electronically provide TFFR information and services, TFFR Employer Online went into production in 2009, and TFFR Member Online is tentatively scheduled for 2011.

Investment Program

- Investment details by trust fund can be found in the Investment Section.
- In April, 2010, it was with great sadness that we had to report the death of RIO Executive Director/CIO Steve Cochrane. Steve had been with RIO for over 13 years and is greatly missed. The SIB immediately began the process of finding a new Executive Director/CIO and ultimately hired EFL Associates to assist with a nationwide search. In the interim, LeRoy "Gil" Gilbertson agreed to come out of retirement to fill the position until a suitable replacement could be found. Gil previously held the position of CIO for the SIB until the early 1990's, as well as other Executive Director and CIO positions with public pension funds in California and Arizona. The SIB will have a new Executive Director/CIO in place in December 2010.
- In February, 2009, the 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 whose investments totaled more than $1.5 billion. Subsequent to the filing of a criminal complaint by federal prosecutors, a receiver was appointed by the court to reconstruct the alleged fraud and determine what recoverable assets exist. The receiver issued a report in May, 2009, indicating that approximately $893 million of recoverable assets were identified which equates to approximately 60% of the investors' account values. However, as theses assets were liquidated during fiscal year 2010, the proceeds totaled closer to $800 million or 53.3% of the investors' account values.

  The SIB held three portfolios with Westridge/WG Trading at the time the fraud was discovered. The three portfolios had been valued at a combined $161.3 million in the month prior to the court actions. Approximately $23.3 million was recovered immediately through liquidation of futures and related collateral positions at Westridge. The remaining assets were held by WG Trading and were frozen by the courts and remain frozen as of this writing. The fair value reported at June 30, 2010, reflects a reduction of 46.7% of the last known market value, based on the receiver's current reporting, and will remain at that value until further information is received from the SIB's legal representatives or the federal courts.
- Initiatives completed by the SIB during the year included:

  Pension Investment Pool
  - ✓ Accepted the Grand Forks Park District Pension Plan into the Pension Investment Pool.
  - ✓ Replaced one investment "manager of managers" mandate within the small cap domestic equity asset class with an enhanced Russell 2000 mandate.
  - ✓ Committed additional funds to an existing private equity manager for the 2010 vintage year.
  - ✓ Due to improved market conditions, removed rebalancing overlay program.
  - ✓ Terminated two large cap domestic equity managers due to performance and company issues.

  Insurance Investment Pool
  - ✓ Due to changes in client asset allocation policy, combined US TIPS allocation from two managers to one and changed mandate to global.
  - ✓ Replaced investment manager overseeing mortgage security portfolio.
  - ✓ Accepted the Department of Public Instruction's Board Certification Fund into the Insurance Investment Pool.
  - ✓ Terminated one large cap domestic equity manager due to company issues.

  Overall Investment Program
  - ✓ Discontinued broker commission recapture program.
  - ✓ Conducted an investment manager fee analysis utilizing consultant Callan Associates. Results indicated that the fees paid for conventional strategies were near or below industry average for accounts of similar size. The fees paid for special strategies, that often use incentive fee arrangements, increase the fees paid within asset classes to which these strategies have been assigned. However, the fee structures of these special strategies are within the averages negotiated by similarly sized institutional investors.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to RIO for its comprehensive annual financial report for the fiscal year ended June 30, 2009. This was the twelfth consecutive year that RIO has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

TFFR also received the Public Pension Coordinating Council (PPCC) 2010 Recognition Award for Administration. To receive the award, the retirement system must certify that it meets the requirements in five areas of assessment which include a comprehensive benefit program, actuarial valuations, financial reporting, investments and communications to members.

FINANCIAL INFORMATION

RIO is subject to very strict operational controls. Well-established internal controls are in place, segregation of duties is maintained, and an internal audit program is in effect. In addition, an annual external financial audit is performed and the results are reported to the Legislative Audit and Fiscal Review Committee (LAFRC). Although internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives, RIO believes the internal controls that are in place have been designed to reduce risks of material misstatements.

Eide Bailly LLC conducted the external financial audit under the direction of the North Dakota State Auditor. The auditor's opinion was unqualified for the agency for the year ended June 30, 2010.

Clifton Gunderson LLP conducted a performance audit for the period July 1, 2009 through April 30, 2010 following the death of the previous Executive Director/CIO. The North Dakota State Auditor also advised the SIB on the procurement of this audit. The audit was designed to identify and quantify any irregular financial activity or discrepancies within past management of the investment funds. Based on the evidence in support of the audit objectives, the auditor's final report found no wrong-doing by the former Executive Director/CIO but did include some findings and recommendations to enhance the overall operations and internal controls of the agency. Management has already begun the process of addressing those findings and recommendations. The results of the performance audit were also reported to the LAFRC.

The tables below summarize RIO's revenues and expenses for the current and prior fiscal years:

Pension Trust Fund (TFFR)	June 30, 2010	June 30, 2009	Incr/(Decr) $	Incr/(Decr) %
Additions	$ 257,165,303	$ (418,360,845)	$ 675,526,148	161.5%
Deductions	128,932,190	118,035,836	10,896,354	9.2%
Net Change	$ 128,233,113	$ (536,396,681)	$ 664,629,794	123.9%

In the pension trust fund, additions increased due to an increase in net investment income as a result of the recovery in the investment markets. Deductions increased because the average benefit increased from the previous year, as did the number of retirees receiving benefits throughout the year. Additionally, a one-time supplemental benefit payment was made in December 2009 totaling $4.4 million.

Investment Trust Funds	June 30, 2010	June 30, 2009	Incr/(Decr) $	Incr/(Decr) %
Additions	$ 366,326,023	$ (613,597,244)	$ 979,923,267	159.7%
Deductions	557,361	436,987	$ 120,374	27.5%
Net Change in Units	104,104,539	(50,181,555)	$ 154,286,094	307.5%
Net Change	$ 469,873,201	$ (664,215,786)	$ 1,134,088,987	170.7%

In the investment trust funds, additions also increased due to an increase in net investment income. Deductions increased due to an increase in administrative expenses allocated to the pool participants during the year. This increase was mainly due to state employee salary increases authorized by the 2009 Legislature.

FUNDING STATUS

The objective of the TFFR pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The member and employer contribution rates are established by statute. The member rate is set at 7.75%. Effective July 1, 2008, the employer rate increased from 7.75% to 8.25%. Effective July 1, 2010, the employer rate will increase again from 8.25% to 8.75%. The total addition of 1.00% to the employer contribution rate will remain in effect until TFFR is 90% funded on an actuarial basis. The rates are intended to be sufficient to pay TFFR's normal cost and to amortize TFFR's unfunded actuarial accrued liability (UAAL) over a period of 30 years from the valuation date, although at any given time the statutory rates may be insufficient. A thirty-year period is the maximum amortization period allowed by GASB 25 in computing the Annual Required Contribution (ARC). The thirty-year period is in common use for public-sector plans and is considered reasonable by the actuary.

In order to determine the adequacy of the 8.75% statutory contribution rate, it is compared to the GASB 25 ARC. The ARC is equal to the sum of (a) the employer normal cost rate, and (b) the level percentage of pay required to amortize the UAAL over a 30-year period. For this calculation, payroll is assumed to increase 3.25% per year. As of July 1, 2010, the ARC is 12.79%, increased from 10.78% last year. This is greater than the 8.75% rate currently required by law. The shortfall (the negative margin) between the rate mandated by law (8.75%) and the rate necessary to fund the UAAL in 30 years is -4.04%.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) decreased from last year. The funded ratio at July 1, 2009, was 77.7%, while it is 69.8% as of July 1, 2010. Based on market values rather than actuarial values of assets, the funded ratio increased to 54.5% from 53.5% last year.

The plan had a net asset loss of $404 million from previous years which has not yet been recognized in the actuarial value of assets, because of the five-year smoothing. This unrecognized asset loss is due to large market losses during FY2008 and FY2009. As the unrecognized loss is recognized over the next three years, the ARC is expected to continue increasing and the funded ratio is expected to continue decreasing, assuming the plan earns 8.00% in the future, unless the contribution rates or benefits are changed.

The following table summarizes the actuarial valuation of the TFFR plan. A detailed discussion of funding is provided in the Actuarial Section of this report.

	July 1, 2010 (in millions)	July 1, 2009 (in millions)
Actuarial value of assets	$ 1,842.0	$ 1,900.3
Unfunded actuarial accrued liability	795.2	545.6
Funded ratio	69.8%	77.7%

INVESTMENT ACTIVITIES

The investment policies and strategies for each of the funds under the SIB can be found in the Investment Section of this report. Each policy is created by the individual fund and presented to the SIB for acceptance. Once accepted, the policy is used as a guide to determine participation in the applicable pools. The policies are designed to provide safeguards on assets while optimizing return based on each fund's risk parameters.

The return information presented in the Investment Section is calculated with the assistance of our consultant, Callan Associates, based on data supplied by our custodian, The Northern Trust Company, and the individual investment managers. The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon market values and are subject to independent review.

PROFESSIONAL SERVICES

Professional consultants are selected by the TFFR Board and the SIB to perform professional services that are essential to the effective and efficient operation of the retirement and investment programs. An opinion from the certified public accountant and the actuary are included in this report. The consultants chosen by the boards are listed in the Introductory Section of this report.

Respectfully yours,

LeRoy Gilbertson | Fay Kopp | Connie L Flanagan

LEROY GILBERTSON
Interim Executive Director/CIO

FAY KOPP
Deputy Executive Director

CONNIE L. FLANAGAN
Fiscal & Investment Officer

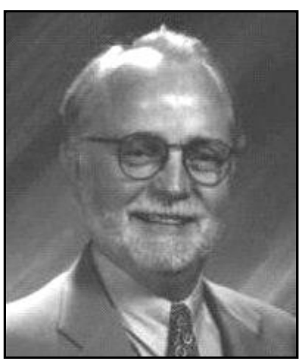
NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Mission

The North Dakota Retirement and Investment Office exists in order that:

- SIB clients receive cost-effective investment services directed at meeting their written financial goals under the Prudent Investor Rule.
- SIB clients receive investment returns consistent with their written investment policies and market variables.
- Potential SIB clients have access to information regarding the investment services provided by the SIB.
- TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.
- TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.
- SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff of the office.

Administrative Staff



LeRoy Gilbertson
Interim *Executive Director/CIO*

Fay Kopp
Deputy Executive Director/
Retirement Officer

Supervisory Staff

Connie L. Flanagan
Fiscal Management

Shelly Schumacher
Retirement Services

Les Mason
Internal Audit

Bonnie Heit
Administrative Services

Gary Vetter
Information Services

NORTH DAKOTA STATE INVESTMENT BOARD
Board Members as of June 30, 2010

Investment Program

Investment Process

The ND State Investment Board believes that an investment program must be built and managed like any good business, with a clear statement of mission, overall objectives, roles and responsibilities, and policies and guidelines. Major issues include:

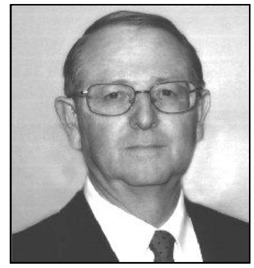
Asset allocation targets:

- Setting appropriate benchmarks.
- Finding the right managers.
- Monitoring the program.
- Searching for appropriate new opportunities.

To ensure rigorous attention to all aspects of the investment program, the SIB follows an established investment process. This process involves three phases:

- Investment policy development/modification
- Implementation/monitoring
- Evaluation

Jack Dalrymple
Chair
Lt. Governor



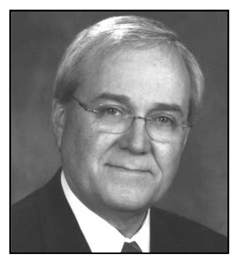
Clarence Corneil
Vice Chair
TFFR Trustee

Kelly Schmidt
State Treasurer

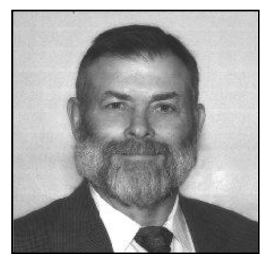
Adam Hamm
State Insurance Commissioner

Cindy Ternes, CPA
Workforce Safety & Insurance Designee

Jeff Engleson
Acting University and School Land Commissioner

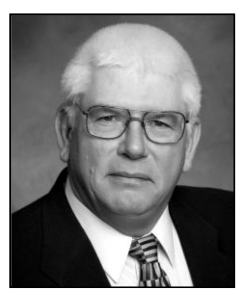


Robert Toso
TFFR Trustee



Mike Gessner
TFFR Trustee

Mike Sandal
PERS Trustee



Howard Sage
PERS Trustee

Levi Erdmann
PERS Trustee

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
Board of Trustees as of June 30, 2010

Retirement Program

Mission

The mission of the Teachers' Fund for Retirement, a trust fund, is to advocate for, develop, and administer a comprehensive retirement program for all trust fund members within the resources available.

Goals

Investment and Funding Goals:
- Prudently invest assets in a well diversified portfolio to optimize long term returns while controlling risk to the fund.
- Accumulate sufficient funds to pay all current and future benefit and expense obligations when due.
- Improve and maintain adequate funding of all promised benefits to ensure the financial integrity of the system.
- Build a funding cushion to provide for future benefit improvements.

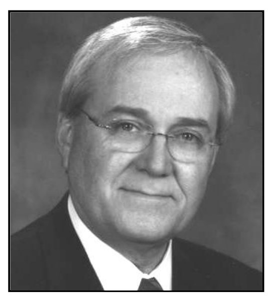
Benefit Goals:
- Provide 2.0% benefit formula for all current and future retirees.
- Provide ad hoc retiree benefit adjustments (fixed formula and percent based) for all current and future retirees to maintain purchasing power of retirement benefits and assist with rising health care costs. Benefit adjustments may be considered when the Board believes it is prudent based upon actuarial funding measurements including:
  - a. Positive contribution margin
  - b. Amortization of UAAL within GASB 30-year funding period
  - c. Funded ratio of 90% or greater

Service Goals:
- Administer accurate, prompt, and efficient pension benefits program.
- Deliver high quality, friendly service to members and employers.
- Provide educational outreach programs including pre-retirement seminars and individual counseling sessions.

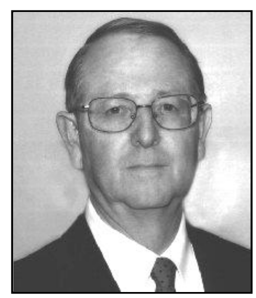
Mike Gessner
President
(active teacher)

Lowell Latimer
Vice President
(retired member)

Kim Franz
Trustee
(active teacher)



Robert Toso
Trustee
(active administrator)



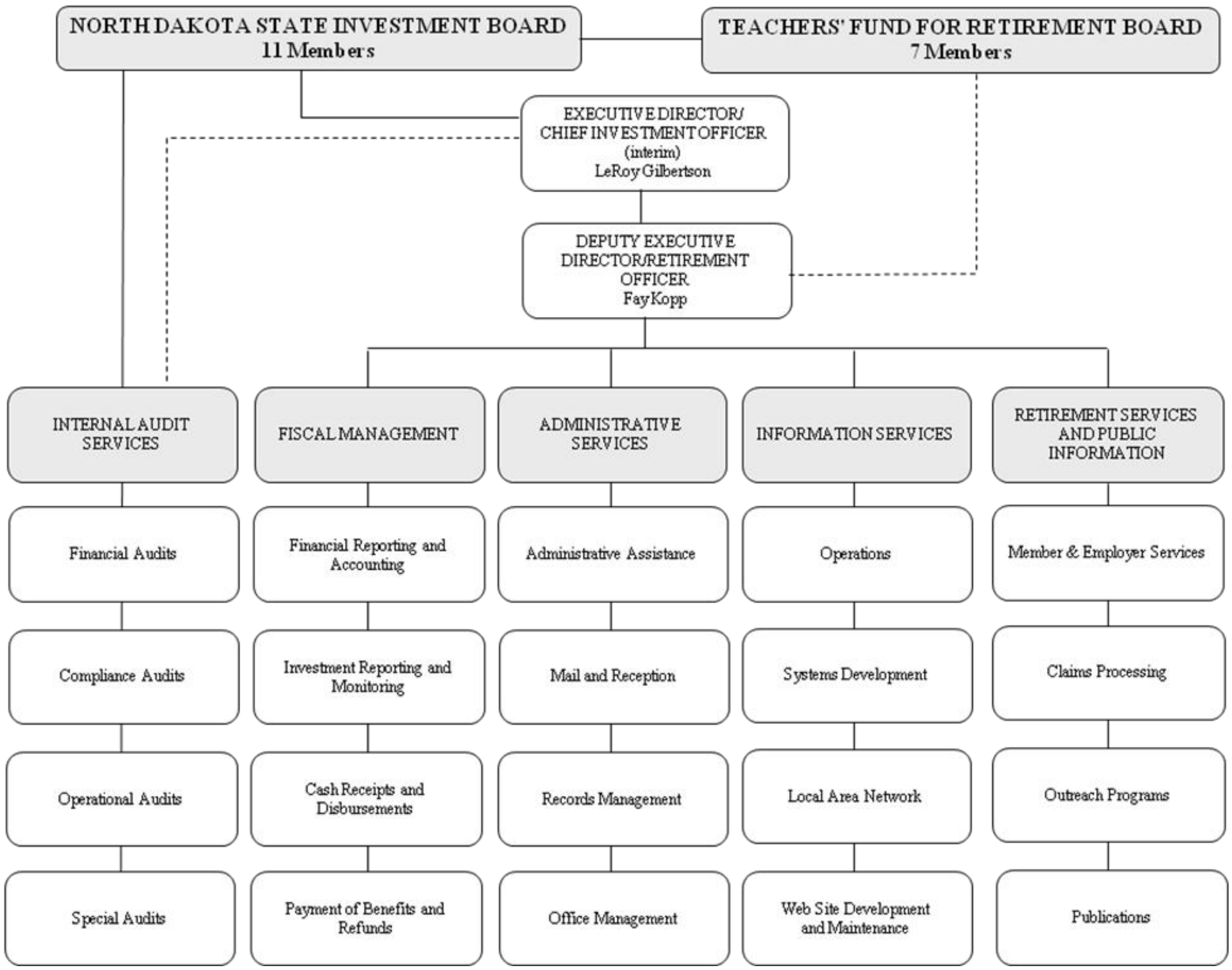
Clarence Corneil
Trustee
(retired member)

Kelly Schmidt
State Treasurer

Wayne Sanstead
State Superintendent
of Public Instruction

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

ADMINISTRATIVE ORGANIZATION
JUNE 30, 2010



See page 69 in the Investment Section for a summary of fees paid to investment professionals and pages 158-161 in the Statistical Section for a detailed list of the investment professionals who provide services to the State Investment Board and their corresponding fees.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

CONSULTING AND PROFESSIONAL SERVICES
AS OF JUNE 30, 2010

Actuary
Gabriel, Roeder, Smith & Co.
Dallas, Texas

Auditor
Eide Bailly LLP
Bismarck, North Dakota

Clifton Gunderson LLP
Baltimore, Maryland

Legal Counsel
North Dakota Attorney General's Office
Bismarck, North Dakota

K&L Gates
Boston, Massachusetts

Calhoun Law Group P.C.
Bethesda, Maryland

Information Technology
CPAS Systems Inc.
Toronto, Ontario

Master Custodian
The Northern Trust Company
Chicago, Illinois

Investment Consultant and Performance Measurement
Callan Associates Inc.
San Francisco, California

Investment Managers
Adams Street Partners, LLC
Chicago, Illinois

AllianceBernstein Institutional Investments
San Francisco, California

Bank of North Dakota
Bismarck, North Dakota

Blackfriars Asset Management LTD
London, UK

Brandywine Asset Management
Wilmington, Delaware

Brookfield Investment Mgmt Inc.
New York, New York

Calamos Advisors LLC
Naperville, Illinois

Callan Associates
San Francisco, California

Investment Managers (cont.)
Capital Guardian Trust Company
Los Angeles, California

The Clifton Group
Minneapolis, MN

Coral Partners, Inc.
Minneapolis, Minnesota

Corsair Capital
New York, New York

Declaration Mgmt & Research, LLC
McLean, Virginia

Dimensional Fund Advisors
Chicago, Illinois

Epoch Investment Partners, Inc.
New York, New York

European Credit Mgmt
London, UK

Goldman Sachs Asset Mgmt
New York, New York

Hearthstone Homebuilding Investors, LLC
Encino, California

INVESCO Realty Advisors
Dallas, Texas

InvestAmerica L&C, LLC
Cedar Rapids, Iowa

J.P. Morgan Invest. Mgmt, Inc.
New York, New York

Loomis Sayles & Company
Boston, Massachusetts

Los Angeles Capital Management
Los Angeles, California

LSV Asset Management
Chicago, Illinois

Matlin Patterson Global Advisers LLC
New York, New York

Northern Trust Global Investments
Chicago, Illinois

PanAgora Asset Management, Inc.
Boston, Massachusetts

PIMCO
Newport Beach, California

Prudential Investment Management
Newark, New Jersey

Investment Managers (cont.)
Quantum Energy Partners
Houston, Texas

Quantum Resources Mgmt, LLC
Denver, Colorado

Research Affiliates, LLC
Newport Beach, California

SEI Investments Management Co.
Oaks, Pennsylvania

State Street Global Advisors
Boston, Massachusetts

Trust Company of the West Asset Management Co.
Los Angeles, California

Timberland Investment Resources, LLC
Atlanta, Georgia

UBS Global Asset Management
Chicago, Illinois

The Vanguard Group
Valley Forge, Pennsylvania

Wellington Trust Company, NA
Boston, Massachusetts

Wells Capital Management, Inc.
Menomonee Falls, Wisconsin

Western Asset Management Co.
Pasadena, California

Securities Lending
Wachovia Global Securities Lending
Short Hills, New Jersey

Certificate of Achievement for Excellence in Financial Reporting

Presented to

North Dakota Retirement and Investment Office

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION
OF THE
UNITED STATES
AND
CANADA
CORPORATION
SEAL
CHICAGO

President

Jeffrey R. Emer

Executive Director

PPCC

Public Pension Coordinating Council

Recognition Award for Administration
2010

Presented to

North Dakota Teachers' Fund for Retirement

In recognition of meeting professional standards for
plan administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator

This page intentionally blank.

FINANCIAL SECTION

EideBailly
CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

Governor John Hoeven
The Legislative Assembly
LeRoy Gilbertson, Interim Executive Director
State Investment Board
Teachers' Fund for Retirement Board
North Dakota Retirement and Investment Office

We have audited the accompanying financial statements of the fiduciary funds of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements, as listed in the table of contents, as of and for the years ended June 30, 2010 and 2009. These financial statements are the responsibility of RIO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of RIO, are intended to present the financial position and the changes in plan net assets of only that portion of the fiduciary funds 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, 2010 and 2009, and the changes in its financial position and plan net assets, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The actuary for the North Dakota Teachers' Fund for Retirement has determined the Fund's unfunded actuarially accrued liability is approximately $795 and $546 million at June 30, 2010 and 2009, respectively. The funding for the actuarial accrued liabilities is predicated on employer and employee funding rates mandated by North Dakota statutes. The actuary has determined that the current statutory contribution rates will never fully fund the unfunded actuarial accrued liability based on the current actuarial assumptions.

www.eidebailly.com
1730 Burnt Boat Loop, Ste. 100 | P.O. Box 1914 | Bismarck, ND 58502-1914 | T 701.255.1091 | F 701.224.1582 | EOE

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary funds of RIO as of June 30, 2010 and 2009, and the respective changes in plan net assets where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining and individual fund financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds of RIO as of June 30, 2010 and 2009, and the results of the operations of such funds for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information shown on page 49 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The required supplementary information and supporting schedules are the responsibility of RIO's management. The Schedules of Funding Progress and Employer Contributions and the supporting schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements, and in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) on pages 18 through 22 are not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated November 8, 2010, on our consideration of RIO's internal control over financial reporting and 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 important for assessing the results of our audit.

Our audits were made for the purpose of forming an opinion on the financial statements that collectively comprise RIO's basic financial statements and on the combining and individual fund financial statements. The Supplementary Information shown on pages 50 through 57 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in our audit of the basic, combining and individual fund financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic, combining and individual fund financial statements taken as a whole.

We did not audit the data included in the introductory, investment, actuarial and statistical sections of this report, and accordingly, we do not express an opinion thereon.

Eide Bailly LLP

November 8, 2010
Bismarck, North Dakota

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010 AND 2009

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, 2010. 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 assets increased in the fiduciary funds by $598.1 million or 14.2% due to net gains in the investment markets.

Additions in the fiduciary funds for the year increased $1.7 billion over the previous year. Net investment income increased by $1.7 billion and total contributions increased $3.7 million.

Deductions in the fiduciary funds increased over the prior year by $11.0 million or 9.3%. This increase represented a rise in the total number of retirees drawing retirement benefits from the pension fund as well as an increase in the retirement salaries of new retirees. Additionally, a one-time supplemental retirement benefit was paid out to retirees in December, 2009 in the amount of $4.04 million.

The TFFR funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2010, the funded ratio was approximately 69.8%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Fund Financial Statements

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

RIO's fiduciary fund total assets as of June 30, 2010, were $4.8 billion and were comprised mainly of investments and invested securities lending collateral. Total assets increased by $547 million or 12.7% from the prior year primarily due to gains in the financial markets during the fiscal year.

Total liabilities as of June 30, 2010 were $32 million and were comprised mostly of securities lending collateral. Total liabilities decreased nearly $51 million or 61.3% from the prior year primarily due to a decrease in securities lending collateral at year-end. This decrease is the result of having fewer securities on loan.

RIO's fiduciary fund total net assets were $4.8 billion at the close of fiscal year 2010.

ND RETIREMENT AND INVESTMENT OFFICE
NET ASSETS – FIDUCIARY FUNDS
(In Millions)

	2010	2009	Total % Change
Assets			
Investments	$ 4,780	$ 4,184	14.3%
Sec Lending Collateral	26	77	-66.0%
Receivables	30	29	4.6%
Cash & Other	12	12	3.1%
Total Assets	4,848	4,302	12.7%
Liabilities			
Accounts Payable	6	6	-2.3%
Sec Lending Collateral	26	77	-66.0%
Total Liabilities	32	83	-61.3%
Total Net Assets	$ 4,816	$ 4,219	14.2%

	2009	2008	Total % Change
Assets			
Investments	$ 4,184	$ 5,384	-22.3%
Sec Lending Collateral	77	194	-60.3%
Receivables	29	30	-5.2%
Cash & Other	12	12	0.2%
Total Assets	4,302	5,620	-23.5%
Liabilities			
Accounts Payable	6	7	-17.3%
Sec Lending Collateral	77	194	-60.3%
Total Liabilities	83	201	-58.7%
Total Net Assets	$ 4,219	$ 5,419	-22.2%

MANAGEMENT'S DISCUSSION AND ANALYSIS

ND RETIREMENT AND INVESTMENT OFFICE
CHANGES IN NET ASSETS – FIDUCIARY FUNDS
(In Millions)

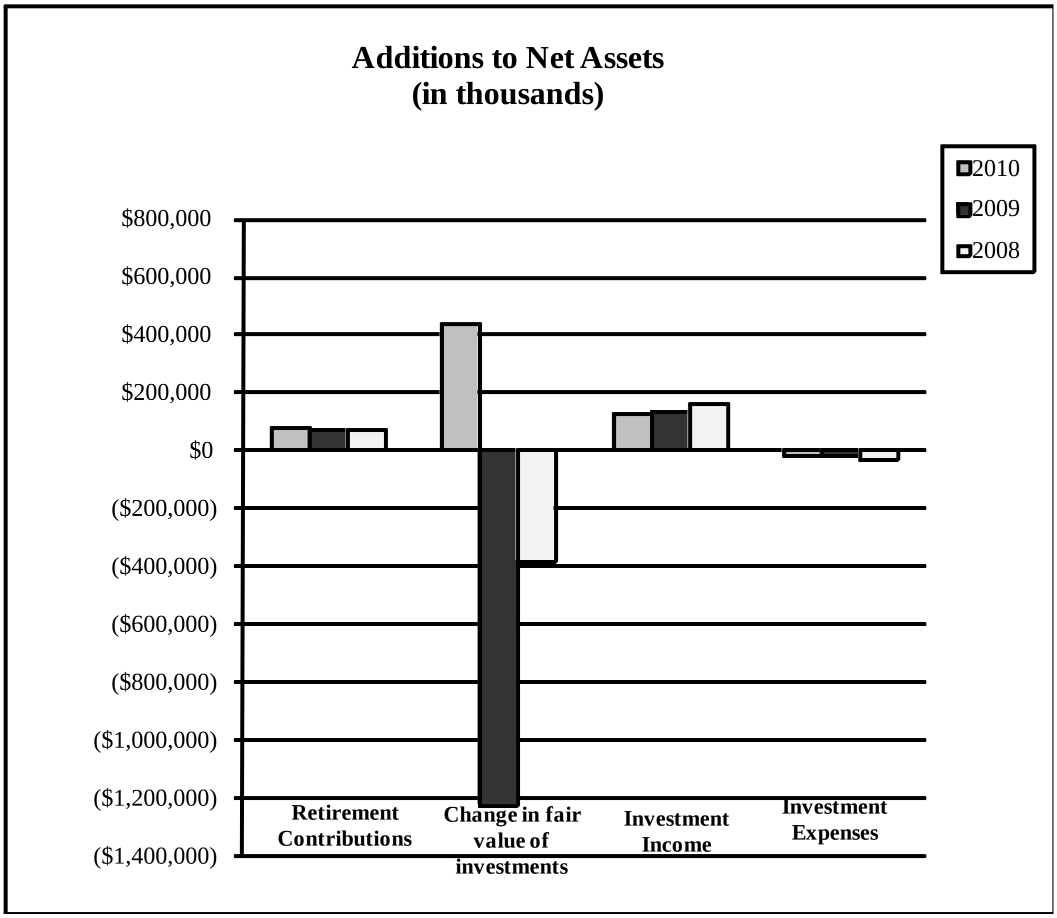
	2010	2009	Total % Change
Additions:			
Contributions	$ 78	$ 74	5.0%
Investment Income	$ 545	$ (1,106)	149.3%
Total Additions	$ 623	$ (1,032)	160.4%
Deductions	$ 129	$ 118	9.3%
Net change from unit transactions	$ 104	$ (50)	307.5%
Total change in net assets	$ 598	$ (1,200)	149.8%

	2009	2008	Total % Change
Additions:			
Contributions	$ 74	$ 71	5.4%
Investment Income	$ (1,106)	$ (247)	-347.7%
Total Additions	$ (1,032)	$ (176)	-484.6%
Deductions	$ 118	$ 114	4.0%
Net change from unit transactions	$ (50)	$ 55	-190.6%
Total change in net assets	$ 1,200	$ (235)	410.8%

Statement of Changes in Net Assets – Additions

Contributions and net investment income are the two components of the fiduciary fund additions. Contributions collected by the pension trust fund increased by $3.7 million or 5.0% over the previous fiscal year. Net investment income, including securities lending activities and investment expenses, increased by $1.7 billion or 149% from last year. This was the result of the recovery experienced in the financial markets during the fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

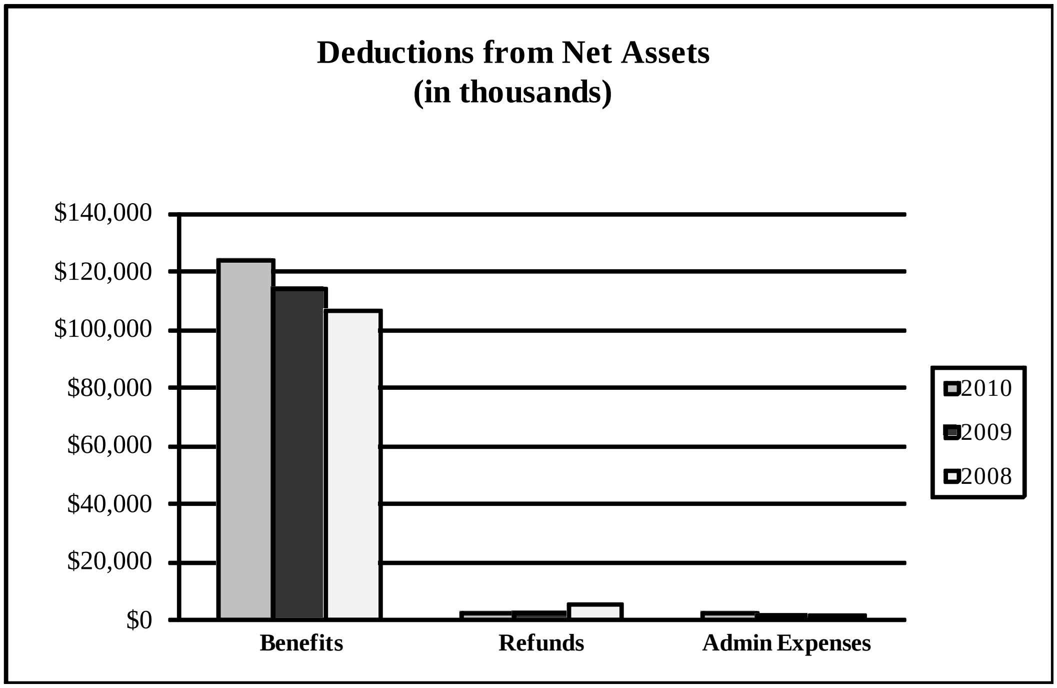


Statement of Changes in Net Assets – Deductions

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by $10.5 million or 9.2% during the fiscal year ended June 30, 2010. This was due to an increase in the total number of retirees in the plan as well as an increased retirement salary which the benefits are based upon. Additionally, a one-time supplemental benefit payment, totaling $4.04 million, was paid out in December 2009. Refunds increased slightly in fiscal year 2010 by $195,000 or 8.3%.

Administrative expenses increased by $316,000 or 14.7%, due mainly to legislatively approved salary increases for state employees.

MANAGEMENT'S DISCUSSION AND ANALYSIS



CONCLUSION

Fiscal year 2010 results reflect the financial market recovery that occurred within that time frame. These conditions were reflected in the market prices of nearly all asset types. Some however, such as commercial real estate, have been slower to show recovery. Within the SIB's investment program, the investment trust funds are invested within their policy guidelines and seek to add investment return to their expected benchmark return objectives over multi-year periods. The coming years will most likely be challenging from an investment standpoint as recessions brought on by banking and financial disasters are characterized historically as being followed by extended multi-year periods of slow global growth. The SIB will continue to research and consider investment options to address funding issues in the many challenging years ahead.

Even with the positive market climate in 2010, the decline in the investment markets in 2008 and 2009 will result in significant reductions to the funding of the TFFR plan. TFFR's funded ratio declined in 2009 and again in 2010, and is expected to continue declining to unacceptable levels as investment losses are recognized in future actuarial valuations. Because protecting the long term solvency of the TFFR plan is the TFFR Board's fiduciary responsibility, the Board is reviewing funding improvement options intended to support this financial obligation. Such options include possible contribution and benefit changes for consideration by the ND Legislative Assembly in 2011.

CONTACTING RIO FINANCIAL MANAGEMENT

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

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010 AND 2009

	Pension Trust		Investment Trust	
	2010	2009	2010	2009
Assets:				
Investments, at fair value				
Equities	$ -	$ -	$ 25,388,750	$ 18,879,086
Equity pool	796,430,612	662,283,920	1,091,570,903	937,074,652
Fixed income	-	-	19,519,126	16,519,433
Fixed income pool	384,369,567	394,873,080	1,923,597,381	1,693,796,088
Real estate pool	135,503,973	142,870,481	148,110,369	126,052,018
Alternative Investments	63,465,615	71,114,309	67,644,154	73,458,319
Cash and cash pool	31,908,804	13,627,203	92,525,463	33,191,958
Total investments	1,411,678,571	1,284,768,993	3,368,356,146	2,898,971,554
Invested securities lending collateral	7,710,609	6,829,276	18,459,367	70,170,273
Receivables:				
Investment income	6,724,760	6,704,685	13,506,243	13,303,251
Contributions	9,804,059	8,714,975	-	-
Miscellaneous	6,812	4,853	11,556	8,677
Total receivables	16,535,631	15,424,513	13,517,799	13,311,928
Due from other state agency	-	12	-	3
Cash and cash equivalents	12,029,151	11,434,041	83,285	74,746
Equipment & Software (net of depr)	66,013	311,001	-	-
Total assets	1,448,019,975	1,318,767,836	3,400,416,597	2,982,528,504
Liabilities:				
Accounts payable	86,936	71,746	83,430	52,441
Investment expenses payable	1,690,908	1,583,694	3,488,775	3,793,008
Securities lending collateral	7,710,609	6,829,276	18,459,367	70,170,273
Accrued expenses	573,782	556,150	44,721	50,041
Miscellaneous payable	-	-	17,007	12,657
Due to other state agencies	7,897	10,240	2,254	2,242
Total liabilities	10,070,132	9,051,106	22,095,554	74,080,662
Net assets:				
Held in trust for pension benefits	1,437,949,843	1,309,716,730	-	-
Held in trust for external investment pool participants:				
Pension pool	-	-	1,715,469,840	1,534,923,919
Insurance pool	-	-	1,617,908,249	1,337,991,755
Held in trust for individual investment account	-	-	44,942,954	35,532,168
Total net assets	$ 1,437,949,843	$ 1,309,716,730	$ 3,378,321,043	$ 2,908,447,842
Each participant unit is valued at $1.00				
Participant units outstanding			3,378,321,043	2,908,447,842

See Notes to Financial Statements

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010 AND 2009

	Pension Trust		Investment Trust	
	2010	2009	2010	2009
Additions:				
Contributions:				
Employer contributions	$ 39,836,646	$ 37,487,655	$ -	$ -
Member contributions	36,848,481	34,712,846	-	-
Purchased service credit	1,413,481	2,176,734	-	-
Interest and penalties	7,222	3,745	-	-
Total contributions	78,105,830	74,380,980	-	-
Investment income:				
Net change in fair value of investments	152,525,484	(522,732,735)	282,514,400	(700,881,095)
Interest, dividends and other income	32,645,257	36,518,910	95,866,949	98,323,223
	185,170,741	(486,213,825)	378,381,349	(602,557,872)
Less investment expenses	6,234,267	6,677,763	12,410,744	12,014,168
Net investment income	178,936,474	(492,891,588)	365,970,605	(614,572,040)
Securities lending activity:				
Securities lending income	35,000	201,782	332,215	2,600,802
Less securities lending expenses	(87,999)	52,019	(23,203)	1,626,006
Net securities lending income	122,999	149,763	355,418	974,796
Total additions	257,165,303	(418,360,845)	366,326,023	(613,597,244)
Deductions:				
Benefits paid to participants	123,650,676	113,070,337	-	-
Partial lump-sum distributions	821,478	895,742	-	-
Refunds	2,557,240	2,362,251	-	-
Administrative charges	1,902,796	1,707,506	557,361	436,987
Total deductions	128,932,190	118,035,836	557,361	436,987
Net change in net assets resulting from operations	128,233,113	(536,396,681)	365,768,662	(614,034,231)
Unit transactions at net asset value of $1.00 per unit:				
Purchase of units	-	-	355,812,725	195,202,812
Redemption of units	-	-	(251,708,186)	(245,384,367)
Net change in assets and units resulting from unit transactions	-	-	104,104,539	(50,181,555)
Total change in net assets	128,233,113	(536,396,681)	469,873,201	(664,215,786)
Net assets:				
Beginning of year	1,309,716,730	$ 1,846,113,411	$ 2,908,447,842	$ 3,572,663,628
End of Year	$ 1,437,949,843	$ 1,309,716,730	$ 3,378,321,043	$ 2,908,447,842

See Notes to Financial Statements

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Fund Financial Statement

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Fiduciary Fund

A pension trust fund and investment trust funds have been established to account for the assets held by RIO in a trustee capacity for TFFR and as an agent for other governmental units or funds which have placed certain investment assets under the management of SIB. The SIB manages two external investment pools and one individual investment account. The two external investment pools consist of a pension pool and insurance pool. SIB manages the investments of the North Dakota Public Employees Retirement System, Job Service of North Dakota, Bismarck City Employees and Police, City of Fargo Employees, City of Grand Forks Employees and Grand Forks Parks Employees pension plans in the pension pool. The investments of Workforce Safety and Insurance, State Fire & Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Health Care Trust, North Dakota Association of Counties Fund, North Dakota Association of

NOTES TO COMBINED FINANCIAL STATEMENTS

Counties Program Savings Fund, Risk Management, Risk Management Workers Comp, PERS Group Insurance, City of Bismarck Deferred Sick Leave, City of Fargo FargoDome Permanent Fund, Cultural Endowment Fund, Department of Public Instruction (DPI) National Board Certification Fund and Budget Stabilization Fund are managed in the insurance pool. PERS Retiree Health investments are managed by SIB in an individual investment account.

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

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

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

Use of Estimates

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

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

Budgetary Process

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

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

NOTES TO COMBINED FINANCIAL STATEMENTS

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

Several 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 is a part of permanent employees' 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 $107,984 and $113,661 at June 30, 2010 and 2009, respectively. The current portions of accrued leave amounted to $69,477 and $70,788 at June 30, 2010 and 2009, respectively, and are included in accrued expenses of the Fiduciary Funds in the statements of net assets.

Changes in accrued leave for the years ended June 30, 2010 and 2009 consisted of the following:

Balance July 1, 2008	$ 94,499
Additions	83,447
Deductions	(64,285)
Balance June 30, 2009	113,661
Additions	66,817
Deductions	(72,494)
Balance June 30, 2010	$ 107,984

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.

NOTES TO COMBINED FINANCIAL STATEMENTS

Pension Trust Fund

Deposits held by the Pension Trust Fund at June 30, 2010 and 2009 were deposited in the Bank of North Dakota. At June 30, 2010 and 2009, the carrying amount of TFFR's deposits was $12,029,151 and $11,434,041, respectively, and the bank balance was $12,036,458 and $11,450,767 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, a pension cash pool and an insurance trust cash pool are recorded as investments and have a cost and carrying value of $216,694,154 and $162,321,544 at June 30, 2010 and 2009, respectively. In addition these funds carry cash and cash equivalents totaling $83,285 and $74,746 at June 30, 2010 and 2009, respectively. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits held at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

NOTE 3 INVESTMENTS

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

Securities Lending

GASB Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions," establishes accounting and financial reporting standards for securities lending transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets. Cash received as collateral and investments made with that cash must also be reported as assets. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them.

The State Investment Board (SIB) lends its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The SIB has contracted with a third party securities lending agent (Agent) to lend the SIB's securities portfolios. The Agent lends securities of the type on loan at June 30, 2010, for collateral in the form of cash or other securities at 102% of the loaned securities fair values plus accrued interest for domestic securities and 105% of the loaned securities fair values plus accrued interest for international securities. The collateral for the loans is maintained at 100% per the contractual requirements. As of June 30, 2010, the fair values of the SIB's securities on loan totaled $25,078,540. As of June 30, 2010, the total amount of cash and non-cash collateral related to these lent securities was $26,216,770. As of June 30, 2010, the Fund has no credit risk exposure to borrowers because the amounts the SIB owes the borrowers exceed the amounts the borrowers owe the SIB.

NOTES TO COMBINED FINANCIAL STATEMENTS

The Average Duration of the collateral investments as of June 30, 2010, was one day. The Average Weighted Maturity of collateral investments as of June 30, 2010, was one day. The interest rate sensitivity (duration) of the securities on loan matched the duration of the collateral investments.

The Agent provides indemnification if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace the securities lent) or fails to pay income distributions on them. All open securities loans can be terminated on demand by either the SIB or the borrower. All term securities loans can be terminated with five days notice by either the SIB or the borrower. Cash collateral is invested in accordance with investment guidelines approved by the SIB. The SIB cannot pledge or sell collateral securities received unless the borrower defaults.

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, 2010 and 2009, the following tables show the investments by investment type and maturity (expressed in thousands).

All values in $000

2010	Total Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years	Maturity not Determined
Asset Backed Securities	$ 28,493	$ -	$ 5,505	$ 2,557	$ 20,431	$ -
Bank Loans	12,042	611	10,351	1,080	-	-
Commercial Mortgage-Backed	32,632	-	1,034	71	31,527	-
Guaranteed Fixed Income	5,010	-	5,010	-	-	-
Corporate Bonds	725,144	17,640	274,353	251,793	181,358	-
Corporate Convertible Bonds	40,180	28	24,229	2,791	13,132	-
Government Agencies	59,893	1,046	29,585	14,717	13,853	692
Government Bonds	193,565	11,991	65,385	52,158	64,031	-
Gov't Mortgage- and Commercial Mortgage-Backed	115,848	-	4,083	12,126	99,639	-
Index Linked Government Bonds	2,773	-	-	-	2,773	-
Municipal/Provincial Bonds	18,184	-	7,020	1,080	10,084	-
Non-Government Backed CMOs	54,857	-	-	6,127	48,730	-
Other Fixed Income	980	-	980	-	-	-
Short Term Bills and Notes	640	640	-	-	-	-
Pooled Investments	599,738	45,596	307,689	246,150	303	-
Total Debt Securities	$ 1,889,979	$ 77,552	$ 735,224	$ 590,650	$ 485,861	692

NOTES TO COMBINED FINANCIAL STATEMENTS

2009	Total Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years
Asset Backed Securities	$ 18,295	$ -	$ 4,648	$ 2,594	$ 11,053
Bank Loans	19,823	759	17,853	439	772
Commercial Mortgage-Backed	20,938	52	-	-	20,886
Guaranteed Fixed Income	4,118	-	4,118	-	-
Corporate Bonds	590,447	10,792	201,852	214,809	162,994
Corporate Convertible Bonds	23,955	48	12,880	391	10,636
Government Agencies	55,236	-	31,718	12,777	10,741
Government Bonds	121,764	2,258	51,579	34,191	33,736
Gov't Mortgage- and Commercial Mortgage-Backed	67,622	446	649	6,840	59,687
Hedge Multi-Strategy	27,709	-	27,709	-	-
Index Linked Government Bonds	70,957	2,589	20,571	15,956	31,841
Municipal/Provincial Bonds	8,336	-	2,673	3,303	2,360
Non-Government Backed CMOs	34,204	-	85	593	33,526
Short Term Bills and Notes	770	770	-	-	-
Pooled Investments	396,587	68,551	154,520	173,404	112
Total Debt Securities	$ 1,460,761	$ 86,265	$ 530,855	$ 465,297	$ 378,344

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 $634,000 and $295,000, and POs valued at $3.8 million and $4.3 million at June 30, 2010 and 2009 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, 2010 and 2009 (expressed in thousands).

NOTES TO COMBINED FINANCIAL STATEMENTS

2010	Total Fair Value	Credit Rating* AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset Backed Securities	$ 28,493	$ 10,301	$ 5,543	$ 1,820	$ 5,632	$ 575	$ 3,148	$ 1,235	$ 63	$ -	$ 176	$ -
Bank Loans	12,042	-	-	-	1,594	6,692	3,756	-	-	-	-	-
Commercial Mortgage Backed	32,632	25,929	877	3,503	2,323	-	-	-	-	-	-	-
Corporate Bonds	725,144	5,967	39,052	157,780	387,713	66,575	45,453	18,858	1,754	347	1,643	2
Corporate Convertible Bonds	40,180	-	1,556	7,490	4,839	9,567	9,743	6,705	-	-	-	280
Gov't Agencies	50,776	41,921	1,242	3,785	3,725	103	-	-	-	-	-	-
Gov't Bonds	156,650	116,338	112	25,700	9,320	5,010	170	-	-	-	-	-
Gov't Mortgage and Commercial Mortgage Backed	862	559	-	-	303	-	-	-	-	-	-	-
Guaranteed Fixed Income	5,010	5,010	-	-	-	-	-	-	-	-	-	-
Index Linked Gov't Bonds	2,773	2,773	-	-	-	-	-	-	-	-	-	-
Municipal/Provincial Bonds	18,184	3,172	3,681	7,431	1,149	2,751	-	-		-	-	-
Non-Gov't Backed CMOs	54,857	29,343	1,897	1,464	1,576	3,109	5,135	10,827	662	278	566	-
Other Fixed Income	980	980	-							-	-	
Pooled Investments	599,738	210,650	256,181	1,637	119,731	2,087	9,452	-	-	-	-	-
Total Credit Risk of Debt Securities	1,728,321	$ 452,943	$ 310,141	$ 210,610	$ 537,905	$ 96,469	$ 76,857	$ 37,625	$ 2,479	$ 625	$ 2,385	$ 282
US Gov't & Agencies	161,658											
Total Debt Securities	$ 1,889,979											

2009	Total Fair Value	Credit Rating* AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset Backed Securities	$ 18,294	$ 6,697	$ 1,578	$ 1,012	$ 4,686	$ 608	$ 1,537	$ 113		$ 29	$ 16	$ 2,018
Bank Loans	19,823	-	-	-	1,379	10,039	6,141	466			1,214	584
Commercial Mortgage Backed	20,938	20,263	675	-	-	-	-	-	-	-	-	-
Corporate Bonds	590,479	2,614	23,413	124,916	286,996	69,617	46,786	27,245	112	1,460	2,555	4,765
Corporate Convertible Bonds	23,954	-	458	4,004	5,351	8,044	3,715	2,382	-	-	-	-
Gov't Agencies	40,750	34,277	-	4,495	1,863	100	-	-	-	15	-	-
Gov't Bonds	85,191	58,792	-	15,547	7,733	3,021	-	98	-	-	-	-
Gov't Mortgage Backed	645	645	-	-	-	-	-	-	-	-	-	-
Guaranteed Fixed Income	4,118	4,118	-	-	-	-	-	-	-	-	-	-
Hedge Multi-Strategy	27,709	-	-	27,709	-	-	-	-	-	-	-	-
Index Linked Gov't Bonds	67,426	67,426	-	-	-	-	-	-	-	-	-	-
Municipal/Provincial Bonds	8,337	-	4,213	1,514	1,329	-	1,281	-				-
Non-Gov't Backed CMOs	34,203	17,609	480	1,153	1,522	3,524	6,141	2,687	317	750	20	-
Pooled Investments	394,156	153,245	105,302	67,041	-	60,565	8,003	-	-	-	-	-
Total Credit Risk of Debt Securities	1,336,023	$ 365,686	$ 136,119	$ 247,391	$ 310,859	$ 155,518	$ 73,604	$ 32,991	$ 429	$ 2,254	$ 3,805	$ 7,367
US Gov't & Agencies	124,738											
Total Debt Securities	$ 1,460,761											

* 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.

NOTES TO COMBINED FINANCIAL STATEMENTS

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, 2010 and 2009 (expressed in thousands).

2010

Currency	Short-Term	Debt	Equity	Total
Australian dollar	$ (11,700)	$ 10,169	$ 11,060	$ 9,529
Brazilian real	-	5,849	8,369	14,218
British pound sterling	362	6,199	41,777	48,338
Canadian dollar	(3,823)	4,079	8,358	8,614
Chinese yuan renminbi	2,236	-	-	2,236
Israeli shekel	-	-	1,200	1,200
Danish krone	(311)	-	1,470	1,159
Euro	(26,079)	-	74,612	48,533
Hong Kong dollar	(2,958)	-	6,123	3,165
Hungarian forint	(254)	257	-	3
Iceland krona	30	-	-	30
Indonesian Rupiah	-	4,931	-	4,931
Japanese yen	(24,088)	-	45,428	21,340
Malaysian Ringgit	-	5,607	-	5,607
Mexican peso	(313)	6,907	-	6,594
New Zealand dollar	1,456	4,021	-	5,477
Norwegian krone	1,703	2,498	1,937	6,138
Polish zloty	(122)	6,518	-	6,396
Singapore dollar	(589)	-	1,967	1,378
South African rand	-	1,382	61	1,443
South Korean won	-	6,070	544	6,614
Swedish krona	(5,093)	5,581	4,286	4,774
Swiss franc	(8,281)	-	21,484	13,203
Turkish lira	3,989	-	-	3,989
International commingled funds (various currencies)	-	75,976	332,729	408,705
Total international investment securities	$ (73,835)	$ 146,044	$ 561,405	$ 633,614

NOTES TO COMBINED FINANCIAL STATEMENTS

2009

Currency	Short-Term	Debt	Equity	Total
Australian dollar	$ (1,706)	$ 9,166	$ 7,516	$ 14,976
Brazilian real	(960)	5,045	5,566	9,651
British pound sterling	(3,444)	5,674	33,924	36,154
Canadian dollar	(2,078)	4,261	4,380	6,563
Israeli shekel	-	-	64	64
Danish krone	(816)	868	1,182	1,234
Euro	(18,576)	827	59,805	42,056
Hong Kong dollar	(2,441)	-	5,774	3,333
Hungarian forint	(110)	148	-	38
Iceland krona	-	295	-	295
Indonesian Rupiah	-	2,215	-	2,215
Japanese yen	(18,787)	70	39,744	21,027
Malaysian Ringgit	-	4,739	-	4,739
Mexican peso	-	3,983	102	4,085
New Zealand dollar	828	3,599	-	4,427
Norwegian krone	502	76	1,629	2,207
Polish zloty	(95)	3,811	-	3,716
Singapore dollar	(480)	-	1,255	775
South African rand	-	2,525	96	2,621
South Korean won	2,748	-	146	2,894
Swedish krona	(967)	2,106	2,431	3,570
Swiss franc	(8,684)	48	15,237	6,601
Turkish lira	885	-	-	885
International commingled funds (various currencies)	-	96,600	277,288	373,888
Total international investment securities	$ (54,181)	$ 146,056	$ 456,139	$ 548,014

Derivative Securities

Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from, the performance of some agreed upon benchmark. The investment policies of the SIB's clients allow the use of derivative securities to hedge or replicate underlying exposures but not for speculation. All derivatives are considered investment derivative instruments. The fair value of all derivative securities is reported in the Statements of Net Assets. At June 30, 2010 and 2009, 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 credit 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

NOTES TO COMBINED FINANCIAL STATEMENTS

Statement of Changes in Net Assets and totaled $97.4 million for fiscal year 2010 and $(59.4) million for fiscal year 2009. At June 30, 2010 and 2009, the SIB investment portfolio had the notional futures balances shown below (expressed in thousands).

Futures	Notional Value			
	June 30, 2010		June 30, 2009	
Cash & Cash Equivalent Derivative Futures				
Long	$	110,876	$	253,834
Short		(31,990)	$	(23,187)
Equity Derivative Futures				
Long		492,773	$	684,345
Short		-	$	-
Fixed Income Derivative Futures				
Long		40,488	$	10,804
Short		(43,571)	$	(272,089)
Total Futures	**$**	**568,576**	**$**	**653,707**

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 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 are recorded with the net change in fair value of investments in the Statement of Changes in Net Assets and totaled $1.5 million for fiscal year 2010 and $1.6 million for fiscal year 2009. At June 30, 2010 and 2009, the SIB investment portfolio had the following option balances (expressed in thousands).

Options	Fair Value			
	June 30, 2010		June 30, 2009	
Cash & Cash Equivalent Options				
Call	$	(22)	$	(5)
Put	$	-	$	(2)
Equity Options				
Call	$	-	$	-
Put	$	1,934	$	-
Fixed Income Options				
Call	$	25	$	(141)
Put	$	(2)	$	(22)
Total Options	**$**	**1,935**	**$**	**(170)**

NOTES TO COMBINED FINANCIAL STATEMENTS

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. All counterparties were rated Aa by Moody's as of June 30, 2010 and 2009. In a credit default swap (CDS) contract, the protection buyer of the CDS makes a series of payments to the protection seller and, in exchange, receives a payoff if the credit instrument experiences a credit event. CDS contracts are also used to establish exposure to a desired credit instrument.

Gains and losses on swaps are determined based on fair values and are recorded with the net change in fair value of investments in the Statement of Changes in Net Assets and totaled $729 thousand for fiscal year 2010 and $(678) thousand for fiscal year 2009. The maximum loss that would be recognized at June 30, 2010 and 2009, if all counterparties failed to perform as contracted is $345 thousand and $1.2 million respectively. Swap fair values are determined by a third party pricing source. At June 30, 2010 and 2009, the SIB's investment portfolio had the swap fair value balances as shown below (expressed in thousands).

Credit Default Swaps			Fair Value	
Counterparty	Notional Amount	Expiration Date	June 30, 2010	June 30, 2009
Deutsche Bank AG New York	$ 45	3/20/2014	$ (9)	$ (6)
Deutsche Bank AG New York	120	9/20/2013	4	-
Deutsche Bank AG New York	75	3/20/2012	(4)	-
Barclays Capital Securities London	105	6/20/2011	(4)	-
Deutsche Bank Gov't Securities Inc.	(3,200)	6/20/2012	-	(195)
Barclays Capital Securities LTD	(1,335)	6/20/2012	-	(178)
Deutsche Bank Gov't Securities Inc.	(1,750)	6/20/2012	-	(216)
Deutsche Bank Gov't Securities Inc.	(1,750)	9/20/2011	-	(286)
Bear Stearns	(2,492)	6/20/2012	-	(331)
Total Credit Default Swaps	**$ (10,182)**		**$ (13)**	**$ (1,212)**

Interest Rate Swaps					Fair Value	
Counterparty	Notional Amount	Rate	Counterparty Rate	Expiration Date	June 30, 2010	June 30, 2009
Barclays Bank PLC London	$ 1,376	4.25%	LIBOR*	4/27/2013	23	-
Barclays Capital Securities LTD	(1,530)	4.25%	LIBOR*	3/18/2039	-	(43)
Total Interest Rate Swaps	**$ (154)**				**$ 23**	**$ (43)**

*One month London Interbank Offered Rate (LIBOR)

NOTES TO COMBINED FINANCIAL STATEMENTS

Currency Forwards

Currency forwards represent forward foreign exchange contracts that are entered into in order to manage the exposure to changes in foreign currency exchange rates on the foreign currency denominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net change in fair value of investments in the Statement of Changes in Net Assets and totaled $3.7 million for fiscal year 2010 and $15.8 million for fiscal year 2009. At June 30, 2010 and 2009, the SIB's investment portfolio included the currency forwards balances shown below (expressed in thousands).

				Fair Value	
Currency	Cost	Purchases	Sales	6/30/2010	6/30/2009
Australian dollar	(14,154)	495	(13,763)	(13,268)	(1,647)
Brazilian real	270	4,201	(4,201)	-	-
British pound sterling	(11,699)	11,662	(23,223)	(11,561)	(1,934)
Canadian dollar	(7,781)	86	(7,760)	(7,674)	(2,074)
Chinese yuan renminbi	2,281	2,236	-	2,236	-
Danish krone	(315)	-	(313)	(313)	(822)
Euro	(43,031)	17	(42,986)	(42,969)	(16,345)
Hong Kong dollar	(4,417)	-	(4,417)	(4,417)	(2,485)
Hungarian forint	32,849	8	(262)	(254)	(110)
Japanese yen	(28,483)	-	(29,226)	(29,226)	(19,374)
Mexican peso	(320)	150	(462)	(312)	-
New Zealand dollar	1,403	1,840	(415)	1,425	802
Norwegian krone	1,828	2,361	(714)	1,647	480
Polish zloty	(95)	1,882	(2,004)	(122)	(95)
Singapore dollar	(653)	-	(652)	(652)	(489)
South Korean won	-	-	-	-	2,748
Swedish krona	(5,103)	-	(5,093)	(5,093)	(1,016)
Swiss franc	(11,808)	-	(12,292)	(12,292)	(8,740)
Turkish lira	3,941	3,989	-	3,989	885
United States dollar	118,399	147,278	(28,879)	118,399	49,507
Total forwards subject to currency risk				(457)	(709)

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 instrument. The SIB does not have a formal investment policy regarding such derivative investments. At June 30, 2010 and 2009, the tables below show the SIB's derivative investments subject to interest rate risk (expressed in thousands).

NOTES TO COMBINED FINANCIAL STATEMENTS

2010	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	$ (18,276)	$ (19,738)	$ 12,114	$ (10,652)	$ -	$ -

	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	$ 1	$ 1	$ -	$ -	$ -	$ -
Swaps - interest rate contracts	23	-	-	-	23	-
Total	$ 24	$ 1	$ -	$ -	$ 23	$ -

2009	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	$ (237,567)	$ (115,640)	$ (133,226)	$ 265	$ 11,034	$ -

	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	$ (170)	$ (170)	$ -	$ -	$ -	$ -
Swaps - interest rate contracts	(43)	-	-	-	-	(43)
Total	$ (213)	$ (170)	$ -	$ -	$ -	$ (43)

Alternative Investments

In relation to investment asset allocation within the pension pool, the State Investment Board (SIB) considers alternative investments to be any investments that do not fit into any of the other specific asset classes available for investment. Examples of investments the SIB has included in the alternative investments asset class are private equity, venture capital and distressed debt. All of the investments in this asset class are in the form of limited partnerships with specific time horizons and capital commitments.

***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.

NOTES TO COMBINED FINANCIAL STATEMENTS

***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.

***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 AICPA expands the definition of Alternative Investments for the purpose of performing audits. The expanded 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 equities 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* —** See definition above. The SIB has determined that private equity investments add diversification opportunities within asset classes that traditionally hold public equity investments. Therefore, there are private equity investments within equity asset classes as well as the alternative investments asset class.

***Distressed Debt* —** See definition above. The SIB has determined that certain distressed debt investments add diversification and return opportunities within traditional fixed income asset classes. Therefore, there are distressed debt investments within fixed income asset classes as well as the alternative investments 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 high yield bond allocation.

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

***Portable Alpha Strategies* —** This strategy separates alpha from beta in a portfolio by investing in securities that differ from the market index from which their beta is derived. Alpha is the return achieved over and above the return that results from the correlation between the portfolio and the market (beta). This strategy involves investing in areas that have little to no correlation with the beta of the portfolio. The SIB utilizes this strategy in its US equity allocation by "porting" various types of fixed income-based portfolios over S&P 500 beta futures contracts.

***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 analyzed this type of investment and determined that its risk and return profile is very similar to bonds. Therefore, they have chosen to include timberland in fixed income asset allocations to provide additional diversification and return options.

***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. Similar to timberland, the SIB has included these types of investments in fixed income asset allocations.

NOTE 4 SECURITIES LENDING

The following represents the balances relating to the securities lending transactions at June 30, 2010 and 2009 (expressed in thousands).

June 30, 2010

Securities Lent	**Underlying Securities**	**Non-Cash Collateral Value**	**Cash Collateral Investment Value**
Lent for cash collateral:			
US agency securities	$ -	$ -	$ -
US government securities	5,400	-	5,444
US corporate fixed income securities	5,764	-	5,895
Global government fixed income securities	-	-	-
US equities	10,436	-	11,119
Global equities	3,478	-	3,712
Lent for non-cash collateral:			
US agency securities	-	-	-
US government securities	-	47	-
US corporate fixed income securities	-	-	-
US equities	-	-	-
Global equities	-	-	-
Total	$ 25,078	$ 47	$ 26,170

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2009

Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for cash collateral:			
US agency securities	$ -	$ -	$ -
US government securities	62,920	-	64,024
US corporate fixed income securities	92	-	93
Global government fixed income securities	-	-	-
US equities	11,283	-	12,308
Global equities	558	-	574
Lent for non-cash collateral:			
US agency securities	-	-	-
US government securities	919	373	-
US corporate fixed income securities	-	-	-
US equities	-	-	-
Global equities	-	-	-
Total	$ 75,772	$ 373	$ 76,999

NOTE 5 CAPITAL ASSETS

	June 30, 2008	Additions	Retirements	June 30, 2009	Additions	Retirements	June 30, 2010
Office Equipment	$ 33,911	$ -	$ -	$ 33,911	$ -	$ -	$ 33,911
Software	1,213,500	-	-	1,213,500	-	-	1,213,500
Less accumulated depreciation	(691,422)	(244,988)	-	(936,410)	(244,988)	-	(1,181,398)
	$ 555,989			$ 311,001			$ 66,013

NOTE 6 STATE AGENCY TRANSACTIONS

Due From/To Other State Agencies

Amounts due from/to other state agencies are as follows as of June 30, 2010 and 2009:

Due From:	2010	2009
Bank of North Dakota	$ -	$ 15
Due To:		
Information Technology Department	$ 7,233	$ 6,532
Attorney General's Office	2,478	2,624
University System - NDSU	230	-
Office of Management & Budget	210	3,326
Total due to other state agencies	$ 10,151	$ 12,482

NOTES TO COMBINED FINANCIAL STATEMENTS

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 7 OPERATING LEASES

RIO leases office space under an operating lease effective July 1, 2009 through June 30, 2011. RIO also incurs rent expense at other locations on a temporary basis to sponsor retirement education for TFFR members. Rent expense totaled $76,233 and $75,466 for fiscal 2010 and 2009. Minimum payments under the lease for fiscal 2011 are $74,933.

NOTE 8 CHANGES IN NONCURRENT LIABILITIES

Changes in noncurrent liabilities for the years ended June 30, 2010 and 2009 are summarized as follows:

	Beginning Balance 7/1/2009	Additions	Reductions	Ending Balance 6/30/2010	Amounts Due Within One Year
Accrued Annual Leave	113,661	66,817	(72,494)	107,984	69,477

	Beginning Balance 7/1/2008	Additions	Reductions	Ending Balance 6/30/2009	Amounts Due Within One Year
Accrued Annual Leave	94,499	83,447	(64,285)	113,661	70,788

Pension and Investment Trust Funds liquidate the accrued annual leave.

NOTE 9 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

General

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

TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, survivor and disability benefits. The costs to administer the TFFR plan are financed out of TFFR assets.

NOTES TO COMBINED FINANCIAL STATEMENTS

Membership

As of June 30, 2010 and 2009, the number of participating employer units was 231 and 231 consisting of the following:

	2010	2009
Public School Districts	183	184
County Superintendents	11	11
Special Education Units	21	21
Vocational Education Units	5	5
Other	11	10
Total	231	231

TFFR's membership consisted of the following:

	2010	2009
Retirees and beneficiaries currently receiving benefits	6,672	6,466
Terminated employees - vested	1,472	1,490
Terminated employees - nonvested	331	292
Total	8,475	8,248
Current employees		
Vested	8,356	8,301
Nonvested	1,551	1,406
Total	9,907	9,707

Investments

Current investment guidelines set by TFFR's board specify the percentage of assets to be invested in various types of investments (equities, fixed income securities, real estate, private equity, and cash). The overall long-term investment objective for TFFR is to match or exceed an expected rate of return of 8.93%, but at a minimum is not less than the 8% actuarially assumed rate of return determined percentage required to pay future benefits. Long-term performance goals are set and evaluated by the boards of SIB and TFFR for each type of investment.

Realized Gains and Losses

Realized gains and losses on sales of investments are components of net appreciation in fair value of investments and are computed as described in Note 1. For the years ended June 30, 2010 and 2009, TFFR had net realized gains/(losses) of $20,267,459 and $(118,229,471) respectively.

NOTES TO COMBINED FINANCIAL STATEMENTS

Investment Expenses

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

Member and Employer Contributions

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 7.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 8.25% (increasing to 8.75% effective July 1, 2010) of the teacher's salary, until the fund reaches 90% funded ratio on an actuarial basis.

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

Pension Benefits

For purposes of determining pension benefits, members are classified within one of two "tiers." Tier 1 are those with service credit on file as of July 1, 2008, and Tier 2 are those newly employed and returning refunded members on or after July 1, 2008.

Tier 1

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

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

Tier 2

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

NOTES TO COMBINED FINANCIAL STATEMENTS

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.

Survivor and Disability Benefits

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

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

Funded Status and Funding Progress

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

Actuarial Valuation Date July 1	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
2010	$ 1,842.0	$ 2,637.2	$ 795.2	69.8%	$ 465.0	171.0%

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

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

The accompanying schedule of employer contributions, presented as required supplementary information following the notes to the financial statements, presents trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution (ARC). The ARC is actuarially determined in accordance with the parameters of GASB Statement 50. The ARC represents a level of funding

NOTES TO COMBINED FINANCIAL STATEMENTS

that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Additional information as of the latest actuarial valuation follows:

Valuation Date:	July 1, 2010	July 1, 2009
Actuarial Cost Method:	Entry age normal	Entry age normal
Amortization Method:	Level percentage of payroll	Level percentage of payroll
Amortization Period for GASB 25 ARC (**):	30-year open period	30-year open period
Asset Valuation Method:	5 year smoothed market	5 year smoothed market
Actuarial Assumptions:		
Investment Rate of Return (*)	8.00%	8.00%
Projected Salary Increases (*)	4.50% to 14.75%	4.50% to 14.00%
Cost-of-Living Adjustments	None	None

(*) Includes inflation at 3.00%

(**) The GASB Annual Required Contribution (ARC) for this plan is defined as the larger of (a) the sum of (i) the employer normal costs, and (ii) an amount necessary to amortize the UAAL as a level percentage of payroll over an open 30-year amortization period, or (b) the 8.75% statutory employer contribution rate. Payroll is assumed to increase at 3.25% per annum.

TFFR Plan Changes Affecting Audit Period

1. For active members hired on or after July 1, 2008 (called Tier 2 members):
   - Members will be eligible for an unreduced retirement benefit when they reach age 65 with at least five years of service (rather than three years of service); or if earlier, when the sum of the member's age and service is at least 90 (rather than 85).
   - Members will be eligible for a reduced (early) retirement benefit when the reach age 55 with five years of service, rather than three years of service.
   - Members will be fully vested after five years of service (rather than three years of service).
   - The Final Average Compensation for Tier 2 members is the average of the member's highest five plan year salaries, rather than the average of the three highest salaries.
2. The employer contribution rate increases from 7.75% to 8.25% effective July 1, 2008, but this rate will reset to 7.75% once the Fund reaches a 90% funded ratio, measured using the actuarial value of assets. (If the funded ratio later falls below 90% again, the contribution rate will not automatically return to 8.25%.)
3. Employer contributions are required on the salary of reemployed retirees.

NOTES TO COMBINED FINANCIAL STATEMENTS

4. An individual who retired before January 1, 2009, and is receiving monthly benefits is entitled to receive a supplemental payment from the fund. The supplemental payment is equal to an amount determined by taking twenty dollars multiplied by the member's number of years of service credit plus fifteen dollars multiplied by the number of years since the member's retirement as of January 1, 2009. The supplemental payment may not exceed the greater of 10% of the member's annual annuity or $750. TFFR made the supplemental payment in December 2009.
5. The employer contribution rate increases from 8.25% to 8.75% effective July 1, 2010, but this rate will be reset to 7.75% once the Fund reaches a 90% funded ratio, measured using the actuarial value of assets. (If the funded ratio later falls below 90% again, the contribution rate will not automatically return to 8.75%.)

NOTE 10 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 is 8.26% of annual covered payroll as established by the NDCC. RIO's contributions to PERS for the years ended June 30, 2010, 2009, and 2008, were $82,788, $81,030, and $73,133, equal to the required contributions for each year plus a 1.14% contribution for retiree health benefits.

NOTE 11 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 12 COMMITMENTS

The State Investment Board has at June 30, 2010 committed to fund certain alternative investment partnerships for an amount of $957.5 million. Funding of $751.3 million has been provided leaving an unfunded commitment of approximately $206.2 million.

NOTE 14 NEW PRONOUNCEMENTS

GASB Statement No. 50, "*Pension Disclosures-an amendment of GASB Statements No. 25 and No. 27",* was issued in May 2008, and implemented for the fiscal year beginning July 1, 2008. This statement modifies the financial reporting requirements for pensions and enhances information disclosed in the notes to the financial statements or presented as required supplementary information.

GASB Statement No. 53, *"Accounting and Financial Reporting for Derivative Instruments"*, was issued in June 2008, and implemented for the fiscal year beginning July 1, 2009. This statement addresses the recognition, measurement, and disclosure information regarding derivative instruments entered into by state and local governments.

NOTE 15 SUBSEQUENT EVENTS

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 whose investments totaled more than $1.5 billion. Subsequent to the filing of a criminal complaint by federal prosecutors, a receiver was appointed by the court to reconstruct the alleged fraud and determine what recoverable assets exist. The receiver issued a report in May, 2009, indicating that approximately $893 million of recoverable assets were identified which equates to 60% of the investors' account values. The SIB held three portfolios with Westridge/WG Trading at the time the fraud was discovered. The three portfolios had been valued at a combined $161.3 million in the month prior to the court actions. $23.3 million was recovered immediately through liquidation of futures and related collateral positions at Westridge. The remaining assets were held by WG Trading and were frozen by the courts and remain frozen as of the balance sheet date. The fair value reported on the balance sheet as of June 30, 2009, reflects a reduction of 40% of the last known fair value, based on the receiver's initial report.

Subsequent to the closing of the fiscal year ended June 30, 2010, additional information was made available by the receiver regarding the assets readily available for distribution. The amount was reduced from the original $893 million in May, 2009 to approximately $800 million due to lack of liquidity. Therefore, the carrying value of these investments has been reduced by an additional 11% to reflect this new information. Due to the uncertainty of the distribution of assets between the parties as of the balance sheet date, this valuation is considered the best available.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010 AND 2009

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

Actuarial Valuation Date July 1	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (Funded Excess)	Funded Ratio	Annual Covered Payroll	UAAL (Funded Excess) as a Percentage of Annual Covered Payroll
2005	$1,469.7	$ 1,965.2	$ 495.5	74.8%	$ 386.6	128.2%
2006	1,564.0	2,073.9	509.9	75.4	390.1	130.7
2007	1,750.1	2,209.3	459.2	79.2	401.3	114.4
2008	1,909.5	2,330.6	421.1	81.9	417.7	100.8
2009	1,900.3	2,445.9	545.6	77.7	440.0	124.0
2010	1,842.0	2,637.2	795.2	69.8	465.0	171.0

Schedule of Employer Contributions
North Dakota Teachers' Fund for Retirement

Fiscal Year	Required Contribution	Percentage Contributed
2005	$ 44,471,740	68.3%
2006	48,747,189	63.9%
2007	50,532,462	63.1%
2008	44,114,585	76.4%
2009	41,986,174	89.3%
2010	52,053,217	76.5%

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
COMBINING STATEMENT OF NET ASSETS – INVESTMENT TRUST FUNDS
FIDUCIARY FUNDS
JUNE 30, 2010
(With Comparative Totals for 2009)

	Pension Pool Participants							Insurance Pool Participants				
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	Job Service of North Dakota	City of Fargo Employee Pension Plan	City of Grand Forks Employee Pension Plan	City of Grand Forks Park District	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund
Assets:												
Investments												
Equities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Equity pool	751,717,397	18,705,261	9,414,949	29,873,970	12,814,389	16,816,408	2,076,967	224,389,670	8,809,206	67,576	205,519	1,187,341
Fixed income	-	-	-	-	-	-	-	-	-	-	-	-
Fixed income pool	600,629,851	20,677,040	8,243,356	47,629,114	8,754,752	11,298,381	1,287,158	901,173,071	14,798,399	1,477,340	3,300,366	1,471,630
Real estate pool	73,611,369	4,368,771	1,792,070	-	1,373,010	1,710,385	-	65,242,803	-	-	-	-
Alternative investments	63,362,366	463,308	655,711	-	1,326,969	1,661,840	173,960	-	-	-	-	-
Cash and cash pool	19,826,474	328,089	144,401	86,685	319,584	3,461,109	36,864	13,846,736	2,662,428	1,191,196	3,061,464	1,453,832
Total investments	1,509,147,457	44,542,469	20,250,487	77,589,769	24,588,704	34,948,123	3,574,949	1,204,652,280	26,270,033	2,736,112	6,567,349	4,112,803
Invested sec lending collateral	9,428,833	250,469	116,166	484,406	151,739	208,455	31,925	7,257,842	201,574	12,902	28,803	23,476
Investment income receivable	2,490,355	48,773	30,187	156,782	(25,583)	3,783	(661)	7,853,710	128,508	27,149	58,313	7,450
Operating Cash	30,083	-	-	-	-	-	-	35,075	4,591	1,084	814	676
Miscellaneous receivable	5,747	-	-	-	-	-	-	4,443	101	10	25	4
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	-
Due from other state agency	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	1,521,102,475	44,841,711	20,396,840	78,230,957	24,714,860	35,160,361	3,606,213	1,219,803,350	26,604,807	2,777,257	6,655,304	4,144,409
Liabilities:												
Investment expenses payable	1,598,194	51,276	23,227	91,106	26,735	35,580	3,684	1,436,422	41,933	916	2,083	5,018
Securities lending collateral	9,428,833	250,469	116,166	484,406	151,739	208,455	31,925	7,257,842	201,574	12,902	28,803	23,476
Accounts payable	44,962	-	-	-	-	-	-	34,758	793	77	194	34
Accrued expenses	22,945	-	-	-	-	-	-	17,794	384	39	116	16
Miscellaneous payable	-	3,000	1,375	5,259	1,701	1,169	250	-	-	-	-	-
Due to other state funds	-	-	-	-	-	-	-	-	-	-	-	-
Due to other state agencies	1,121	-	-	-	-	-	-	866	20	2	5	1
Total liabilities	11,096,055	304,745	140,768	580,771	180,175	245,204	35,859	8,747,682	244,704	13,936	31,201	28,545
Net assets held in trust for external investment pool participants	$ 1,510,006,420	$ 44,536,966	$ 20,256,072	$ 77,650,186	$ 24,534,685	$ 34,915,157	$ 3,570,354	$ 1,211,055,668	$ 26,360,103	$ 2,763,321	$ 6,624,103	$ 4,115,864
Each participant unit is valued at $1.00												
Participant units outstanding	1,510,006,420	44,536,966	20,256,072	77,650,186	24,534,685	34,915,157	3,570,354	1,211,055,668	26,360,103	2,763,321	6,624,103	4,115,864

See Notes to Financial Statements

Insurance Pool Participants											Individual Investment Acct.	Totals	
Health Care Trust Fund	Cultural Endowment Fund	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n. of Counties Fund	ND Ass'n of Counties Program Savings	PERS Group Insurance	Budget Stabilization Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	DPI Board Certification Fund	PERS Retiree Health Credit Fund	2010	2009
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 25,388,750	$ 25,388,750	$ 18,879,086
-	124,035	1,067,610	1,120,713	572,013	344,302	-	-	240,616	12,022,961	-	-	1,091,570,903	937,074,652
-	-	-	-	-	-	-	-	-	-	-	19,519,126	19,519,126	16,519,433
-	90,611	2,480,950	1,978,969	448,844	412,762	-	284,018,100	559,485	12,867,202	-	-	1,923,597,381	1,693,796,088
-	11,961	-	-	-	-	-	-	-	-	-	-	148,110,369	126,052,018
-	-	-	-	-	-	-	-	-	-	-	-	67,644,154	73,458,319
2,315,399	7,188	191,214	97,242	55,075	40,627	4,034,576	38,566,074	42,362	256,240	500,604	-	92,525,463	33,191,958
2,315,399	233,795	3,739,774	3,196,924	1,075,932	797,691	4,034,576	322,584,174	842,463	25,146,403	500,604	44,907,876	3,368,356,146	2,898,971,554
-	1,715	28,261	24,202	8,459	6,259	-	-	6,908	186,973	-	-	18,459,367	70,170,273
-	18	49,228	6,553	1,183	803	-	2,593,383	1,533	10,363	-	64,413	13,506,243	13,303,251
850	154	876	1,019	-	-	-	7,803	-	-	260	-	83,285	74,746
8	1	14	12	-	-	-	1,189	-	-	2	-	11,556	8,677
-	-	-	-	-	-	-	-	-	-	-	-	-	1,855
-	-	-	-	-	-	-	-	-	-	-	-	-	3
2,316,257	235,683	3,818,153	3,228,710	1,085,574	804,753	4,034,576	325,186,549	850,904	25,343,739	500,866	44,972,289	3,400,416,597	2,982,530,359
-	543	6,268	6,276	2,590	1,589	-	63,907	1,197	62,488	-	27,743	3,488,775	3,793,008
-	1,715	28,261	24,202	8,459	6,259	-	-	6,908	186,973	-	-	18,459,367	70,170,273
16	7	110	92	-	-	-	2,383	-	-	4	-	83,430	52,441
138	3	55	47	-	-	-	3,181	-	-	3	-	44,721	50,041
-	-	-	-	250	250	250	-	250	1,661	-	1,592	17,007	12,657
-	-	-	-	-	-	-	-	-	-	-	-	-	1,855
2	-	2	3	-	-	-	232	-	-	-	-	2,254	2,242
156	2,268	34,696	30,620	11,299	8,098	250	69,703	8,355	251,122	7	29,335	22,095,554	74,082,517
$ 2,316,101	$ 233,415	$ 3,783,457	$ 3,198,090	$ 1,074,275	$ 796,655	$ 4,034,326	$ 325,116,846	$ 842,549	$ 25,092,617	$ 500,859	$ 44,942,954	$3,378,321,043	$ 2,908,447,842
2,316,101	233,415	3,783,457	3,198,090	1,074,275	796,655	4,034,326	325,116,846	842,549	25,092,617	500,859	44,942,954	3,378,321,043	2,908,447,842

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
COMBINING STATEMENT OF CHANGES IN NET ASSETS – INVESTMENT TRUST FUNDS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(With comparative totals for June 30, 2009)

	Pension Pool Participants							Insurance Pool Participants				
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	Job Service of North Dakota	City of Fargo Employee Pension Plan	City of Grand Forks Employee Pension Plan	City of Grand Forks Park District	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund
Additions:												
Investment income:												
Net change in fair value of investments	$ 153,004,660	$ 3,838,691	$ 1,907,796	$ 7,565,552	$ 2,756,456	$ 3,626,358	$ (138,086)	$ 86,825,301	$ 2,554,316	$ 137,116	$ 339,451	$ 133,302
Interest, dividends and other income	32,225,018	1,121,694	476,013	2,042,786	510,050	674,685	30,872	44,376,314	1,002,687	80,281	194,448	55,755
	185,229,678	4,960,385	2,383,809	9,608,338	3,266,506	4,301,043	(107,214)	131,201,615	3,557,003	217,397	533,899	189,057
Less investment expenses	6,118,588	190,180	87,805	305,699	106,028	137,909	11,082	4,885,207	87,197	3,338	7,891	7,581
Net investment income	179,111,090	4,770,205	2,296,004	9,302,639	3,160,478	4,163,134	(118,296)	126,316,408	3,469,806	214,059	526,008	181,476
Securities lending activity:												
Securities lending income	38,342	1,148	533	1,814	614	886	45	278,618	4,142	375	906	199
Less Securities lending expenses	(77,303)	(1,635)	(869)	(3,070)	(1,344)	(2,250)	(140)	64,402	(391)	156	375	(129)
Net securities lending income	115,645	2,783	1,402	4,884	1,958	3,136	185	214,216	4,533	219	531	328
Total Additions	179,226,735	4,772,988	2,297,406	9,307,523	3,162,436	4,166,270	(118,111)	126,530,624	3,474,339	214,278	526,539	181,804
Deductions:												
Administrative Expenses	294,489	-	-	-	-	-	-	213,441	4,790	984	1,270	994
Net change in net assets resulting from operations	178,932,246	4,772,988	2,297,406	9,307,523	3,162,436	4,166,270	(118,111)	126,317,183	3,469,549	213,294	525,269	180,810
Unit transactions at net asset value of $1 per unit:												
Purchase of units	-	-	-	-	-	3,887,189	3,735,988	28,500,000	2,800,000	400,000	400,000	3,000,000
Redemption of units	(22,100,000)	-	-	(3,805,228)	(500,000)	(3,145,263)	(47,523)	(26,100,000)	(2,225,000)	-	(600,000)	(2,300,000)
Net change in net assets and units resulting from unit transactions	(22,100,000)	-	-	(3,805,228)	(500,000)	741,926	3,688,465	2,400,000	575,000	400,000	(200,000)	700,000
Total change in net assets	156,832,246	4,772,988	2,297,406	5,502,295	2,662,436	4,908,196	3,570,354	128,717,183	4,044,549	613,294	325,269	880,810
Net assets:												
Beginning of year	1,353,174,174	39,763,978	17,958,666	72,147,891	21,872,249	30,006,961	-	1,082,338,485	22,315,554	2,150,027	6,298,834	3,235,054
End of year	$ 1,510,006,420	$ 44,536,966	$ 20,256,072	$ 77,650,186	$ 24,534,685	$ 34,915,157	$ 3,570,354	$ 1,211,055,668	$ 26,360,103	$ 2,763,321	$ 6,624,103	$ 4,115,864

See Notes to Financial Statements

Insurance Pool Participants											Individual Investment Acct.		
Health Care Trust Fund	Cultural Endowment Fund	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n of Counties Fund	ND Ass'n of Counties Program Savings	PERS Group Insurance	Budget Stabilization Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	DPI Board Certification Fund	PERS Retiree Health Credit Fund	Totals 2010	Totals 2009
$ -	$ 22,732	$ 391,534	$ 242,300	$ 114,484	$ 82,493	$ -	$ 11,710,253	$ 82,542	$ 2,389,046	$ -	$ 4,928,103	$ 282,514,400	$ (700,881,095)
8,373	7,822	151,308	102,186	35,633	28,732	38,909	10,013,545	34,359	823,931	1,609	1,829,939	95,866,949	98,323,223
8,373	30,554	542,842	344,486	150,117	111,225	38,909	21,723,798	116,901	3,212,977	1,609	6,758,042	378,381,349	(602,557,872)
-	1,057	11,703	10,263	5,541	3,972	1,000	222,199	3,653	102,595	-	100,256	12,410,744	12,014,168
8,373	29,497	531,139	334,223	144,576	107,253	37,909	21,501,599	113,248	3,110,382	1,609	6,657,786	365,970,605	(614,572,040)
-	26	657	414	127	113	-	-	149	3,107	-	-	332,215	2,600,802
-	(17)	52	(7)	(81)	(32)	-	-	4	(924)	-	-	(23,203)	1,626,006
-	43	605	421	208	145	-	-	145	4,031	-	-	355,418	974,796
8,373	29,540	531,744	334,644	144,784	107,398	37,909	21,501,599	113,393	3,114,413	1,609	6,657,786	366,326,023	(613,597,244)
983	348	984	987	-	-	-	37,341	-	-	750	-	557,361	436,987
7,390	29,192	530,760	333,657	144,784	107,398	37,909	21,464,258	113,393	3,114,413	859	6,657,786	365,768,662	(614,034,231)
-	-	-	1,000,000	-	-	179,500,000	124,936,548	-	4,400,000	500,000	2,753,000	355,812,725	195,202,812
-	-	-	-	-	-	(179,500,000)	(11,385,172)	-	-	-	-	(251,708,186)	(245,384,367)
-	-	-	1,000,000	-	-	-	113,551,376	-	4,400,000	500,000	2,753,000	104,104,539	(50,181,555)
7,390	29,192	530,760	1,333,657	144,784	107,398	37,909	135,015,634	113,393	7,514,413	500,859	9,410,786	469,873,201	(664,215,786)
2,308,711	204,223	3,252,697	1,864,433	929,491	689,257	3,996,417	190,101,212	729,156	17,578,204	-	35,532,168	2,908,447,842	3,572,663,628
$ 2,316,101	$ 233,415	$ 3,783,457	$ 3,198,090	$ 1,074,275	$ 796,655	$ 4,034,326	$ 325,116,846	$ 842,549	$ 25,092,617	$ 500,859	$ 44,942,954	$ 3,378,321,043	$ 2,908,447,842

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
PENSION AND INVESTMENT TRUST FUNDS – SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	Pension Trust		Investment Trust	
	2010	2009	2010	2009
Salaries and wages:				
Salaries and wages	$571,875	$541,834	$377,965	354,284
Fringe benefits	204,097	189,415	91,551	99,241
Total salaries and wages	775,972	731,249	469,516	453,525
Operating expenses:				
Information services	76,726	78,631	11,160	9,199
Intergovernmental services	4,907	5,485	1,815	2,029
Professional services	345,589	165,132	173,067	60,485
Rent of building space	55,147	54,973	21,086	20,493
Mailing services and postage	54,225	41,889	20,963	18,776
Travel and lodging	22,807	23,764	10,864	11,301
Printing	17,377	20,064	7,953	6,933
Office supplies	4,600	17,315	1,593	4,851
Professional development	6,671	16,026	815	3,579
Outside services	8,501	11,010	2,712	2,563
Small office equipment expense	158	13,095	75	5,546
Miscellaneous fees	3,249	1,977	2,264	2,067
Resource and reference materials	432	583	896	777
IT contractual services	110,991	110,439	2,105	4,194
Repairs - office equipment	0	114	0	42
Insurance	681	1,021	252	378
Total operating expenses	712,061	561,518	257,620	153,213
Pension trust portion of investment program expenses	169,775	169,751	(169,775)	(169,751)
Depreciation	244,988	244,988	-	-
Total administrative expenses	1,902,796	1,707,506	557,361	436,987
Less - nonappropriated items:				
Professional fees	345,589	165,132	173,067	60,485
Other operating fees paid under continuing appropriation	13,357	11,543	26,196	22,453
Depreciation	244,988	244,988	-	-
Accrual adjustments to employee benefits	920	11,629	(6,597)	7,533
Total nonappropriated items	604,854	433,292	192,666	90,471
Total appropriated expenditures	$ 1,297,942	$ 1,274,214	$ 364,695	$ 346,516

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
SCHEDULE OF APPROPRIATIONS – BUDGET BASIS
FIDUCIARY FUNDS
JULY 1, 2009 TO JUNE 30, 2011 BIENNIUM

	Approved 2009-2011 Appropriation	2009-2011 Appropriation Adjustment	Adjusted 2009-2011 Appropriation	Fiscal 2010 Expenses	Unexpended Appropriations
All Fund Types:					
Salaries and wages	$ 2,674,080	$ -	$ 2,674,080	$ 1,251,165	$ 1,422,915
Operating expenses	949,570	-	949,570	411,472	538,098
Contingency	82,000	-	82,000	-	82,000
Total	$ 3,705,650	$ -	$ 3,705,650	$ 1,662,637	$ 2,043,013

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

Reconciliation of Administrative Expenses
to Appropriated Expenditures

	2010
Administrative expenses as reflected in the financial statements	2,460,157
Less:	
Professional fees*	(518,657)
Other operating fees paid under continuing appropriations*	(39,552)
Depreciation expense	(244,988)
Changes in annual leave and FICA payments	5,677
Total appropriated expenses	$1,662,637

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

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
PENSION AND INVESTMENT TRUST FUNDS – SCHEDULE OF CONSULTANT EXPENSES
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

	Pension Trust		Investment Trust	
	2010	2009	2010	2009
Actuary fees:				
Gabriel, Roeder, Smith & Co.	$ 196,990	$ 81,544	$ -	$ -
Consulting fees:				
Eide Bailly, P.C.	44,699	42,970	23,001	22,405
Disability consulting fees:				
Dr. G.M. Lunn	300	300	-	-
Legal fees:				
Calhoun Law Group P.C.	10,258	-	-	-
K&L Gates LLP	71,753	12,585	136,619	27,418
ND Attorney General	21,589	27,733	13,447	10,662
Total legal fees:	103,600	40,318	150,066	38,080
Total consultant expenses	$ 345,589	$ 165,132	$ 173,067	$ 60,485

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
PENSION AND INVESTMENT TRUST FUNDS – SCHEDULE OF INVESTMENT EXPENSES
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

	Pension Trust		Investment Trust	
	2010	2009	2010	2009
Investment managers' fees:				
Domestic large cap equity managers	$ 2,505,815	$ 1,627,491	3,656,352	$ 2,681,178
Domestic small cap equity managers	1,115,847	729,394	1,703,243	1,161,747
International equity managers	1,074,828	1,075,153	1,208,085	1,092,099
Emerging markets equity managers	1,103,784	716,801	1,162,657	746,476
Domestic fixed income managers	2,860,668	990,982	8,514,977	4,090,871
High yield fixed income managers	2,078,546	1,587,661	1,806,843	1,306,658
Inflation protected assets managers	-	-	1,682,319	687,577
International fixed income managers	329,889	312,690	380,390	350,872
Real estate managers	1,900,082	1,912,513	1,713,622	1,902,196
Private equity managers	1,676,361	981,168	1,787,378	1,039,468
Enhanced cash managers	-	-	218,275	99,804
Cash & equivalents managers	16,281	7,152	13,361	7,179
Balanced account managers	-	-	174,464	73,830
Total investment managers' fees	14,662,101	9,941,005	24,021,966	15,239,955
Custodian fees	299,800	302,671	595,896	537,855
Investment consultant fees	87,328	87,638	200,526	197,020
SIB Service Fees	-	-	46,119	33,268
Total investment expenses	$ 15,049,229	$ 10,331,314	$ 24,864,507	$ 16,008,098
Securities lending fees	$ (87,999)	$ 52,019	$ (23,203)	$ 1,626,006

Reconciliation of investment expenses to financial statements

	2010	2009	2010	2009
Investment expenses as reflected in the financial statements	$ 6,234,267	$ 6,677,763	$ 12,410,744	$ 12,014,168
Plus investment management fees included in investment income				
Domestic large cap equity	817,707	261,949	1,057,567	318,846
Domestic small cap equity	948,784	349,729	1,019,320	419,581
International equity	209,403	148,378	255,569	186,750
Emerging markets equity	670,351	335,963	706,348	348,347
Domestic Fixed Income	2,245,704	247,917	5,667,804	617,492
High Yield	1,650,648	1,087,009	1,432,378	894,982
Inflation protected assets managers	-	-	221,682	116,863
Real Estate	925,840	531,733	562,124	312,406
Alternative investments	1,330,244	683,721	1,418,817	738,742
Enhanced cash managers	-	-	18,304	28,729
Cash equivalents	16,281	7,152	13,361	7,179
Balanced account managers	-	-	80,489	4,013
Investment expenses per schedule	$ 15,049,229	$ 10,331,314	$ 24,864,507	$ 16,008,098

This page intentionally blank.

INVESTMENT SECTION

ND Retirement and Investment Office

State Investment Board
Teachers' Fund for Retirement

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
Toll Free 800-952-2970
Fax 701-328-9897
www.nd.gov/rio

November 30, 2010

Members of the
North Dakota State Investment Board
North Dakota Teachers' Fund for Retirement Board

Dear Board Members:

This report is a summary of the North Dakota pension and insurance pools' investment portfolios and market environment for the fiscal year ended June 30, 2010.

Introduction

For the fiscal year ended June 30, 2010, the $3.1 billion North Dakota pension investment pool portfolio experienced a net total return of 13.70%. The Teachers' Fund for Retirement, a participant in the pension pool, had a net gain of 13.87% for the year. The insurance investment pool, valued at $1.6 billion on June 30, 2010, returned 11.77% net, during the same time frame. The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon fair values and are subject to independent verification.

The pension and insurance investment pools are pooled investment funds. The pension pool was created in 1989 in an effort to realize cost savings through pooling of pension assets. The insurance pool was created in 1993 for similar reasons. A list of the participants and their ownership in each pool is provided in this section of the report. The pooled funds' strategies are a proportional reflection of the investment objectives of each of the participating funds. The returns experienced by the individual funds were consistent with their respective investment policies and related asset allocations. Investment program details for the participating plans, including investment objectives and a listing of their forty-two external investment managers are presented in the Investment Section.

Our investment program's cost effectiveness as measured by expense ratio is 85.7 basis points and includes investment office administrative expenses, consultant fees, money manager fees and master custodian fees. Allocation of monthly income and expenses to the participants in the pools is based on a time-weighted beginning balance. A "time factor" and "time-weighted amount" are calculated for each plan based on individual plan-related activities. The time-weighted amounts are added up for all plan-related activities to compose the time-weighted beginning balance used to allocate the activity of the pool. Five-year annualized risk for the period ended June 30, 2010, as measured by standard deviation has been 14.16% for the pension pool and 6.52% for the insurance pool. Risk exposure for each participating fund is also limited in accordance with the guidelines presented in the Investment Section.

Economic Overview

The Federal Reserve kept interest rates low (0-0.25%) throughout the fiscal year in an effort to encourage spending and bolster the economy. This low level of interest rates has been in place since December of 2008. Fear of deflation (i.e.—falling prices) was pervasive during the fiscal year with negative or small positive gains in the consumer price index (CPI). In the first quarter of the fiscal year, CPI was -1.3%, the third straight quarterly decline in measured inflation. CPI was positive for the rest of the fiscal year, although at levels below the long-term historical average of 4%. Gross Domestic Product (GDP) growth was positive for each quarter during the fiscal year. In the first half of the year, inventory replenishment and government stimulus programs, such as infrastructure spending, first-time home buyer credits, and "cash for clunkers" helped drive growth.

In the second half of the fiscal year, GDP growth slowed as government incentives expired, consumer spending slowed, and the inventory cycle completed. The unemployment rate stayed high during the fiscal year reaching

10% in the December quarter of 2009. As of June 30, 2010, unemployment fell to 9.5%, remaining well above the long-term average rate of roughly 6%. The economy grew at a modest pace in the past fiscal year while fighting against high unemployment, a high home foreclosure rate coupled with low home sales, and modest consumer spending. In a further effort to stimulate growth, the Fed committed to quantitative easing, a program by which the Federal Reserve bought Treasury securities as a means to increase monetary circulation. The effects of this policy remain to be seen.

Domestic Equity Overview

The end of the fiscal year showed positive results across the broad domestic equity market. The S&P 1500 Index, a broad market indicator, finished the fiscal year with a return of 15.57%. The first three quarters of the fiscal year had positive returns. However, a large portion of the fiscal year gain was lost in the last quarter as the S&P 1500 tumbled 11.18%. Small cap stocks performed better than large cap stocks during the fiscal year. The S&P 600, a small cap index, outpaced the S&P 500, a large cap index, 23.64%% to 14.43%, respectively. Value stocks held up better than Growth stocks during fiscal year 2010. The Russell 3000 Value Index (an index measuring large, medium and small value-oriented stocks) advanced 17.57% versus a gain of 13.95% in a companion index, the Russell 3000 Growth Index.

International Equity Overview

Developed international equity, as represented by the MSCI EAFE Index, produced positive results in fiscal year 2010. The index returned 5.92%, which was a much better result than the 31.35% loss experienced during fiscal year 2009. For the trailing twelve-months ended June 30, 2010, the MSCI EAFE Growth Index gained 8.59% while the MSCI EAFE Value Index was up 3.21%. The MSCI Emerging Markets Index was the best performing international index in fiscal year 2010 with a gain of 23.48%.

Domestic Fixed-Income Overview

The bond market, as measured by the Barclays Capital Aggregate Bond Index, had a 9.50% return for the four-quarter period ended 6/30/2010. Spurred by deflationary fears and uncertainty in the U.S. equity market, investors fled to the safe haven of U.S. Treasuries. Due to increased demand, Treasury yields dropped across the entire curve. When compared to fiscal year 2009, spreads in the US Credit, Mortgage-Backed Securities (MBS), Asset Backed Securities (ABS), and High Yield Bond sectors narrowed during the last fiscal year. Lower yields helped produce positive returns in all sectors during fiscal year 2010.

The Barclays Capital Government/Credit Intermediate Index returned 8.29% over the fiscal year. This return was below the 16.49% gain of the Barclays Capital Government/Credit Long Index. The Barclays Capital Credit Index rose 14.68% for the trailing twelve-months as company balance sheets continued to improve. High yield (i.e.— below investment grade) investors also saw positive returns: the Barclays Capital High Yield Index returned 26.77% for the year ended June 30, 2010.

International Fixed-Income Overview

The international fixed income market was adversely affected by a sovereign debt crisis within Greece that led to increased fears about other European debt during the last fiscal year. The Citi Euro Government Bond Index declined 8.13% while the rest of the world showed gains (1.52% for the Citi Non-U.S. World Government Index). This index's return includes the negative effect of European bonds. The European Central Bank ("ECB") created an 860 billion Euro rescue package to help contain the crisis, but investors questioned if the bailout would be large enough.

The US Dollar (USD) appreciated relative to most foreign currencies during the fiscal year, hurting U.S. investors' foreign bond returns. The dollar appreciated in the last three quarters of fiscal 2010 after depreciating in the first quarter of the period. In USD denominated returns, the Citi Non-US World Government Bond Index rose 1.52% for the year ended 6/30/10. For comparative purposes, the local currency return – the return achieved by investors in their respective home markets – for the Citi Non-US World Government Bond Index was 4.87%. Emerging markets countries experienced positive returns for fiscal year 2010; the JP Morgan Emerging Markets Bond Plus Index gained 17.44%.

Real Estate Overview

The NCREIF Property Index, a measure of the private real estate property market, fell 1.48% over the past fiscal year. After two quarterly losses in the first half of the year, the index produced positive gains in the last two quarters of the fiscal year. Investors continued to reduce portfolio debt levels and occupancy rates improved as liquidity slowly crept back into the real estate market. The NAREIT Equity Index, a measure of publicly traded real estate securities, gained 53.90% during fiscal 2010. Valuations in the private real estate market often lag those of the public real estate market resulting in a slower realization of losses (or gains).

Private Equity Overview

The private equity market grew at a slow pace in fiscal year 2010 as few institutional investors are investing in new programs. According to Buyouts Newsletter, 266 closed transactions amounting to $22 billion occurred during the fiscal year. This was a decrease in total transactions from fiscal year 2009 (288) but nearly twice as much dollar volume ($11 billion). Due to the nature of private equity performance measurement, relative comparisons of fund performance with benchmarks are inherently ambiguous. Instead of recognizing any particular index as representative of the opportunity for the fiscal year ended June 30, 2010, it is worth noting that the pension pool's alternative investment allocation of total fund assets was 4.8%. The market value of the alternative investment allocation, including investment returns and net new investment, gained 19.06% during the fiscal year.

Summary

Although fiscal year 2010 ended on a positive note for the pension and insurance pools, the coming years will continue to be challenging. To ensure that the pension pool is appropriately invested to meet those challenges, the two largest pension fund boards (TFFR and Public Employees Retirement System (PERS)) are conducting asset/liability studies. These studies will provide guidance to the SIB in structuring the investments within the pension pool to meet future challenges. The insurance pool participants will continue to monitor their asset/liability needs as well and work with the SIB to make changes as needed.

Additionally, the global capital markets have become an important consideration when constructing a portfolio. The SIB will need to be prepared to take advantage of investment opportunities throughout the world as they occur. The SIB will continue to invest the monies entrusted to them in a fiduciary sound manner, while at the same time explore investment opportunities that will add investment return to expected benchmark return expectations.

Sincerely,

LeRoy Gilbertson

LEROY GILBERTSON
Interim Executive Director/CIO

INVESTMENT PERFORMANCE SUMMARY
JUNE 30, 2010

			Rates of Return (net of fees)								
	Fair Value	**% Of Pool**	**For Fiscal Year Ended 6/30**			**Annualized**					
PENSION POOL PARTICIPANTS			2010	2009 **	2008	3 Years	5 Years	10 Years	15 Years	20 Years	25 Years
Teachers' Fund for Retirement	$1,418,403,331	45.2%	13.87%	-27.44%	-7.51%	-8.57%	1.04%	2.13%	6.02%	7.03%	7.86%
Public Employees Retirement System	1,511,637,812	48.2%	13.67%	-24.50%	-5.60%	-6.78%	1.54%	3.09%	6.68%	7.36%	8.30%
Bismarck City Employee Pension Fund	44,591,242	1.4%	12.74%	-20.61%	-3.82%	-4.87%	1.91%	3.40%	6.61%	7.90%	*
Bismarck City Police Pension Fund	20,280,674	0.6%	13.30%	-22.59%	-4.69%	-5.80%	1.66%	3.00%	6.35%	7.66%	*
Job Service of North Dakota	77,746,551	2.5%	13.63%	-16.62%	-1.64%	-2.32%	3.04%	3.59%	8.14%	*	*
City of Fargo Pension Fund	24,563,121	0.8%	14.82%	-24.88%	*	*	*	*	*	*	*
City of Grand Forks Pension Fund	34,951,906	1.1%	13.91%	*	*	*	*	*	*	*	*
Grand Forks Park District Pension Fund	3,574,288	0.1%	*	*	*	*	*	*	*	*	*
Subtotal Pension Pool Participants	3,135,748,925	100.0%									
INSURANCE POOL PARTICIPANTS											
Workforce Safety & Insurance Fund	1,212,505,990	74.9%	11.94%	-10.25%	0.57%	0.35%	2.89%	3.94%	6.62%	7.40%	*
State Fire and Tornado Fund	26,398,541	1.6%	14.52%	-9.85%	-4.01%	-0.30%	3.24%	3.73%	5.81%	6.36%	*
State Bonding Fund	2,763,261	0.2%	8.63%	-15.49%	-4.14%	-4.17%	0.82%	2.70%	5.13%	5.90%	*
Petroleum Tank Release Fund	6,625,662	0.4%	7.79%	-15.49%	-4.07%	-4.40%	0.72%	2.34%	5.15%	*	*
Insurance Regulatory Trust Fund	4,120,253	0.3%	10.29%	-6.86%	-2.71%	-0.02%	3.26%	3.60%	5.78%	5.79%	*
Health Care Trust Fund	2,315,399	0.1%	0.36%	1.08%	3.43%	1.61%	2.98%	*	*	*	*
State Risk Management Fund	3,789,002	0.2%	16.02%	-8.97%	-2.70%	0.91%	3.19%	3.59%	*	*	*
State Risk Management Workers Comp	3,203,477	0.2%	16.40%	-11.29%	-3.99%	-0.29%	2.80%	*	*	*	*
Cultural Endowment Fund	233,813	0.0%	14.89%	-18.49%	-7.59%	-4.70%	1.26%	*	*	*	*
Budget Stabilization Fund	325,177,557	20.1%	7.38%	-4.23%	0.01%	0.94%	*	*	*	*	*
ND Assoc. of Counties (NDACo) Fund	1,077,115	0.1%	15.34%	-16.29%	-7.79%	-3.80%	1.80%	2.72%	*	*	*
NDACo Program Savings Fund	798,494	0.0%	15.38%	-13.31%	-5.77%	-1.95%	2.67%	3.21%	*	*	*
City of Bismarck Deferred Sick Leave	843,996	0.1%	21.28%	-8.34%	-3.20%	2.47%	4.65%	4.78%	*	*	*
PERS Group Insurance	4,034,576	0.2%	0.36%	1.08%	3.43%	1.61%	2.93%	2.81%	*	*	*
City of Fargo FargoDome Permanent Fund	25,156,766	1.6%	16.78%	-15.64%	-6.25%	-2.61%	2.11%	*	*	*	*
Dept. of Public Instruction Board Certification Fund	500,604	0.0%	*	*	*	*	*	*	*	*	*
Subtotal Insurance Pool Participants	1,619,544,506	100.0%									
INDIVIDUAL INVESTMENT ACCOUNT											
Retiree Health Insurance Credit Fund	44,972,289	100.0%	16.86%	-17.14%	-14.19%	-5.99%	1.01%	1.55%	5.91%	6.57%	*
TOTAL	$4,800,265,720										
BENCHMARKS											
S&P 500			14.43%	-26.21%	-13.12%	-9.81%	-0.79%	-1.59%	6.24%	7.67%	9.53%
Barclays Aggregate			9.50%	6.05%	7.12%	7.55%	5.54%	6.47%	6.39%	7.14%	7.83%
90 Day T-Bills			0.16%	0.95%	3.63%	1.57%	2.77%	2.69%	3.55%	3.84%	4.50%
Callan Public Plan Sponsors Database (Median)			12.57%	-18.00%	-4.65%	-4.17%	2.66%	3.39%	6.95%	7.86%	8.70%

* These funds do not have the specified years of history under SIB management.

**Revised

Note: Asset allocation largely drives investment performance. Each fund has a unique allocation that takes into consideration return objectives, risk tolerance, liquidity constraints, and unique circumstances. Such considerations must be taken into account when comparing investment results.

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
PENSION POOL PARTICIPANTS
FOR PERIODS ENDED JUNE 30, 2010

	Style	Date Initiated	Fair Value	Annualized Rates of Return 1 Year	3 Years	5 Years
DOMESTIC LARGE CAP EQUITY:						
AllianceBernstein/The Clifton Group	Portable Alpha/TALF	06/2009	$ 7,121,586	38.36%	*	*
Declaration Mgmt & Research/The Clifton Group	Portable Alpha/TALF	07/2009	$ 63,212,809	18.58%	*	*
Epoch Investment Partners, Inc.	Absolute Return	07/2007	176,563,728	10.02%	-5.22%	*
European Credit Management LTD	Portable Alpha/Bonds	11/2007	50,639,568	42.87%	*	*
Los Angeles Capital Management	Structured Growth	08/2003	132,285,244	14.76%	-7.69%	1.48%
Los Angeles Capital Management	Enhanced Russell 1000	08/2000	126,154,675	16.16%	-8.48%	0.84%
LSV Asset Management	Structured Value	06/1998	127,337,399	18.76%	-12.54%	-0.74%
Northern Trust Global Investments	Enhanced S&P 500	08/2000	44,496,562	15.03%	-10.16%	-1.04%
Prudential	Portable Alpha	03/2008	47,775,468	59.53%	*	*
WG Trading/The Clifton Group	S&P 500 Overlay**	08/2000	78,469,528	-3.31%	-31.15%	-15.44%
TOTAL DOMESTIC LARGE CAP EQUITY			854,056,567	18.99%	-15.36%	-3.79%
Standard & Poor's 500 Index				14.43%	-9.81%	-0.79%
DOMESTIC SMALL CAP EQUITY:						
Callan Associates, Inc.	Mgr of Managers	05/2006	$ 125,471,533	23.87%	-8.21%	*
The Clifton Group	Enhanced Russell 2000	11/2009	114,683,265	*	*	*
Corsair Capital (Fund III)	Pvt Eq - Financial Svcs	02/2006	11,200,129	-0.49%	7.22%	*
Corsair Capital (ND Investors)	Pvt Eq - Financial Svcs	03/2008	9,972,057	-1.25%	*	*
Corsair Capital (Fund IV)	Pvt Eq - Financial Svcs	05/2010	6,177,152	*	*	*
SEI Investments Management Co.	Mgr of Mgrs (liquidating)	06/2001	4,681,382	36.10%	-15.42%	-3.81%
TOTAL DOMESTIC SMALL CAP EQUITY			272,185,518	36.20%	-9.28%	0.35%
Russell 2000 Index				21.48%	-8.60%	0.37%
INTERNATIONAL EQUITY:						
Capital Guardian Trust Company	Core	03/1992	50,352,171	10.57%	-12.65%	1.62%
The Clifton Group	Overlay EAFE (liquidating)	11/2008	15,703,954	*	*	*
The Clifton Group	EAFE Index	03/2010	50,985,364	*	*	*
Dimensional Fund Advisors	Small Cap Value	11/2007	43,326,592	10.69%	*	*
LSV Asset Management	Core	11/2004	88,624,008	10.16%	-15.23%	0.40%
State Street Global Advisors	Enhanced EAFE Index	03/1987	36,895,821	6.11%	-14.78%	0.46%
Wellington Trust Company, NA	Small Cap Growth	03/2002	45,018,423	13.66%	-10.90%	2.35%
TOTAL INTERNATIONAL EQUITY			330,906,333	13.37%	-12.22%	1.93%
MSCI EAFE 50% Hedged Index				8.47%	-12.55%	1.47%
EMERGING MARKETS EQUITY:						
Blackfriars	Core	03/2006	24,296,868	15.75%	-4.50%	*
Capital International	Private Equity	08/2007	24,629,537	8.72%	*	*
Dimensional Fund Advisors	Small Cap	10/2005	33,771,419	37.25%	-0.51%	*
J.P. Morgan Investment Management, Inc.	Core	11/2005	26,814,999	23.68%	-0.98%	*
J.P. Morgan Investment Management, Inc.	Asian Infrastructure	07/2008	9,634,035	-0.36%	*	*
PanAgora Asset Management, Inc.	Core	02/2006	27,315,136	23.72%	-3.14%	*
UBS Global Asset Management	Core	07/2005	36,002,472	24.74%	-1.93%	*
TOTAL EMERGING MARKETS EQUITY			182,464,466	23.20%	-2.17%	13.60%
MSCI Emerging Markets Index				23.48%	-2.22%	13.07%
DOMESTIC FIXED INCOME:						
Bank of North Dakota	BC G/C Index	01/1988	60,386,011	10.67%	8.59%	5.97%
Calamos	Convertibles	10/2006	57,165,566	17.56%	0.87%	*
J.P. Morgan Investment Management, Inc.	Infrastructure	05/2007	84,705,711	5.93%	-2.65%	*
PIMCO	Distressed Sr. Debt	07/2008	68,524,970	31.51%	*	*
Prudential	Private Debt	06/2005	73,993,963	22.50%	9.45%	7.10%
SEI	Core Bonds	05/2009	11,619,463	15.86%	*	*
Timberland Investment Resources - Teredo	Timberland	06/2001	79,890,574	10.96%	13.06%	12.90%

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
PENSION POOL PARTICIPANTS (CONTINUED)
FOR PERIODS ENDED JUNE 30, 2010

	Style	Date Initiated	Fair Value	Annualized Rates of Return 1 Year	3 Years	5 Years
DOMESTIC FIXED INCOME (continued):						
Timberland Investment Resources - Springbank	Timberland	09/2004	136,252,400	-16.90%	-0.02%	7.69%
Wells Capital Management, Inc.	Baa Average Bonds	11/1998	78,789,009	19.41%	9.81%	6.90%
Western Asset Management Co.	Core Bonds	02/1986	54,576,014	18.74%	4.06%	3.66%
TOTAL DOMESTIC FIXED INCOME			705,903,681	6.31%	4.23%	5.84%
Barclays Aggregate Index				9.50%	7.55%	5.54%
HIGH YIELD FIXED INCOME:						
Goldman Sachs	Mezzanine Debt-2006	04/2006	5,500,000	117.70%	-4.74%	*
Goldman Sachs	Mezzanine Debt-Fund V	11/2007	11,430,000	37.02%	*	*
Loomis Sayles	High Yield Bonds	04/2004	129,200,252	29.60%	5.32%	6.98%
PIMCO	Distressed Mortgages	10/2007	22,300,301	82.55%	*	*
Wells Capital Management, Inc.	High Yield (liquidating)	04/2004	279,461	-40.02%	-27.90%	-15.33%
Trust Company of the West	Mezz Debt - Energy	07/2007	28,287,202	19.63%	*	*
TOTAL HIGH YIELD FIXED INCOME			196,997,216	31.79%	0.50%	3.68%
Barclays High Yield Corp 2% Issuer Cap				26.66%	6.88%	7.22%
INTERNATIONAL FIXED INCOME:						
UBS Global Asset Management	Core Non-U.S.	03/1989	74,050,575	1.43%	6.78%	4.21%
Brandywine Asset Management	Core-Plus Non-U.S.	05/2003	111,985,256	15.08%	7.98%	7.06%
TOTAL INTERNATIONAL FIXED INCOME			186,035,831	9.17%	7.72%	5.84%
Benchmark * **				0.78%	7.40%	4.83%
ALTERNATIVE INVESTMENTS						
Adams Street Partners (I.V.C.F. II)	Diversified Private Equity	03/1989	11,880	2.91%	35.30%	31.96%
Adams Street Partners (I.V.C.F. III)	Diversified Private Equity	01/1993	101,079	6.52%	8.08%	35.34%
Adams St. Partners (1998 Fund)	Diversified Private Equity	01/1998	631,533	-3.45%	-11.47%	0.74%
Adams St. Partners (1999 Fund)	Diversified Private Equity	01/1999	2,004,910	3.66%	-5.65%	3.03%
Adams St. Partners (2000 Fund)	Diversified Private Equity	10/1999	6,130,752	10.56%	-1.10%	7.08%
Adams St. Partners (2001 Fund)	Diversified Private Equity	12/2000	6,556,692	6.71%	-5.18%	3.43%
Adams St. Partners (2002 Fund)	Diversified Private Equity	03/2002	3,188,028	20.87%	-7.49%	3.09%
Adams St. Partners (2003 Fund)	Diversified Private Equity	04/2003	1,210,386	11.94%	-6.92%	6.46%
Adams St. Partners (1999 Non-U.S. Fund)	Diversified Private Equity	01/1999	961,191	2.34%	-10.97%	16.59%
Adams St. Partners (2000 Non-U.S. Fund)	Diversified Private Equity	01/2000	2,064,438	7.13%	-5.12%	12.33%
Adams St. Partners (2001 Non-U.S. Fund)	Diversified Private Equity	02/2001	1,410,983	12.90%	-12.46%	-2.30%
Adams St. Partners (2002 Non-U.S. Fund)	Diversified Private Equity	05/2002	3,326,258	1.00%	-13.58%	11.21%
Adams St. Partners (2003 Non-U.S. Fund)	Diversified Private Equity	04/2003	2,992,111	18.98%	-1.46%	17.24%
Adams St. Partners (2004 Non-U.S. Fund)	Diversified Private Equity	04/2004	1,517,082	7.36%	-5.08%	5.72%
Adams St. Partners (2008 Non-U.S. Fund)	Diversified Private Equity	01/2008	1,191,915	-4.95%	*	*
Adams St. Partners (2010 Direct Fund)	Direct Private Equity	04/2010	173,500	*	*	*
Adams St. Partners (2010 Non-U.S. Developed)	Diversified Private Equity	04/2010	26,250	*	*	*
Adams St. Partners (2010 Partnership Fund)	Diversified Private Equity	04/2010	418,750	*	*	*
Adams St. Partners (B.V.C.F. IV)	Diversified Private Equity	05/1999	11,080,174	45.89%	10.40%	10.51%
Adams St. Partners (Direct Co-Investment)	Direct Private Equity	09/2006	14,204,775	13.74%	-6.83%	*
Coral Partners, Inc. (Fund V)	Direct Venture Capital	03/1998	3,226,376	236.50%	46.95%	27.65%
Coral Partners, Inc. (Supplemental Fund V)	Direct Venture Capital	08/2001	543,548	-24.93%	-17.45%	-7.58%
Coral Partners, Inc. (Momentum Fund)	Direct Venture Capital	07/2002	8,302,928	-19.11%	-18.18%	-15.53%
Invest America (Lewis and Clark Fund)	Direct Venture Capital	02/2002	7,413,727	11.56%	8.09%	7.55%
Invest America (L&C Fund II)	Direct Venture Capital	06/2009	1,952,114	-20.09%	*	*
Matlin Patterson Global Opportunities Fund I	Distressed Debt	07/2002	2,773,597	382.80%	5.51%	2.85%
Matlin Patterson Global Opportunities Fund II	Distressed Debt	10/2004	14,326,414	-13.13%	-24.67%	-10.61%
Matlin Patterson Global Opportunities Fund III	Distressed Debt	06/2007	19,874,592	32.46%	-17.01%	*
Quantum Energy Partners	Pvt Equity - Energy	01/2007	9,931,786	1.17%	-8.92%	*
Quantum Resources	Pvt Equity - Energy	10/2006	3,562,000	-66.16%	-74.26%	*
TOTAL ALTERNATIVE INVESTMENTS			131,109,769	19.06%	-6.33%	1.97%

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
PENSION POOL PARTICIPANTS (CONTINUED)
FOR PERIODS ENDED JUNE 30, 2010

	Style	Date Initiated	Fair Value	Annualized Rates of Return 1 Year	3 Years	5 Years
REAL ESTATE:						
INVESCO Realty Advisors	Core Commingled	08/1997	93,665,973	-8.09%	-11.18%	0.55%
INVESCO Realty Advisors	Core Plus LP	11/2007	5,407,495	-54.93%	*	*
INVESCO Realty Advisors	Asian LP	11/2008	1	-50.60%	*	*
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	10/1987	83,821,467	-6.91%	-11.75%	-0.08%
J. P. Morgan Investment Mgmt. Inc.	Alternative Commingled	01/2006	17,130,467	-18.92%	-20.67%	*
J. P. Morgan Investment Mgmt. Inc.	European LP	09/2009	5,391,035	*	*	*
J. P. Morgan Investment Mgmt. Inc.	Asian LP	01/2008	14,559,904	-0.76%	*	*
TOTAL REAL ESTATE			219,976,342	-11.79%	-13.86%	-1.87%
NCREIF Total Index				-1.48%	-4.71%	3.78%
CASH EQUIVALENTS:						
Bank of North Dakota	Enhanced MMDA	08/2008	35,975,778	0.36%	*	*
The Northern Trust Company	STIF	07/1994	20,137,424	0.18%	0.67%	2.32%
TOTAL CASH EQUIVALENTS			56,113,202	0.29%	0.70%	2.33%
90 Day T-Bills				0.16%	1.57%	2.77%
TOTAL PENSION INVESTMENT POOL			$ 3,135,748,925	14.16%	-6.93%	1.91%
Policy Target				13.22%	-3.27%	3.38%

INSURANCE POOL PARTICIPANTS

	Style	Date Initiated	Fair Value	Annualized Rates of Return 1 Year	3 Years	5 Years
DOMESTIC LARGE CAP EQUITY:						
The Clifton Group	Enhanced S&P 500	11/2008	$ 30,999,716	17.56%	*	*
Los Angeles Capital Management	Structured Growth	08/2003	19,914,970	15.91%	-7.34%	1.58%
Los Angeles Capital Management	Enhanced Russell 1000	04/2004	38,691,509	16.06%	-7.57%	1.42%
LSV Asset Management	Structured Value	06/1998	19,499,124	18.42%	-12.16%	-0.56%
WG Trading/The Clifton Group	S&P 500 Overlay**	04/2004	16,310,301	-3.02%	-31.06%	-15.37%
TOTAL DOMESTIC LARGE CAP EQUITY			125,415,620	14.05%	-12.65%	-1.95%
Standard & Poor's 500 Index				14.43%	-9.81%	-0.79%
DOMESTIC SMALL CAP EQUITY:						
The Clifton Group	Enhanced Russell 2000	11/2008	22,369,877	25.75%	*	*
Research Affiliates	Core	07/2007	21,534,944	29.64%	*	*
TOTAL DOMESTIC SMALL CAP EQUITY			43,904,821	27.08%	-9.23%	0.41%
Russell 2000 Index				21.48%	-8.60%	0.37%
INTERNATIONAL EQUITY:						
Capital Guardian Trust Company	Core	04/1997	29,013,708	10.61%	-12.08%	2.07%
Dimensional Fund Advisors	Small Cap Value	11/2007	9,484,264	10.69%	*	*
LSV Asset Management	Core	11/2004	32,972,882	8.92%	-15.79%	0.10%
The Vanguard Group	Small Cap Growth	06/2003	9,894,906	13.90%	-11.51%	3.45%
TOTAL INTERNATIONAL EQUITY			81,365,760	10.57%	-13.40%	1.35%
MSCI EAFE 50% Hedged Index				8.47%	-12.55%	1.47%

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
INSURANCE POOL PARTICIPANTS (CONTINUED)
FOR PERIODS ENDED JUNE 30, 2010

	Style	Date Initiated	Fair Value	Annualized Rates of Return 1 Year	3 Years	5 Years
DOMESTIC FIXED INCOME:						
Bank of North Dakota (BND)	LB G/C Index	07/1989	99,630,747	9.79%	7.69%	5.44%
Declaration Mgmt & Research	Mortgage Backed	03/2010	31,449,008	*	*	*
Prudential	Core-Plus	08/2006	55,735,832	16.76%	8.73%	*
Wells Capital	Baa Average Bonds	04/2002	241,531,100	19.08%	9.73%	6.93%
Western Asset Management Co.	Core Bonds	07/1990	227,948,091	19.19%	6.34%	5.12%
TOTAL DOMESTIC FIXED INCOME			656,294,778	17.17%	6.85%	5.25%
Barclays Aggregate Index				9.50%	7.55%	5.54%
INFLATION PROTECTED ASSETS:						
J. P. Morgan Investment Mgmt. Inc.	Infrastructure	11/2008	57,959,047	4.85%	*	*
Northern Trust Global Investments	TIPS Index (liquidating)	05/2004	2,567,909	10.53%	7.81%	5.12%
Timberland Investment Resources	Timberland	10/2008	52,393,019	5.69%	*	*
Western Asset Management Co.	Global TIPS	05/2004	157,578,394	2.40%	4.45%	2.94%
TOTAL INFLATION PROTECTED ASSETS			270,498,369	4.05%	4.05%	2.81%
Benchmark* **				1.18%	4.81%	3.33%
REAL ESTATE:						
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	11/2005	65,792,869	-13.00%	-23.86%	*
TOTAL REAL ESTATE			65,792,869	-13.00%	-23.86%	*
NCREIF Total Index				-1.48%	-4.71%	*
CASH EQUIVALENTS:						
Bank of North Dakota	Enhanced MMDA	07/1989	68,322,256	0.36%	1.62%	2.93%
90 Day T-Bills				0.16%	1.57%	2.77%
ENHANCED CASH:						
Prudential (Budget Stabilization Fund)	Enhanced Cash	07/2007	194,206,493	11.63%	*	*
NON-POOLED INVESTMENTS						
Bank of North Dakota Match Loan CD's						
Held by Workforce Safety & Insurance	Certificates of Deposit	various	21,338,550	5.09%	4.93%	*
Held by Budget Stabilization Fund	Certificates of Deposit	various	92,404,990	4.25%	4.62%	*
TOTAL INSURANCE INVESTMENT POOL			$ 1,619,544,506	12.07%	0.52%	3.09%
Policy Target				6.58%	1.97%	3.80%

* This manager/category has less than the indicated years under management due to addition of asset class or replacement of investment managers during this time period.

** Assets in this portfolio are in receivership awaiting settlement distribution. Estimated value is being overlayed with S&P 500 futures in order to retain market exposure.

*** BC US TIPS Index through 12/31/09 and BC Global Inflation-Linked thereafter.

The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon market values and are subject to independent audit. Returns are shown before the effect of investment management fees, except for alternative investments, which are shown net of fees.

LARGEST HOLDINGS (By Fair Value) AT JUNE 30, 2010

PENSION POOL PARTICIPANTS

Shares	Stocks	Fair Value
718,755	Microsoft Corporation	$ 16,538,553
46,933	Apple Incorporated	11,805,057
173,797	Exxon Mobile Corporation	9,918,595
561,700	Comcast Corporation	9,228,731
445,378	Intel Corporation	8,662,602
119,830	Visa Incorporated	8,477,973
126,100	Boeing Company	7,912,775
504,620	TD Ameritrade Holding Corporation	7,720,686
94,839	Laboratory Corporation American Holdings	7,146,119
501,325	Yahoo Incorporated	6,933,325

Par	Bonds	Fair Value
5,500,000	US Treasury Notes 3.5% Due 2-15-2018	$ 5,879,412
39,370,000	Kingdom of Sweden Bonds 5.5% Due 8-10-2012	5,514,937
6,205,000	New South Wales Treasury 5.5% Due 1-03-2017	5,277,269
5,668,000,000	Republic of Korea Bonds 5.75% Due 10-09-2018	4,905,681
15,496,000	Republic of Poland Bonds 5.25% Due 10-25-2017	4,474,002
8,738	Federal Republic of Brazil Treasury Note 10% Due 1-01-2021	4,463,545
3,800,000	US Treasury Notes 3.75% Due 11-15-2018	4,094,500
3,613,000	US Treasury Bonds 4.5% Due 5-15-2038	3,985,027
2,443,000	Government of UK 4.25% Due 7-03-2036	3,702,487
3,585,000	Government of Canada Bonds 6% Due 1-06-2011	3,526,571

INSURANCE POOL PARTICIPANTS

Shares	Stocks	Fair Value
26,313	Exxon Mobile Corporation	$ 1,501,683
18,368	Johnson & Johnson	1,084,814
15,192	Chevron Corporation	1,030,929
69,265	Pfizer Incorporated	987,719
3,884	Apple Incorporated	976,943
39,872	Microsoft Corporation	917,455
37,000	Royal Dutch Shell	902,851
55,764	Bank of America	801,329
14,540	BNP Paribas	797,356
21,421	JP Morgan Chase & Company	784,223

Par	Bonds	Fair Value
4,835,000	US Treasury Bonds 4.625% Due 2-15-2040	$ 5,434,840
4,720,000	US Treasury Notes 4.375% Due 11-15-2039	5,095,386
4,810,000	US Treasury Notes 3.125% Due 1-31-2017	5,030,582
4,680,000	US Treasury Notes 3.375% Due 11-15-2019	4,847,090
4,100,000	US Treasury Notes 4% Due 2-15-2015	4,525,055
3,770,000	Time Warner Cable 6.55% Due 5-01-2037	4,063,412
3,580,000	US Treasury Security 4.5% Due 8-15-2039	3,943,033
3,400,000	US Treasury Notes 1.375% Due 3-15-2012	3,449,273
2,560,000	Tennessee Valley Auth. Global Power Bd 7.125% Due 5-01-2030	3,443,098
3,120,000	NBC Universal Inc. Sr. Note (PvtPl) 6.4% Due 4-30-2040	3,332,787

The individual investment account, PERS Retiree Health Credit Fund, is invested in various commingled funds, and so has no individual stock or bond holdings. A complete list of all holdings is available upon request.

SCHEDULE OF INVESTMENT FEES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Pension Pool Participants			Insurance Pool Participants		
	Assets under management (Average)	Fees	Basis points	Assets under management (Average)	Fees	Basis points
Investment manager fees:						
Domestic large cap equity managers	$ 930,392,639	$ 5,580,442	60	$ 140,413,257	$ 581,725	41
Domestic small cap equity managers	255,469,886	2,322,038	91	53,398,094	497,052	93
International equity managers	324,240,750	1,715,712	53	101,292,801	567,201	56
Emerging markets equity managers	182,511,386	2,266,441	124			
Domestic fixed income managers	711,363,467	10,130,937	142	631,245,294	1,244,708	20
Inflation protected assets managers				252,044,404	1,682,319	67
High yield fixed income managers	214,462,460	3,885,389	181			
International fixed income managers	192,778,085	710,279	37			
Real estate managers	218,809,777	3,055,766	140	44,912,388	557,938	124
Alternative investment managers	129,457,691	3,463,739	268			
Cash & equivalents managers	54,457,320	29,642	5	72,193,059	-	-
Enhanced cash managers				190,016,381	218,275	11
Balanced account managers (PERS Retiree Health)				42,276,184	174,464	41
Total investment manager fees	$ 3,213,943,460	33,160,385	103	$ 1,527,791,862	5,523,682	36
Custodian fees		570,972	2		324,726	2
Investment consultant fees		190,879	1		96,975	1
SIB Service Fees		33,123	0		12,996	0
Total investment expenses *		$ 33,955,359	106		$ 5,958,379	39
Securities lending fees		$ (174,610)	(1)		$ 63,408	0

Reconciliation of Investment Expenses to Financial Statements

	Pension Pool Participants	Insurance Pool Participants
Investment expenses as reflected in the financial statements	$ 13,191,558	$ 5,453,453
Plus investment management fees included in investment income		
Domestic large cap equity managers	1,824,680	50,595
Domestic small cap equity managers	1,968,104	-
International equity managers	331,117	133,855
Emerging markets equity managers	1,376,699	-
Domestic fixed income managers	7,913,508	-
Inflation protected assets managers	-	221,683
High yield fixed income managers	3,083,026	-
Real estate managers	1,487,964	-
Alternative investment managers	2,749,061	-
Cash & equivalents managers	29,642	-
Enhanced cash managers	-	18,304
Balanced account managers (PERS Retiree Health)	-	80,489
Investment expenses per schedule	$ 33,955,359	$ 5,958,379

*** Individual investment funds' total basis points vary depending upon their asset allocation.**

SCHEDULE OF COMMISSIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Brokers	Number of shares traded	Total commissions	Commissions per share
Liquidnet Inc.	4,717,073	$ 94,037	$0.020
Barclays Capital Securities London	4,302,938	14,432	0.003
Bradesco	3,728,240	86,138	0.023
Jefferies & Company	3,507,318	70,650	0.020
Investment Technology Group Inc	3,439,610	49,858	0.014
Bear Stearns New York	3,267,445	34,726	0.011
UBS Securities Asia	2,770,958	6,537	0.002
Pershing LLC	2,499,503	82,092	0.033
Merrill Lynch International LTD	2,412,538	51,230	0.021
Sanford C. Berstein LTD	2,340,445	11,312	0.005
Other 195 Brokers *	92,885,454	988,577	0.011
Gross commissions	125,871,522	$ 1,489,589	$0.012
Less commissions recaptured		(1,047)	
Net commissions paid		$ 1,488,542	$0.012

* A complete listing of investment brokers utilized is available upon request.

Note: This schedule includes only brokerage costs for agency trades of common and preferred stock.

TEACHERS' FUND FOR RETIREMENT

❖ Teachers' Fund for Retirement Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The North Dakota Teachers' Fund for Retirement (TFFR) is a pension benefit plan that was established in 1913 to provide retirement income to all public school and certain state teachers and administrators in the state of North Dakota. The plan is administered by a seven member Board of Trustees comprised of five members appointed by the Governor of North Dakota and two elected officials, the State Treasurer and the State Superintendent of Public Instruction.

The plan is a multi-employer defined benefit pension plan that provides retirement benefits, disability retirement benefits, and survivor benefits, as the case may be, in accordance with Chapter 15-39.1 of the North Dakota Century Code (NDCC). Monthly retirement benefits are based on the formula: Number of Years of Service X 2.0% X Final Average Annual Salaries. Adjustments to the basic formula are made depending on the retirement option selected.

Funding is provided by monthly employee and employer contributions. Member contributions are 7.75% of payroll. Employer contributions are 7.75% of payroll until July 1, 2008, when employer contributions increase to 8.25% of payroll. Employer contributions will return to 7.75% when TFFR reaches 90% funded level. On an annual basis, benefit payouts exceed contributions. The asset/liability study completed in June 2005 indicates that a 1% cash equivalents allocation is expected to provide sufficient liquidity for the next ten years.

The TFFR Board has an actuarial valuation performed annually. The current actuarial assumed rate of return on assets is 8.0%. Key plan and financial statistics as of the most recent valuation are recorded in the Asset/Liability Model presented in June 2005 by Gabriel, Roeder, Smith and Company (GRS) and on file at the North Dakota Retirement and Investment Office.

Responsibilities and Discretion of the State Investment Board (SIB)

The TFFR Board is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent institutional investor rule. 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 Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the plan have been established by the TFFR board upon consideration of the board's strategic objectives and a comprehensive review of current and projected financial requirements.

Objective #1: Prudently invest assets in a well diversified portfolio to optimize long term returns while controlling risk to the fund.

Objective #2: Accumulate sufficient funds to pay all current and future benefit and expense obligations when due.

Objective #3: Improve and maintain adequate funding of all promised benefits to ensure the financial integrity of the system.

Objective #4: Build a funding cushion to provide for future benefit improvements.

Standards of Investment Performance

The plan's investment objectives and characteristics give rise to an asset allocation that is considered to have greater than a 50% probability of achieving the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that at least matches that of the policy portfolio.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 8.93% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 13.52%.

Policy and Guidelines

The asset allocation of the TFFR fund is established by the TFFR Board, with input from consultants and RIO staff. Asset allocation is based upon the asset/liability study completed by Gabriel, Roeder, Smith and Company in June 2005. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes over the next 20 years.

In recognition of the plan's objectives, projected financial status, and capital market expectations, the following asset allocation options were deemed appropriate for the Fund:

Domestic Equities – Large Cap	28%
Domestic Equities – Small Cap	10%
International Equities	18%
Emerging Markets Equities	5%
Venture Capital/Alt. Invsts.	5%
Domestic Fixed Income	12%
High Yield Bonds	7%
International Fixed Income	5%
Cash Equivalents	1%
Real Estate	9%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
c. No transaction shall be made which threatens the tax exempt status of the Fund.
d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
e. No unhedged short sales or speculative margin purchases shall be made.
f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

   For the purpose of this document, social investing is defined as "The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

   For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:
   (1) The cost does not exceed the fair market value at the time of investment.
   (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
   (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
   (4) The safeguards and diversity that a prudent investor would adhere to are present.

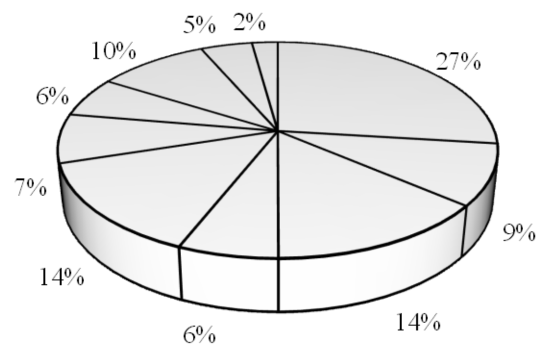
Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

❖ Teachers' Fund for Retirement Actual Asset Allocation – June 30, 2010

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	381,015,455	27%	
Domestic Small Cap Equity		129,096,487	9%	
International Equity		198,546,381	14%	
Emerging Markets Equity		88,834,534	6%	
Domestic Fixed Income		198,897,793	14%	
High Yield Fixed Income		104,119,729	7%	
International Fixed Income		86,009,813	6%	
Real Estate		136,515,096	10%	
Alternative Investments		63,465,578	5%	
Cash Equivalents		31,902,465	2%	
Total Fund	$	1,418,403,331		13.87%
Policy Benchmark				13.07%



PUBLIC EMPLOYEES RETIREMENT SYSTEM

❖ Public Employees Retirement System Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The North Dakota Public Employees Retirement System (NDPERS) and the Highway Patrol Retirement System (HPRS) are pension benefit plans established to provide retirement income to state employees and employees of participating political subdivisions. The plans are administered by a seven member Board of Trustees (the Board). The Chair is appointed by the governor, three members are elected by the active members of the plans, one member is elected by the retired members, one is appointed by the Attorney General and the seventh member is the State Health Officer or their designee.

The NDPERS plan is a multi-employer hybrid benefit public pension plan that provides retirement benefits, disability retirement benefits, and survivor benefits, in accordance with Chapter 54-52 of the North Dakota Century Code (NDCC). Monthly retirement benefits for the Main, National Guard and Law Enforcement Plans are based on the formula: number of Years of Service times 2.0% times the final average salary. For the NDPERS Judges Plan the retirement formula is: for the first ten years of service of the formula is final average salary times 3.5%, for the second ten years of service the formula is final average salary times 2.80% and for all remaining years of service the formula is final average salary times 1.25%.

The Highway Patrol plan is a single employer plan that provides retirement benefits, disability benefits, and survivor benefits in accordance with Chapter 39-03.1 of the North Dakota Century Code. Monthly retirement benefits are based upon on the formula: first 25 years of credit service times 3.25% and all remaining years of service times 1.75%.

Funding for the NDPERS plan is provided by monthly employee contributions and employer contributions with the amount varying based upon which NDPERS plan the member participates in. For the Main NDPERS plan the employee contribution is 4% and the employer contribution is 4.12%, for the Judges Plan the employee contribution is 5% and employer contribution is 14.52%, for the National Guard Plan the employee contribution is 4% and employer contribution is 6.5%, for the Law Enforcement Plan with prior service the employee contribution is 4% and the employer contribution is 8.31% and for the Law Enforcement Plan without prior service the employee contribution rate is 4% and the employer rate is 6.43%. Funding for the Highway Patrol plan is provided by a monthly employee contribution of 10.3% and an employer contribution of 16.7%

Each year the Board has an actuarial valuation performed. The current actuarial assumed rate of return on assets for all plans is 8%.

Responsibilities and Discretion of the State Investment Board (SIB)

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The Board is charged by NDCC chapters 54-52, 21-10-01, and 39-03.1 to establish policies for the investment goals and asset allocation of the Fund. The SIB is charged with implementing the asset allocation as promptly and prudently as possible in accordance with the Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

Fund 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. (NDCC 21-10-07)

The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

The SIB may at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives subject to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.

Delegation of Authority

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1)(a).

2. Investment diversification, investment quality, qualification of advisory services, and amounts to be invested by advisory services pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:
   a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
   b. The use of derivatives will be monitored to ensure that risks are not taken by the money managers.
   c. All assets must be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

3. Guidelines for the selection and redemption of investments pursuant to NDCC 21-10-02.1(1)(d).

4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurements, consultants, report formats, and frequency of meetings with money managers.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

Investment Goals

The investment goals of the Fund have been established by the NDPERS Board based upon consideration of the Board's strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term.

Goal #1: Accumulate sufficient wealth through a diversified portfolio of investments which will enable the State of North Dakota to pay all current and future retirement benefits and expense obligations of the Fund.

Goal #2: To obtain an investment return in excess of that needed to allow for increases in a retiree's annuity to maintain the purchasing power of their retirement benefit.

Investment Performance Objective

The NDPERS Board will seek to make investments that generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement as set forth in federal and state law.

It is in the best interest of NDPERS and its beneficiaries that performance objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

a. The funds rate of return, over the long term should equal, that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10-year and longer periods the fund should match or exceed the expected rate of return projected in the most recent asset/liability study without exceeding the expected risk for the period as measured by standard deviation.

Asset Allocation

In recognition of the plan's performance objectives, benefit projections, and capital market expectations, the NDPERS Board has established the following asset allocation:

Date of last asset allocation study: NDPERS Board Approved December 2005 – SEI Corporation

Domestic Equities-Large Cap	30%
Domestic Equities-Small Cap	10%
International Equities	10%
Emerging Markets Equities	5%
Domestic Fixed Income	24%
High Yield Fixed Income	5%
International Fixed Income	5%
Real Estate	5%
Alternative Investments	5%
Cash	1%
Expected Return	9.3%
Standard Deviation of Returns	10.5%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

PERS requires that in implementing this asset allocation that the State Investment Board seek to maximize return within the scope of these policies while limiting investment costs.

Restrictions

A. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.

B. Use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.

C. No transaction may be made which threatens the tax exempt status of the Fund.

D. No unhedged short sales or speculative margin purchases may be made.

E. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

F. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

Economically targeted investing is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

The Exclusive Benefit Rule is met if the following four conditions are satisfied:

(1) The cost does not exceed the fair market value at the time of investment.

(2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

(3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.

(4) The safeguards and diversity that a prudent investor would adhere to are present.

G. Publicly Traded REITs may not be used in the Real Estate asset allocation.

H. Where timberland is used as part of the domestic fixed income portfolio, it may not make up more than 30% of the total asset class at the time of initial purchase. If timberland becomes 50% or more of the domestic fixed income portfolio through market appreciation, the SIB must review the situation with the goal of bringing the timberland portion of the domestic fixed income portfolio into line with this restriction and, considering market conditions at the time, take any action deemed prudent.

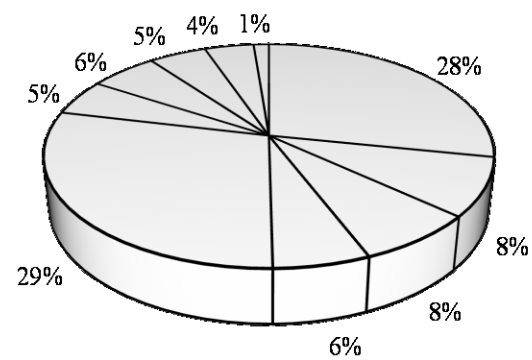
Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

❖ Public Employees Retirement Fund
Actual Asset Allocation – June 30, 2010

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 424,259,763	28%	
Domestic Small Cap Equity	126,647,055	8%	
International Equity	112,343,201	8%	
Emerging Markets Equity	89,148,534	6%	
Domestic Fixed Income	435,076,552	29%	
High Yield Fixed Income	79,699,338	5%	
International Fixed Income	87,110,581	6%	
Real Estate	74,160,509	5%	
Alternative Investments	63,362,337	4%	
Cash Equivalents	19,829,942	1%	
Total Fund	$ 1,511,637,812		13.67%
Policy Benchmark			13.41%



BISMARCK CITY EMPLOYEE PENSION PLAN

❖Bismarck City Employee Pension Plan Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The Bismarck, North Dakota City Employee Pension Plan (BCEPP) is the pension benefit plan (Fund) established for the city of Bismarck public employees. The Fund is administered by the Bismarck City Employee Pension Plan Board of Trustees. The Fund is a defined benefit pension plan maintained to provide retirement benefits, and/or death benefits as may be the case, to the participants in accordance with Chapter 9-07 of the city of Bismarck Code of Ordinance (1986 revised). The Fund is administered in accordance with IRS and Treasury Regulations.

The Fund and benefits provided are funded by contributions from the members and members' employer. The Fund was established to provide benefits to members eligible to receive them in accordance with the provisions of the Fund.

Responsibilities and Discretion of the State Investment Board (SIB)

The BCEPP Board has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. The BCEPP Board is responsible for establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent institutional investor rule. 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 Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Standards of Investment Performance

Investments of the Fund must seek to generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement as set forth in federal and state law.

It is in the best interest of the Fund and its beneficiaries that objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this statement.

a. The Fund should produce a rate of return, over any given time period that matches or exceeds that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB and reflected in the monthly investment performance reports.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 8.6% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 9.7%.

Policy and Guidelines

The asset allocation of the Fund is established by the BCEPP Board, with input from consultants and RIO staff. Asset allocation is based upon the asset/liability study completed by SEI in March 2006. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes over the next 20 years.

In recognition of the Fund's objectives, benefit projections, and capital market expectations, the following is the asset allocation for the Fund:

Domestic Large Cap Equity	20.0%
Domestic Small Cap Equity	12.0%
International Equity	11.0%
Emerging Markets Equity	2.0%
Domestic Fixed Income	29.0%
High Yield Fixed Income	6.0%
International Fixed Income	9.5%
Real Estate	9.5%
Alternative Investments	1.0%

Rebalancing of the Fund's investment portfolio to this target must be done as soon as feasible while ensuring the process is effectively coordinated and accomplished in a cost effective manner. Maintenance of allocations to this target must be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
c. No transaction shall be made which threatens the tax exempt status of the Fund.
d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
e. No unhedged short sales or speculative margin purchases shall be made.
f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

   For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

   For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

   (1) The cost does not exceed the fair market value at the time of investment.
   (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
   (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
   (4) The safeguards and diversity that a prudent investor would adhere to are present.

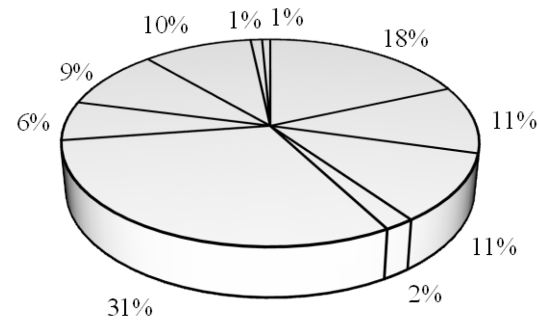
Where investment characteristics, including yield, risk, and liquidity are equivalent, the BCEPP Board's policy favors investments which will have a positive impact on the economy of North Dakota.

<u>Internal Controls</u>

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

❖**Bismarck City Employee Pension Plan**
Actual Asset Allocation – June 30, 2010

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	8,295,242	18%	
Domestic Small Cap Equity		4,734,456	11%	
International Equity		4,773,955	11%	
Emerging Markets Equity		897,885	2%	
Domestic Fixed Income		13,741,130	31%	
High Yield Fixed Income		2,732,035	6%	
International Fixed Income		4,224,571	9%	
Real Estate		4,398,329	10%	
Alternative Investments		463,337	1%	
Cash Equivalents		330,302	1%	
Total Fund	$	44,591,242		12.74%
Policy Benchmark				11.72%



BISMARCK CITY POLICE PENSION PLAN

❖ Bismarck City Police Pension Plan Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The Bismarck, North Dakota City Police Pension Plan (BCPPP) is the pension benefit plan (Fund) established for the city of Bismarck police. The Fund is administered by the Bismarck City Police Pension Plan Board of Trustees. The Fund is a defined benefit pension plan maintained to provide retirement benefits, and/or death benefits as may be the case, to the participants in accordance with Chapter 9-08 of the city of Bismarck Code of Ordinance (1986 revised). The Fund is administered in accordance with IRS and Treasury Regulations.

The Fund and benefits provided are funded by contributions from the members and members' employer. The Fund was established to provide benefits to members eligible to receive them in accordance with the provisions of the Fund.

Responsibilities and Discretion of the State Investment Board (SIB)

The BCPPP Board has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. The BCPPP Board is responsible for establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent institutional investor rule. 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 Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Standards of Investment Performance

Investments of the Fund must seek to generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement as set forth in federal and state law.

It is in the best interest of the Fund and its beneficiaries that objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this statement.

a. The Fund should produce a rate of return, over any given time period that matches or exceeds that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB and reflected in the monthly investment performance reports.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 8.9% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 10.6%.

Policy and Guidelines

The asset allocation of the Fund is established by the BCPPP Board, with input from consultants and RIO staff. Asset allocation is based upon the asset/liability study completed by SEI in March 2006. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes over the next 20 years.

In recognition of the Fund's objectives, benefit projections, and capital market expectations, the following is the asset allocation for the Fund:

Domestic Large Cap Equity	24.0%
Domestic Small Cap Equity	12.0%
International Equity	11.0%
Emerging Markets Equity	3.0%
Domestic Fixed Income	24.5%
High Yield Fixed Income	5.0%
International Fixed Income	9.0%
Real Estate	8.5%
Alternative Investments	3.0%

Rebalancing of the Fund's investment portfolio to this target must be done as soon as feasible while ensuring the process is effectively coordinated and accomplished in a cost effective manner. Maintenance of allocations to this target must be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
c. No transaction shall be made which threatens the tax exempt status of the Fund.
d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
e. No unhedged short sales or speculative margin purchases shall be made.
f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

   For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

   For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

   (1) The cost does not exceed the fair market value at the time of investment.
   (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
   (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
   (4) The safeguards and diversity that a prudent investor would adhere to are present.

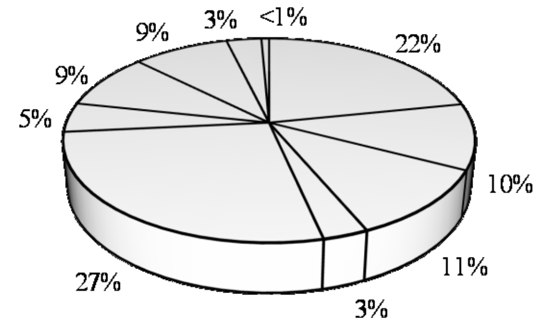
Where investment characteristics, including yield, risk, and liquidity are equivalent, the BCPPP Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

❖ Bismarck City Police Pension Plan
Actual Asset Allocation – June 30, 2010

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 4,443,150	22%	
Domestic Small Cap Equity	2,117,823	10%	
International Equity	2,234,976	11%	
Emerging Markets Equity	618,565	3%	
Domestic Fixed Income	5,499,263	27%	
High Yield Fixed Income	949,276	5%	
International Fixed Income	1,812,216	9%	
Real Estate	1,804,044	9%	
Alternative Investments	655,751	3%	
Cash Equivalents	145,610	<1%	
Total Fund	$ 20,280,674		13.30%
Policy Benchmark			12.24%



RETIREMENT PLAN FOR EMPLOYEES OF JOB SERVICE NORTH DAKOTA

❖ Job Service ND Investment Objectives and Policy Guidelines

The Retirement Plan for the Employees of Job Service North Dakota (Plan) is a defined benefit retirement plan for the eligible employees hired before October 1, 1980. There have been no new entrants to the plan since October 1, 1980. The plan provides retirement benefits, disability benefits and survivor benefits consistent with the written Plan document. Until October 1, 1993, annuities were purchased from the Travelers for retirees, since that date retiree benefits are paid from Plan assets. Annual cost of living adjustments for all Plan pensioners including annuitants with the Travelers are paid from Plan assets. The NDPERS Board (the Board) is the Plan Administrator and administers the Plan in accord with Chapter 52-11 of the North Dakota Century Code.

Job Service North Dakota as the employer contributes 4% of the active participant's salary as a contribution 'on behalf of the employee' and the active participants pay 3% of their salary into Plan assets.

Each year the Plan has an actuarial valuation performed. The current actuarial assumed rate of return on assets is 7.5%.

<u>Responsibilities and Discretion of the State Investment Board</u>

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The Board is charged by NDCC chapters 54-52, 21-10-01, and 39-03.1 to establish policies for the investment goals and asset allocation of the Fund. The State Investment Board (SIB) is charged with implementing the asset allocation as promptly and prudently as possible in accordance with the Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

Fund 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. (NDCC 21-10-07)

The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

The SIB may at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives subject to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.

<u>Delegation of Authority</u>

Management responsibility for NDPERS funds not assigned to the North Dakota State Investment Board (SIB) in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies and procedures for the operation of the NDPERS funds, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1)(a).

2. Investment diversification, investment quality, qualification of money managers, and amounts to be invested by money managers pursuant to

NDCC 21-10-02.1(1)(e). In developing these policies it is understood:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
b. The use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets must be held in custody by the SIB's master custodian or such other custodians as are selected by the SIB.

3. Guidelines for the selection and redemption of investments will be in accordance with NDCC 21-10-02.1(1)(d).

4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

Investment Goals

The investment objectives of the Plan have been established by the Plan's Administrator upon consideration of its strategic objectives and a comprehensive review of current and projected financial requirements.

Objective #1: To maintain a level of surplus sufficient to eliminate the need for future contributions;

Objective #2: To achieve a rate of return which exceeds the rate of inflation, as measured by the Consumer Price Index (CPI), by 3.0 percentage points per year (based on current actuarial assumptions of 7.5% return and 5% inflation), over a complete market cycle; and

Objective #3: As a secondary objective, to maximize the Plan's surplus to increase future benefit payments.

Investment Performance Objective

The NDPERS Board will seek to make investments that generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement in federal and state law.

It is in the best interest of NDPERS and its beneficiaries that performance objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

a. The funds rate of return, over the long term should equal that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10-year and longer periods the fund should match or exceed the expected rate of return projected in the most recent asset/liability study without exceeding the expected risk for the period as measured by standard deviation.

Asset Allocation

The NDPERS Board as plan Administrator establishes the asset allocation of the Fund, with input from consultants and SIB staff. The current asset allocation is based upon the asset/liability study completed by SEI Consultants in February 2009. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes.

In recognition of the Plan's objectives, projected financial status, and capital market expectations, the following asset allocation options were deemed appropriate for the Fund:

Domestic Large Cap Equity	25%
Domestic Small Cap Equity	6%
International Equity	9%
Domestic Fixed Income	47%
International Fixed Income	5%
High Yield Bonds	8%

Rebalancing of the Fund to this target allocation will be done in accordance with the SIB's rebalancing policy, but not less than annually.

Restrictions

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.

b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.

c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

Social investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

d. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

Economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

e. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

The Exclusive Benefit Rule is met if the following four conditions are satisfied:

(1) The cost does not exceed the fair market value at the time of investment.

(2) The investment provides the Plan with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

(3) Sufficient liquidity is maintained in the Plan to permit distributions in accordance with the terms of the plan.

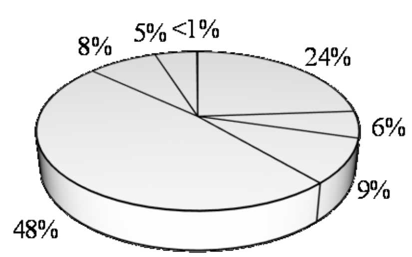
(4) The safeguards and diversity that a prudent investor would adhere to are present.

Internal Controls

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

❖ **Job Service ND**
Actual Asset Allocation – June 30, 2010

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 18,601,964	24%	
Domestic Small Cap Equity	4,226,251	6%	
International Equity	7,069,192	9%	
Domestic Fixed Income	37,423,425	48%	
High Yield Fixed Income	6,444,183	8%	
International Fixed Income	3,892,807	5%	
Cash Equivalents	88,729	<1%	
Total Fund	$ 77,746,551		13.63%
Policy Benchmark			12.65%



CITY OF FARGO EMPLOYEE PENSION PLAN

❖ City of Fargo Employee Pension Plan Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The City Employees Pension Fund is operated by the Pension Board pursuant to the authority granted in the City of Fargo Home Rule Charter, Chapter 6-02. This fund is managed by a seven person board elected by the membership, or appointed by ordinance. Two members are elected every two years on a rotating basis. Elections are held in July of each year.

Plan Description The City of Fargo Employees' Pension plan is a cost-sharing multiple employer public employee retirement system. The plan is integrated with social security and therefore, is considered a supplemental plan. All full-time City employees not covered by another plan are eligible for participation in the Employees' Pension Plan.

Membership in the plan on January 1, 2007 (date of most recent actuarial study) is as follows:

Retirees and beneficiaries	182
Terminated vested and deferred beneficiaries	8
Active plan members	502
Number of participating employers:	2

Employees may be eligible for early, normal or disability retirement. The plan permits early retirements at age 55 with at least 5 years of service. Normal retirement age for full benefits is age 62 or when an employee's age plus their years of service as a full time city employee reaches a sum of 90.

Employee death benefits of $20,000 are paid to a designated beneficiary for a participant who dies prior to retirement. If a participant dies after retirement, the designated beneficiary will receive a $3,000 death benefit.

Participants are fully vested in the plan benefit after five years of full-time employment. Non- vested participants are eligible for a full refund of their contributions plus interest at 5%. Upon termination of employment prior to retirement age, vested participants may elect a deferred vested benefit to begin between ages 55-62 or a lump sum payment. Lump sum settlements are allowable up to age 55. Lump sum payments are computed as the greater of the actuarial value of plan assets or the "cash balance" in their plan account. The cash balance consists of the employee contributions, plus one-half of the employer's contribution since January 1, 1990, plus interest at 5%.

The City makes a matching contribution of $25 per month to a deferred compensation plan on behalf of pension plan members who also contribute a minimum of $25 per month to the deferred compensation plan.

Benefit provisions are established under the authority of the City Commission.

Contributions

Participating employees contribute to the plan at a rate of 4.5% of salary and the employers contribute at a rate of 6.0% of regular salary for all employees. The contribution rates are established by local ordinance, and the employer's contribution rate is set by the City Commission. Costs of administering the plan are financed by the employer and employee contributions, and by the Plan's investment earnings.

Reserves The net assets at December 31, 2006 are $30,248,640 and the entire amount is reserved for employee pension benefits.

Responsibilities and Discretion of the State Investment Board (SIB)

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The City Employees Pension Board is required to develop asset allocation plans pursuant to its responsibilities as outlined in the City of Fargo Home Rule Charter, Chapter 6-02. The State Investment Board (SIB) is charged with implementing the asset allocation as promptly and prudently as possible in accordance with the Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

Fund 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 City Employees Pension Fund must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

The SIB may, at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives subject to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.

Delegation of Authority

Management responsibility for City of Fargo City Employee Pension funds not assigned to the North Dakota State Investment Board (SIB) in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, which must establish written policies and procedures for the operation of the City of Fargo City Employee Pension funds, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1)(a).
2. Investment diversification, investment quality, qualification of money managers, and amounts to be invested by money managers pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:
    a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
    b. The use of derivatives will be monitored to ensure that risks are not taken by the money managers.
    c. All assets must be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
3. Guidelines for the selection and redemption of investments will be in accordance with NDCC 21-10-02.1(1)(d).
4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

Investment Goals

The investment goals of the Fund have been established by the City Employee Pension Board based upon consideration of the Board's strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term.

Goal #1: Accumulate sufficient wealth through a diversified portfolio of investments which will enable the City Employee Pension fund to pay all current and future retirement benefits and expense obligations of the Fund.

Goal #2: To obtain investment returns in excess of that needed to allow for increases in the benefit plan multiplier over time.

Investment Performance Objective

The City Employee Pension Board will seek to make investments that generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement in federal and state law and City Ordinances.

It is in the best interest of the City Employee Pension Board and its beneficiaries that performance objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

a. The funds rate of return, over the long term should equal, that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10-year and longer periods the fund should match or exceed the expected rate of return projected in the most recent actuarial study without exceeding the expected risk for the period as measured by standard deviation.

Asset Allocation

In recognition of the plan's performance objectives, benefit projections, and capital market expectations, the City Employee Pension Board has established the following asset allocation:

Domestic Equities-Large Cap	30%
Domestic Equities-Small Cap	10%
International Equities	10%
Emerging Markets Equities	5%
Domestic Fixed Income	24%
High Yield Fixed Income	5%
International Fixed Income	5%
Real Estate	5%
Alternative Investments	5%
Cash	1%
Expected Return	9.3%
Standard Deviation of Returns	10.5%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

Restrictions

A. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.

B. Use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.

C. No transaction may be made which threatens the tax exempt status of the Fund.

D. No unhedged short sales or speculative margin purchases may be made.

E. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

F. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

Economically targeted investing is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

The Exclusive Benefit Rule is met if the following four conditions are satisfied:

(1) The cost does not exceed the fair market value at the time of investment.

(2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

(3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.

(4) The safeguards and diversity that a prudent investor would adhere to are present.

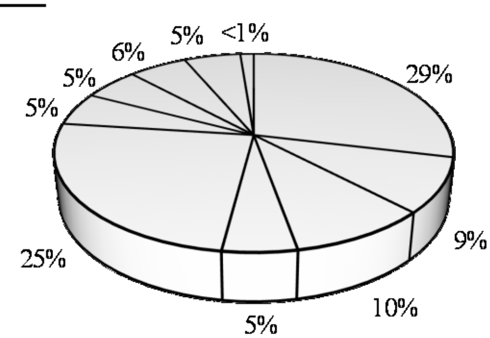
Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

❖ **City of Fargo Employee Pension Plan**
Actual Asset Allocation – June 30, 2010

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	7,017,974	29%	
Domestic Small Cap Equity		2,182,561	9%	
International Equity		2,352,707	10%	
Emerging Markets Equity		1,259,068	5%	
Domestic Fixed Income		6,081,155	25%	
High Yield Fixed Income		1,338,914	5%	
International Fixed Income		1,308,506	5%	
Real Estate		1,376,944	6%	
Alternative Investments		1,326,966	5%	
Cash Equivalents		318,326	<1%	
Total Fund	$	24,563,121		14.82%
Policy Benchmark				13.41%



CITY OF GRAND FORKS PENSION PLAN

❖City of Grand Forks Pension Plan Investment Objectives and Policy Guidelines

The City of Grand Forks Pension Fund (the "Fund") is operated by the Grand Forks City Council pursuant to the authority granted in the Grand Forks City Code Chapter 7.

Plan Description

The City of Grand Forks, North Dakota Pension Plan (the "Plan") is a cost-sharing multiple employer public employee pension plan. All classified employees who earned at least one hour of service prior to January 1, 1996 are eligible to participate in the Plan. Some participants have elected to cease benefit accruals under the Plan as of June 30, 2008 and to participate in the North Dakota Public Employees Retirement System.

Membership in the Plan on January 1, 2009 (date of most recent actuarial study) is as follows:

Retirees and beneficiaries	200
Terminated vested/deferred beneficiaries	34
Active plan members	225
Active plan members (70½, drawing pension while working)	1
Number of participating employers:	2

Participants may be eligible for early retirement, special early retirement or normal retirement. The Plan permits early retirements at age 55 with at least 5 years of vesting service. Normal retirement age for full benefits is age 65 (unless the employee has elected a special early retirement age of either 55 or 62).

If a participant dies prior to starting retirement benefits, and is married, the participant' spouse will receive a survivor annuity. If the participant is not married, the participant's beneficiary will receive a single lump sum payment equal to the participant's accumulated employee contributions. If the participant dies after starting retirement benefits, payments will continue to the survivor if the participant elected an annuity with a survivor benefit. If the participant elected a single life annuity or received a lump sum payment, no benefits will be paid after the participant's death. If the amount of payments paid to the participant and the participant's joint annuitant, if any, do not equal the participant's accumulated employee contributions, the participant's beneficiary will receive an amount equal to the participant's accumulated employee contributions, minus any payments previously received by participant and the participant's joint annuitant.

Participants are fully vested in the Plan benefit after five years of vesting service. Non-vested participants are eligible for a full refund of their accumulated employee contributions. Upon termination of employment prior to retirement age, vested participants may elect a deferred vested benefit to begin no earlier than age 55. However, participants may elect to withdraw their accumulated employee contributions at any time after termination of employment. The participant's accrued benefit will be reduced by the equivalent value of any withdrawn accumulated employee contributions. If the present value of a participant's benefit is $1,000 or less (including the participant's accumulated employee contributions), payment will be made in a lump sum.

Benefit provisions are established by the City Council.

Contributions

Participating employees contribute to the Plan at a rate of 3.7% of salary (7.4% or 4.7%, respectively if the participant has elected a special early retirement age of 55 or 62). The employers contribute such amounts as necessary to provide the promised benefits. The contribution amounts are determined by the annual actuarial valuation report and approved by the City Council. Costs of administering the Plan are financed by the employer and employee contributions, and by the Plan's investment earnings.

Reserves

The Plan's net assets as of December 31, 2008 are $32,933,349 and the entire amount is reserved for employee pension benefits.

Responsibilities and Discretion of the State Investment Board (SIB)

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The City Council is required to develop asset allocation plans pursuant to its responsibilities as outlined in the Grand Forks City Code Chapter 7. The SIB is charged with implementing the asset allocation as promptly and prudently as possible in accordance with the Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

The SIB 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 Fund must be invested exclusively for the benefit of Plan participants and in accordance with the Fund's investment goals and objectives.

The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

The SIB may at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives subject to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.

Delegation of Authority

Management responsibility for Plan assets not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, which must establish written policies and procedures for the operation of the Fund, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1) (a).

2. Investment diversification, investment quality, qualification of money managers, and amounts to be invested by money managers pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:

   a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
   b. The use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.
   c. All assets must be held in custody by the SIB's master custodian or such other custodians as are selected by the SIB.

3. Guidelines for the selection and redemption of investments will be in accordance with NDCC 21-10-02.1(1) (d).

4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

Investment Goals

The investment goals of the Fund have been established by the City Council based upon their strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term.

Goal #1 Accumulate sufficient wealth through a diversified portfolio of investments which will enable the Fund to pay all current and future retirement benefits and expense obligations of the Fund.

Investment Performance Objective

The City Council will seek to make investments that generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement in federal and state law and City Ordinances.

It is in the best interest of the Plan and its beneficiaries that performance objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

a. The Fund's rate of return, over the long term should equal, that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
c. Over 10-year and longer periods the Fund should match or exceed the expected rate of return projected in the most recent actuarial study without exceeding the expected risk for the period as measured by standard deviation.

Asset Allocation

In recognition of the Plan's performance objectives, benefit projections, and capital market expectations, the City Council has established the following asset allocation:

Domestic Equities - Large Cap	30%
Domestic Equities - Small Cap	10%
International Equities	10%
Emerging Markets Equities	5%
Domestic Fixed Income	24%
High Yield Fixed Income	5%
International Fixed Income	5%
Real Estate	5%
Alternative Investments	5%
Cash	1%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

Restrictions

A. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
B. Use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.
C. No transaction may be made which threatens the tax exempt status of the Fund.
D. No unhedged short sales or speculative margin purchases may be made.

   Social Investing is defined as "The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

E. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar time horizon and similar risk.

Economically targeted investing is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

F. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

The Exclusive Benefit Rule is met if the following four conditions are satisfied:

(1) The cost does not exceed the fair market value at the time of investment.

(2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

(3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the Plan.

(4) The safeguards and diversity that a prudent investor would adhere to are present.

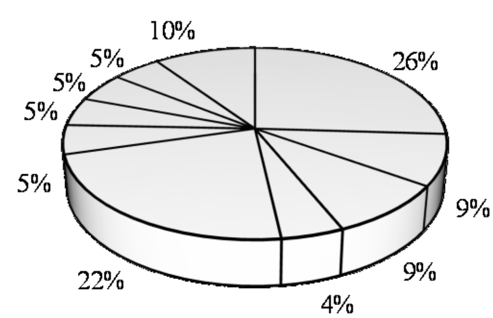
Where investment characteristics, including yield, risk, and liquidity are equivalent, the City Council's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

❖City of Grand Forks Pension Plan
Actual Asset Allocation – June 30, 2010

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	9,051,050	26%	
Domestic Small Cap Equity		3,008,672	8%	
International Equity		3,156,488	9%	
Emerging Markets Equity		1,602,942	4%	
Domestic Fixed Income		7,897,449	23%	
High Yield Fixed Income		1,713,741	5%	
International Fixed Income		1,677,337	5%	
Real Estate		1,721,420	5%	
Alternative Investments		1,661,840	5%	
Cash Equivalents		3,460,967	10%	
Total Fund	$	34,951,906		13.91%
Policy Benchmark				13.41%



GRAND FORKS PARK DISTRICT PENSION PLAN

❖Grand Forks Park District Pension Plan Investment Objectives and Policy Guidelines

The Grand Forks Park District Pension Fund (the "Fund") is operated by the Grand Forks Park District pursuant to the authority granted by state statute.

Plan Description: The Grand Forks Park District of Grand Forks, North Dakota Pension Plan (the "Plan") is a cost-sharing public employee pension plan. All employees are required to participate in the Plan. Some participants have elected to cease benefit accruals under the Plan as of January, 1, 2010 and to participate in the North Dakota Public Employees Retirement System. All future hires after December 31, 2009, will be required to participate in the North Dakota Public Employees Retirement System.

Membership in the Plan on January 1, 2009 (date of most recent actuarial study) is as follows:

Retirees and beneficiaries	9
Terminated vested and deferred beneficiaries	5
Active plan members	43
Active plan members (70 ½, drawing pension while working)	0
Number of participating employers:	1

Participants may be eligible for early retirement, special early retirement or normal retirement. The Plan permits early retirements at age 55 with at least 5 years of vesting service. Normal retirement age for full benefits is age 65 (unless the employee has elected a special early retirement age when they meet the Rule of 90 (age plus years of service).

If a participant dies prior to starting retirement benefits, and is married, the participant' spouse will receive a survivor annuity. If the participant is not married, the participant's beneficiary will receive a single lump sum payment equal to the participant's accumulated employee contributions. If the participant dies after starting retirement benefits, payments will continue to the survivor if the participant elected an annuity with a survivor benefit. If the participant elected a single life annuity or received a lump sum payment, no benefits will be paid after the participant's death. If the amount of payments paid to the participant and the participant's joint annuitant, if any, do not equal the participant's accumulated employee contributions, the participant's beneficiary will receive an amount equal to the participant's accumulated employee contributions, minus any payments previously received by participant and the participant's joint annuitant.

Participants are fully vested in the plan benefit after five years of vesting service. Non-vested participants are eligible for a full refund of their accumulated employee contributions. Upon termination of employment prior to retirement age, vested participants may elect a deferred vested benefit to begin no earlier than age 55. However, participants may elect to withdraw their accumulated employee contributions at any time after termination of employment. The participant's accrued benefit will be reduced by the equivalent value of any withdrawn accumulated employee contributions.

Benefit provisions are established by the Grand Forks Board of Park Commissioners.

Contributions:
Participating employees contribute to the Plan at a rate of 3.7% of base salary. If an employee is eligible for the Rule of 90, he or she will contribute at a rate of 5.9% of base salary. The employers contribute such amounts as necessary to provide the promised benefits. The contribution amounts are determined by the annual actuarial valuation report and approved by the Grand Forks Board of Park Commissioners. Costs of administering the Plan are financed by the employer and employee contributions, and by the Plan's investment earnings.

Reserves: The Plan's net assets as of September 30, 2009 are $3,457,164.83 and the entire amount is reserved for employee pension benefits.

Responsibilities and Discretion of the State Investment Board (SIB)

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The Park Board is required to develop asset allocation plans pursuant to its responsibilities as outlined in the Pension Plan Document. The State Investment Board (SIB) is charged with implementing the asset allocation as promptly and prudently as possible in accordance with the Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

The SIB 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 Fund must be invested exclusively for the benefit of Plan participants and in accordance with the Fund's investment goals and objectives.

The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

The SIB may at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives subject to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.

Delegation of Authority

Management responsibility for Plan assets not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, which must establish written policies and procedures for the operation of the Fund, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1) (a).

2. Investment diversification, investment quality, qualification of money managers, and amounts to be invested by money managers pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:

   a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
   b. The use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.
   c. All assets must be held in custody by the SIB's master custodian or such other custodians as are selected by the SIB.

3. Guidelines for the selection and redemption of investments will be in accordance with NDCC 21-10-02.1(1) (d).

4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

Investment Goals

The investment goals of the Fund have been established by the City Council based upon their strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term.

Goal #1 Accumulate sufficient wealth through a diversified portfolio of investments which will enable the Fund to pay all current and future retirement benefits and expense obligations of the Fund.

Investment Performance Objective

The Grand Forks Board of Park Commissioners will seek to make investments that generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement in federal and state law and Grand Forks Park District ordinances.

It is in the best interest of the Plan and its beneficiaries that performance objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

a. The Fund's rate of return, over the long term should equal, that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
c. Over 10-year and longer periods the Fund should match or exceed the expected rate of return projected in the most recent actuarial study without exceeding the expected risk for the period as measured by standard deviation.

Asset Allocation

In recognition of the Plan's performance objectives, benefit projections, and capital market expectations, the Grand Forks Board of Park Commissioners has established the following asset allocation:

Domestic Equities - Large Cap	40%
Domestic Equities - Small Cap	5%
International Equities	12%
Emerging Markets Equities	3%
Domestic Fixed Income	35%
Alternative Investments	5%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

Restrictions

A. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
B. Use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.
C. No transaction may be made which threatens the tax exempt status of the Fund.
D. No unhedged short sales or speculative margin purchases may be made.

   Social Investing is defined as "The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

E. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar time horizon and similar risk.

   Economically targeted investing is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

F. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

The Exclusive Benefit Rule is met if the following four conditions are satisfied:

(1) The cost does not exceed the fair market value at the time of investment.

(2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

(3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the Plan.

(4) The safeguards and diversity that a prudent investor would adhere to are present.

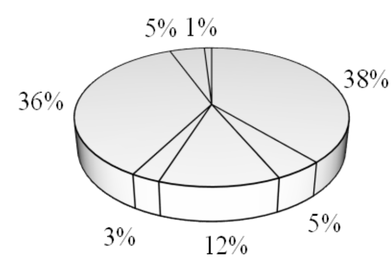
Where investment characteristics, including yield, risk, and liquidity are equivalent, the City Council's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

❖Grand Forks Park District Pension Fund
Actual Asset Allocation – June 30, 2010

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	1,371,969	38%	
Domestic Small Cap Equity		172,213	5%	
International Equity		429,433	12%	
Emerging Markets Equity		102,938	3%	
Domestic Fixed Income		1,286,914	36%	
Alternative Investments		173,960	5%	
Cash Equivalents		36,861	1%	
Total Fund	$	3,574,288		*
Policy Benchmark				*



WORKFORCE SAFETY & INSURANCE FUND

❖Workforce Safety & Insurance Fund Investment Objectives and Policy Guidelines

Introduction

North Dakota Workforce Safety & Insurance (WSI) is an exclusive state workers' compensation fund, which exists for the mutual benefit of North Dakota employers and employees. The assets of WSI are utilized to pay benefits to injured workers or their survivors.

Section 65-04-01 of the North Dakota Century Code requires WSI to establish premium rates for funding sufficiently high to provide for:

1. The payment of the expenses of administration of the organization,
2. The payment of compensation according to the provisions and schedules contained in this title, and
3. The maintenance by the Fund of adequate reserves and surplus to the end that it may be kept at all times in an entirely solvent condition.

Responsibilities of the North Dakota State Investment Board (SIB)

The governing body of WSI is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. WSI fulfills this responsibility through its Board of Directors, under the oversight and approval of the Governor. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.
The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment goal of WSI is to supplement premiums, through various investments, to accomplish its statutory obligations.

The following investment objectives are established as of the date adopted and are in keeping with the fiduciary requirements as set forth in federal and state law and as expected by the members. WSI expects to receive results from the SIB that are consistent with the policies included herein. These objectives and guidelines will provide a basis for evaluating the effectiveness of the investment program over time. It is clearly understood these objectives and standards are to be viewed over the long term and have been established after full consideration of all factors set out in the Statement of Investment Policy.

The operating and liquidity needs of WSI are generally to be met by the cash equivalents allocation.

Funds in excess of those required for operating and liquidity needs will be invested in domestic equity, international equity, real estate and fixed income securities. The objective of these assets is to obtain the maximum total return on investments consistent with safety of principal on funds in excess of those required for operating and liquidity needs.

Standards of Investment Performance

The Fund's investment objectives and characteristics give rise to an asset allocation that is considered to have greater than a 50% probability of achieving the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund's rate of return, over the long term, should equal that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.4% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 5.5%.

Policy and Guidelines

The asset allocation policy developed herein is based on an evaluation of WSI's ability and willingness to assume investment risk in light of WSI's financial goals and objectives. In recognition of these goals and objectives, coupled with a liability-sensitive asset allocation study conducted by Callan Associates in May, 2005, the following asset allocation is deemed appropriate for WSI. The portfolio mix shall be in accordance with the following asset allocation and periodically reviewed by WSI.

Asset Class	Target Allocation
Large Cap Equity	9.75%
Small Cap Equity	3.25%
International Equity	7.00%
Domestic Fixed Income	51.00%
Inflation Protected Assets	22.00%
Real Estate	6.00%
Cash Equivalents	1.00%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.

b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.

c. No transaction shall be made which threatens the tax exempt status of the Fund.

d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

e. No unhedged short sales or speculative margin purchases shall be made.

f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

(1) The cost does not exceed the fair market value at the time of investment.

(2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

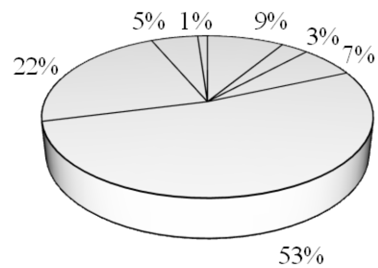
(3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.

(4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

❖Workforce Safety & Insurance Fund
Actual Asset Allocation – June 30, 2010

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	108,511,357	9%	
Domestic Small Cap Equity		38,396,439	3%	
International Equity		78,005,116	7%	
Fixed Income		637,467,132	53%	
Inflation Protected		270,498,369	22%	
Real Estate		65,780,841	5%	
Cash Equivalents		13,846,736	1%	
Total Fund	$	1,212,505,990		11.94%
Policy Benchmark				7.68%



STATE FIRE AND TORNADO FUND

❖State Fire and Tornado Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The State Fire and Tornado Fund (the Fund) was established in 1919 to insure the various state industries and political subdivisions against direct physical loss to public buildings, fixtures, and permanent contents due to the perils named in 26.1-22-02 of the North Dakota Century Code (NDCC). All state buildings and universities must be covered by the Fund. School districts and counties may participate at their option.

Funding is primarily provided by annual premiums charged to policy holders in accordance with NDCC 26.1-22. Premiums are expected to total approximately $6.4 million annually, with the bulk of these premiums received at the beginning of each fiscal year.

Effective August 1993, the state's boiler inspection program was placed under the direction of the Insurance Department. The costs of this program are appropriated from the Fund. Fees collected for boiler inspections and licensing will be the primary source of funding for the program. The 1995 Legislature added anhydrous ammonia storage facilities to the Fund's inspection responsibilities.

A minimum balance of $12.0 million must be maintained at all times. If reserves drop below this statutory minimum, additional premiums, as specified under NDCC 26.1-22, would be assessed. This situation must be avoided.

The Fund retains liability for the first $1 million on each and every loss. Any loss over this amount, up to a maximum of $100 million, is covered by reinsurance through a commercial reinsurance carrier. Reinsurance coverage is bid by the Insurance Department at least once every two years.

Claims paid from the Fund are highly unpredictable. Weather damage accounts for the majority of claims. Fires generally result in the most extensive damage.

Generally, there is a two week lead time to prepare for a claim payment. Large claim payments have a longer lead time and are spread out in multiple payments whenever possible. Total claim payments and transfers over the last three fiscal years have averaged $2.2 million annually.

Operating expenses are paid from the Fund as incurred. These include Fund administration, boiler inspection program, anhydrous ammonia storage facility inspections, State Fire Marshall's Office, and North Dakota Firefighter's Association. For planning purposes over the 2009-2011 biennium, these appropriations were assumed to be $967,080 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2007-2009 biennium for appropriateness.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed to provide stability for insurance reserves. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth will be sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments shall be used to achieve this objective.

Objective #4: The risk of violating the statutory minimum balance requirement of $12,000,000 is to be minimized. This will be achieved by an asset allocation consistent with this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation of the State Fire & Tornado Fund is established by the Insurance Department, with input from the SIB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	18.75%
Small Cap Domestic Equity	6.25%
International Equity	10.00%
Fixed Income	55.00%
Cash Equivalents	10.00%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
d. No funds shall be borrowed.
e. No unhedged short sales or speculative margin purchases shall be made.
f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

   For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

   For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

   (1) The cost does not exceed the fair market value at the time of investment.
   (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
   (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
   (4) The safeguards and diversity that a prudent investor would adhere to are present.

   Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

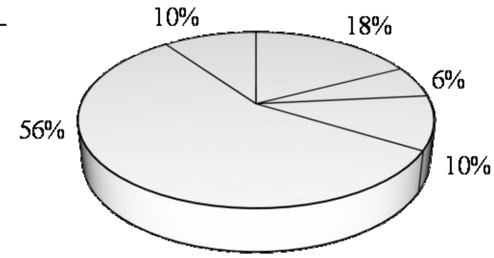
Evaluation and Review

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

❖State Fire and Tornado Fund
Actual Asset Allocation – June 30, 2010

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 4,656,858	18%	
Domestic Small Cap Equity	1,541,852	6%	
International Equity	2,620,758	10%	
Fixed Income	14,916,646	56%	
Cash Equivalents	2,662,427	10%	
Total Fund	$ 26,398,541		14.52%
Policy Benchmark			10.47%



STATE BONDING FUND

❖State Bonding Fund
Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The State Bonding Fund (the Fund) was established for bonding public employees and public officials in accordance with Chapter 26.1-21 of the North Dakota Century Code (NDCC). Annual collections to the Fund are in the form of fees and restitution. However, the primary funding source for the Fund is investment return.

A minimum balance of $2.0 million must be maintained at all times. If reserves drop below this statuary minimum, premiums will be assessed against all bond holders in accordance with NDCC 26.1-21-09. Such premiums will continue to be charged until the Fund balance reaches $3.0 million. This situation must be avoided.

Claims paid from the Fund are on an as-needed basis and are highly unpredictable. A judgment against the guilty party is required prior to the Fund making a claim payment. Generally, there is a 60-90 day lead time to prepare for a claim payment. Claims have averaged $114,170 annually over the last three fiscal years.

Appropriations from the Fund are exclusively for administrative costs. For planning purposes during the 2009-2011 biennium, these appropriations are assumed to be $20,759 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2009-2011 biennium for appropriateness.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish appropriate asset class pools designed to provide specific quality and diversification guidelines, restrictions, and performance objectives consistent with the goals of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.
The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, but also recognize the shorter-term liquidity needs. Operating and statutory considerations shape the policies and priorities outlined below.

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth is sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity will be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments shall be used to achieve this objective.

Objective #4: The risk of violating the statutory minimum balance requirement of $2,000,000 is to be minimized. This will be achieved by an asset allocation consistent with this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation of the State Bonding Fund is established by the Insurance Department, with input from the SIB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Fixed Income	55.00%
Cash Equivalents	45.00%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
d. No funds shall be borrowed.
e. No unhedged short sales or speculative margin purchases shall be made.
f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

   For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.
   For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

   (1) The cost does not exceed the fair market value at the time of investment.
   (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
   (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
   (4) The safeguards and diversity that a prudent investor would adhere to are present.

   Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

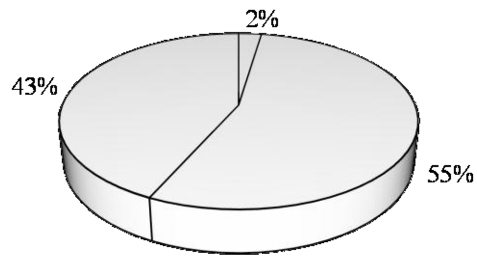
Evaluation and Review

Investment management of the Fund will be evaluated in comparison with the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

❖State Bonding Fund
Actual Asset Allocation – June 30, 2010

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 67,576	2%	
Fixed Income	1,504,489	55%	
Cash Equivalents	1,191,196	43%	
Total Fund	$ 2,763,261		8.63%
Policy Benchmark			5.21%



PETROLEUM TANK RELEASE COMPENSATION FUND

❖Petroleum Tank Release Compensation Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The Petroleum Tank Release Compensation Fund (the Fund) was established in 1989 in response to the Environmental Protection Agency's (EPA) requirement that all underground storage tank owners have proof of financial responsibility. Operation of the Fund is in accordance with ND23-37. The Fund's "sunset clause" date of June 30, 2011, has been extended and the time horizon for this Fund is uncertain at this time.

Funding is provided by annual premiums collected for above ground and underground petroleum storage tanks. Registration of tanks with the Fund is mandatory, although certain types of tanks are excluded. Premiums are estimated to total $295,000 annually during the current biennium.

A statutory minimum balance of $6.0 million must be maintained in the Fund. Also, a minimum balance of $2.0 million is required by EPA. In the event reserves drop below this minimum, EPA would evaluate the Fund's ability to pay claims and would in all likelihood disapprove the Fund as a financial responsibility mechanism for North Dakota petroleum tank owners.

If a petroleum release occurs or petroleum contamination is discovered, an eligible tank owner is reimbursed 90% of necessary and reasonable costs between $5,000 and $155,000 for cleanup of contamination or third-party liability. The Fund reimburses 100% of costs between $155,000 and $1,000,000. Claims have averaged $596,000 annually over the last three fiscal years.

Operating expenses are paid from the Fund as incurred. For planning purposes over the 2009-2011 biennium, these appropriations were assumed to be $48,119 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2009-2011 biennium for appropriateness.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish appropriate asset class pools designed to provide specific quality and diversification guidelines, restrictions, and performance objectives consistent with the goals of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, report formats, and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect the need to augment premium income to provide for claim payments and stability of insurance reserves. Operating considerations shape the Fund's policies and priorities as follows:

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth is sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity will be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments shall be used to achieve this objective.

Objective #4: The risk of violating the EPA mandated minimum balance requirement of $2,000,000 is to be minimized. This will be achieved by an asset allocation consistent with this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation of the state Petroleum Tank Release Compensation Fund is established by the Insurance Department, with input from the SIB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Fixed Income	50.00%
Cash Equivalents	50.00%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
d. No funds shall be borrowed.
e. No unhedged short sales or speculative margin purchases shall be made.
f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

   For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

   For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

   (1) The cost does not exceed the fair market value at the time of investment.
   (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
   (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
   (4) The safeguards and diversity that a prudent investor would adhere to are present.

   Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

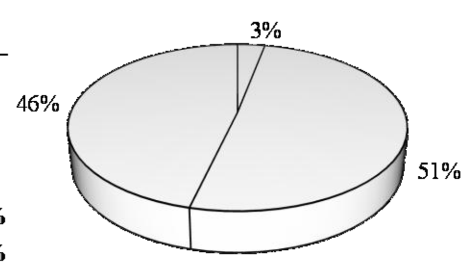
Evaluation and Review

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers hired by the SIB will be evaluated by the Board quarterly. In-state meetings will be held with the money managers at least annually.

❖Petroleum Tank Release Compensation Fund
Actual Asset Allocation – June 30, 2010

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	**$ 205,518**	**3%**	
Fixed Income	**3,358,681**	**51%**	
Cash Equivalents	**3,061,463**	**46%**	
Total Fund	**$ 6,625,662**		**7.79%**
Policy Benchmark			**4.74%**



INSURANCE REGULATORY TRUST FUND

❖Insurance Regulatory Trust Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The Insurance Regulatory Trust Fund (the Fund) was established for use by the Insurance Department to defray the expenses incurred in discharging its duties as described in NDCC 26.1.

Funding is provided primarily through the collection of fees and fines as specified in NDCC 26.1-01-07.1. Fees and other collections are expected to total approximately $4.5 million annually, with the bulk of this income received in the second half of each fiscal year. Earnings from investments are also considered a funding source.

There is no statutory minimum balance for this Fund. However, the Insurance Department relies entirely on the Fund to meet all operating expenses. Therefore, sufficient liquidity and risk control must be maintained at all times to ensure the solvency of the Insurance Department.

In accordance with NDCC 26.1-01-07.1, any cash balance in the Fund after all current biennium expenditures are met must be carried forward for the succeeding biennium. However, when the balance at the end of the biennium exceeds $1.0 million, any excess will be transferred to the general fund in the state treasury. Such transfers are generally made at the end of September or during the first two weeks of October.

Operating expenses are paid from the Fund as incurred. For planning purposes over the 2009-2011 biennium, these appropriations were assumed to be $3.3 million annually.

The Fund's asset allocation will need to be reviewed at the end of the 2009-2011 biennium for appropriateness.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish appropriate asset class pools designed to provide specific quality and diversification guidelines, restrictions, and performance objectives consistent with the goals of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect moderate risk tolerance and short-term liquidity needs. The increasing need to augment fee income as growth in expenses outpaces traditional funding sources is also recognized.

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of the Fund. Capital growth is sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity will be maintained to meet known or anticipated financial obligations. Cash equivalent investments shall be used to achieve this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation of the state Insurance Regulatory Trust Fund is established by the Insurance Department, with input from the SIB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	15%
Small Cap Domestic Equity	5%
International Equity	10%
Fixed Income	35%
Cash Equivalents	35%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
d. No funds shall be borrowed.
e. No unhedged short sales or speculative margin purchases shall be made.
f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

   For the purpose of this document, Social Investing is defined as "The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

   For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

   (1) The cost does not exceed the fair market value at the time of investment.
   (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
   (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
   (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

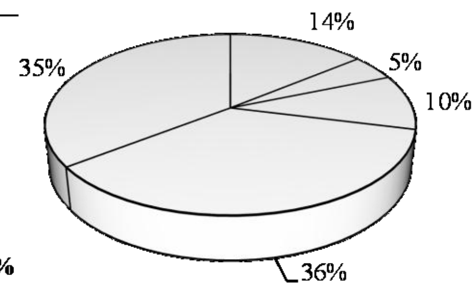
Evaluation and Review

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers hired by the SIB will be evaluated by the Board quarterly. In-state meetings will be held with the money managers at least annually.

❖Insurance Regulatory Trust Fund
Actual Asset Allocation – June 30, 2010

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 586,037	14%	
Domestic Small Cap Equity	192,114	5%	
International Equity	408,443	10%	
Fixed Income	1,479,827	36%	
Cash Equivalents	1,453,832	35%	
Total Fund	$ 4,120,253		10.29%
Policy Benchmark			7.68%



NORTH DAKOTA HEALTH CARE TRUST FUND

❖North Dakota Health Care Trust Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

Through the passage of House Bill 1196, the 2001 North Dakota Legislature created a special fund, in the State Treasury, known as the North Dakota Health Care Trust Fund (the Fund). The Fund consists of revenue received from government nursing facilities for remittance to the Fund under Section 50-24.4-30. Section 13 of House Bill 1196 provides that the State Investment Board (SIB) shall invest moneys in the Fund in accordance with Chapter 21-10, and the income earned must be deposited in the Fund. All moneys deposited in the Fund are available to the Department of Human Services for payment as authorized by legislative appropriations and for transfer to the long-term care facility loan fund as authorized by legislative appropriation.

Responsibilities and Discretion of the SIB

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives are to obtain a reasonable rate of return on the Fund while maintaining sufficient liquidity to meet known or anticipated financial obligations. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

Objective #2: Investment income is needed to provide stability for the Fund. This will be achieved through investment in certificates of deposit and cash equivalents.

Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the North Dakota Department of Human Services. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Cash Equivalents & CD's	100%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
d. No funds shall be borrowed.
e. No unhedged short sales or speculative margin purchases shall be made.
f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

   For the purpose of this document, Social Investing is defined as "The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

(1) The cost does not exceed the fair market value at the time of investment.
(2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
(3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
(4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

❖North Dakota Health Care Trust Fund
Actual Asset Allocation – June 30, 2010

Asset Allocation		Fair Value	Percent of Total	One Year Return
Cash Equivalents		2,315,399	100%	
Total Fund	$	2,315,399		0.36%
Policy Benchmark				0.15%

STATE RISK MANAGEMENT FUND

❖State Risk Management Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

To address the State's loss of sovereign immunity, the 1995 North Dakota Legislature created a new chapter of the North Dakota Century Code (NDCC), 32-12.2. That Chapter established the Risk Management Fund (the Fund) to administer claims against the State and state employees for personal injury, death, or property damage caused by the State or a state employee acting within the scope of the employee's employment. The Fund is directed by the Office of Management and Budget (OMB).

Each entity of the State is required to participate in the Fund. Contributions to the Fund are determined by the Director of OMB based on an actuarial review of the financial status of the Fund. This results in a fluctuation of contributions made to the Fund from one biennium to another.

The amount of money damages the Fund may pay is limited for state court actions to a total of $250,000 per person and $1,000,000 per occurrence. These liability caps may not be recognized in Federal Court actions or in actions filed in other states. The Fund's excess carrier provides coverage up to $10,000,000 for those exposures not covered by the Tort Claims Act.

Significant claims paid from the Fund are usually somewhat predictable and take a period of time to resolve. A person bringing a claim or lawsuit against the State or a state employee must give notice to the OMB Director within 180 days after the alleged injury is discovered or reasonably should have been discovered. If the claim is one for death, the notice must be provided within one year after the alleged injury resulting in the death.

The Risk Management Division's operating expenses including loss control activities are paid from the Fund as incurred.

Responsibilities of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed to provide stability for insurance reserves. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth will be sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.34% rate of return based on Callan Associates' 2007 market projections. Expected risk for the period, measured by standard deviation, is 6.59%.

Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the OMB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	22.5%
Small Cap Domestic Equity	7.5%
Fixed Income	65.0%
Cash Equivalents	5.0%

Rebalancing of the Fund to this allocation will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
d. No funds shall be borrowed.
e. No unhedged short sales or speculative margin purchases shall be made.
f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

   For the purpose of this document, Social Investing is defined as "The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

   For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

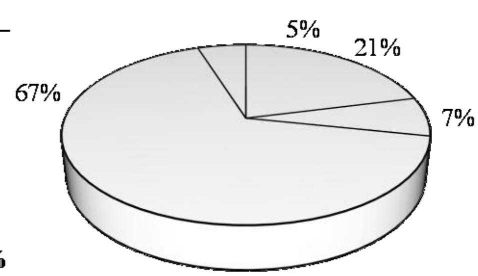
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

   (1) The cost does not exceed the fair market value at the time of investment.
   (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
   (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
   (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

❖State Risk Management Fund
Actual Asset Allocation – June 30, 2010

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 802,603	21%	
Domestic Small Cap Equity	265,138	7%	
Fixed Income	2,530,047	67%	
Cash Equivalents	191,214	5%	
Total Fund	$ 3,789,002		16.02%
Policy Benchmark			11.37%



STATE RISK MANAGEMENT WORKERS COMPENSATION FUND

❖State Risk Management Workers Comp Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The 2001 North Dakota Legislature established a single workers' compensation account for state entities, N.D.C.C. § 65-04-03.1. N.D.C.C. § 65-04-03.1(2) directs that workers' compensation premiums from state entities must be deposited in the Risk Management Workers Compensation Fund (Fund) and the State Investment Board is directed to invest the Fund in accordance with chapter 21-10.

The Risk Management Division of the Office of Management and Budget is responsible for administering the Fund to include promulgating rules, collecting and dispersing funds, and establishing an internal workers' compensation return-to-work program. Each entity of the State is required to participate in the program unless exempted by the director of the Office of Management and Budget. Contributions to the Fund are determined by Workforce Safety & Insurance (WSI) based on an actuarial review of combined payroll, premium, and loss history of agencies to determine experience rates, assessments, and premiums.

The Risk Management Workers Compensation Program charges the entity the first $250 ($0 if a designated medical provider is used for treatment) of each accepted claim and pays disability and medical benefits of up to $100,000 dollars per claim. Dollar amounts for claims in excess of $100,000 are paid for by WSI. In turn the Program pays WSI approximately $1.7 million per year in premiums.

Responsibilities of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed to provide stability for insurance reserves. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth will be sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.64% rate of return based on Callan Associates' 2007 market projections. Expected risk for the period, measured by standard deviation, is 7.57%.

Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the OMB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	27.75%
Small Cap Domestic Equity	9.25%
Fixed Income	60.00%
Cash Equivalents	3.00%

Rebalancing of the Fund to this allocation will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
d. No funds shall be borrowed.
e. No unhedged short sales or speculative margin purchases shall be made.
f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

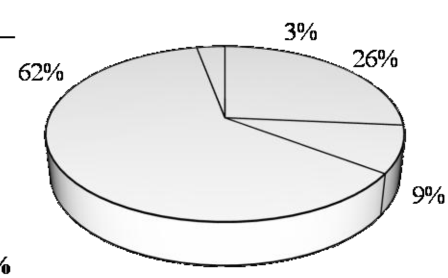
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

(1) The cost does not exceed the fair market value at the time of investment.
(2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
(3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
(4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

❖State Risk Management WC Fund
Actual Asset Allocation – June 30, 2010

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	844,366	26%	
Domestic Small Cap Equity		277,680	9%	
Fixed Income		1,984,189	62%	
Cash Equivalents		97,242	3%	
Total Fund	$	3,203,477		16.40%
Policy Benchmark				12.08%



NORTH DAKOTA ASSOCIATION OF COUNTIES

❖ND Association of Counties (NDACo) Fund and NDACo Program Savings Fund Investment Objectives and Policy Guidelines

Introduction

The North Dakota Association of Counties (NDACo) (Funds) was established to aid in the administration of county government by providing a medium for exchange of information, ideas, and experience of county officials; promote training; facilitate cooperation with all levels of government; and be a legislative advocate for counties. NDACo and the benefits provided there under are funded by dues from member counties and special programs and projects of NDACo.

The NDACo has chosen to segregate these monies into two separate funds (Funds) with identical investment policies. This statement governs both Funds.

Responsibilities and Discretion of the State Investment Board (SIB)

NDACo has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. It is the responsibility of NDACo to establish policies on investment goals and asset allocation of the Funds. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Funds in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Funds' assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

Funds in excess of those required for operating and claims payment needs will be invested to obtain the maximum total return on investments consistent with safety of principal on funds in excess of those required for operating and claims payment needs. The investment fund(s) may be comprised of fixed income securities and equity securities. Individual investments may be either actively or passively managed.

Standards of Investment Performance

The Funds' investment objectives and liquidity constraints give rise to asset allocations that are considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Funds should produce rates of return that meet or exceed the portfolio policy index defined as 26.25% S&P 500 domestic stock index, 8.75% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 50% Lehman Brothers Aggregate domestic bond index, and 5% 90-day Treasury bills.
b. The annual standard deviation of total returns for the Funds should not exceed that of the policy portfolio.
c. Over 10 year and longer time periods the Funds should match or exceed the expected 6.65% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 8.50%.

Policy and Guidelines

The asset allocation is established by the SIB, with input from NDACo. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocations are deemed appropriate for the funds.

Asset Class	NDACo Fund	NDACo Program Savings
Dom Lg Cap Equity	29.7%	26.2%
Dom Sm Cap Equity	12.0%	8.8%
Int'l Equity	13.3%	10.0%
Dom Fixed Income	40.0%	50.0%
Cash Equivalents	5.0%	5.0%

Rebalancing of the Funds to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Funds' assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
d. No funds shall be borrowed.

e. No unhedged short sales or speculative margin purchases shall be made.

f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

(1) The cost does not exceed the fair market value at the time of investment.

(2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

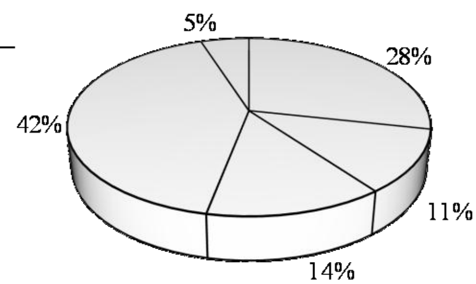
(3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.

(4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Funds' policy favors investments which will have a positive impact on the economy of North Dakota.

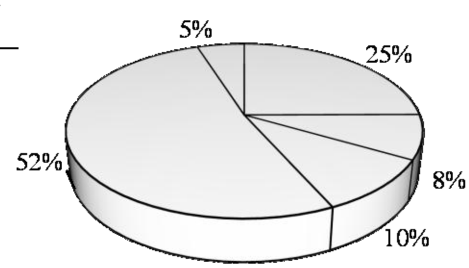
❖ND Association of Counties (NDACo) Fund
Actual Asset Allocation – June 30, 2010

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 305,027	28%	
Domestic Small Cap Equity	122,711	11%	
International Equity	144,508	14%	
Fixed Income	449,794	42%	
Cash Equivalents	55,075	5%	
Total Fund	$ 1,077,115		15.34%
Policy Benchmark			12.22%



❖NDACo Program Savings Fund
Actual Asset Allocation – June 30, 2010

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 198,855	25%	
Domestic Small Cap Equity	65,571	8%	
International Equity	79,940	10%	
Fixed Income	413,501	52%	
Cash Equivalents	40,627	5%	
Total Fund	$ 798,494		15.38%
Policy Benchmark			12.22%



CITY OF BISMARCK DEFERRED SICK LEAVE ACCOUNT

❖City of Bismarck Deferred Sick Leave Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The City of Bismarck Deferred Sick Leave Account (the Fund) represents money set aside to cover the City's unfunded liability of employees' accrued sick leave. People who terminate employment with the City shall be compensated for unused sick leave from this Fund. In time, it is expected that the Fund will become depleted.

Responsibilities and Discretion of the State Investment Board (SIB)

The City of Bismarck (Client) has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. It is the responsibility of the Client to establish policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish appropriate asset class pools designed to provide specific quality and diversification guidelines, restrictions, and performance objectives consistent with the goals of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives are to obtain a reasonable rate of return on the Fund while maintaining sufficient liquidity to meet known or anticipated financial obligations. Operating considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of the Fund. Capital growth is sought through investment in equities and/or equity substitutes.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 15% S&P 500 domestic stock index, 5% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 65% Lehman Aggregate domestic bond index, and 5% 90-day Treasury Bills.

b. The annual standard deviation of total returns for the Fund should be consistent with that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.00% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 6.50%.

Policy and Guidelines

The asset allocation of the Fund is established by the City of Bismarck. Asset allocation is based upon the appraisal of projected liquidity requirements and sick leave payment demand, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	15%
Small Cap Domestic Equity	5%
International Equity	10%
Fixed Income	65%
Cash Equivalents	5%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.

b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
d. No funds shall be borrowed.
e. No unhedged short sales or speculative margin purchases shall be made.
f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

   For the purpose of this document, Social Investing is defined as "The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

   For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

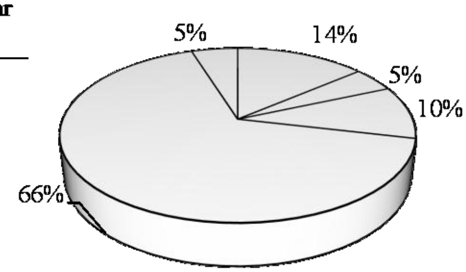
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

   (1) The cost does not exceed the fair market value at the time of investment.
   (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
   (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
   (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

❖City of Bismarck Deferred Sick Leave
Actual Asset Allocation – June 30, 2010

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	118,534	14%	
Domestic Small Cap Equity		38,901	5%	
International Equity		83,390	10%	
Fixed Income		560,809	66%	
Cash Equivalents		42,362	5%	
Total Fund	$	843,996		15.29%
Policy Benchmark				10.60%



NDPERS GROUP INSURANCE ACCOUNT

❖NDPERS Group Insurance Account Investment Objectives and Policy Guidelines

Introduction

The NDPERS Group Insurance Account (the Fund) was established to hold insurance premiums collected from employers until paid to the insurance carrier.

Responsibilities and Discretion of the State Investment Board (SIB)

The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

Investment Objectives

Premiums are collected throughout the month at PERS and will be forwarded to the Fund investment account on the 1st and 15th of each month. The premiums transferred into the investment account will be transferred back to PERS on approximately the 22nd of each month so they may be remitted to the insurance carrier.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as the 90-day Treasury bill.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation is established by NDPERS. Asset allocation is based upon the appraisal of projected liquidity. In recognition of this factor, the following allocation is deemed appropriate for the Fund:

Cash Equivalents	100%

This cash will be held in an enhanced money market account at the Bank of North Dakota.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
d. No funds shall be borrowed.
e. No short sales or margin purchases shall be made.

❖NDPERS Group Insurance Account Actual Asset Allocation – June 30, 2010

Asset Allocation	Fair Value	Percent of Total	One Year Return
Cash Equivalents	$4,034,576	100%	0.36%
Policy Benchmark			0.15%

CITY OF FARGO FARGODOME PERMANENT FUND

❖City of Fargo FargoDome Permanent Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The City of Fargo has set aside excess sales tax collections intended for the administration of the FargoDome in the FargoDome Permanent Fund (Fund). The initial amount in the fund is approximately $2.8 million with additional deposits of $1 million per year until 2009. No withdrawals are expected to be made until after 2009 when the sales tax revenue is discontinued.

Responsibilities of the State Investment Board (SIB)

The SIB is charged by law under NDCC 21-10 with the responsibility of establishing investment policy and investing the assets of the Fund. The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

Investment Objectives

The investment objectives are to obtain a reasonable rate of return on the Fund while maintaining sufficient liquidity to meet known or anticipated financial obligations. Operating considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of the Fund. Capital growth is sought through investment in equities and/or equity substitutes.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 37.5% S&P 500 domestic stock index, 12.5% Russell 2000 domestic small cap index, 49% Lehman Aggregate domestic bond index, and 1% 90-day Treasury bills.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.91% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 9.47%.

Policy and Guidelines

The asset allocation of the Fund is established by the City of Fargo Finance Committee, with input from RIO staff. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Large Cap Domestic Equity	37.5%
Small Cap Domestic Equity	12.5%
Fixed Income	49.0%
Cash Equivalents	1.0%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.

b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.

c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.

d. No funds shall be borrowed.

e. No unhedged short sales or speculative margin purchases shall be made.

f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

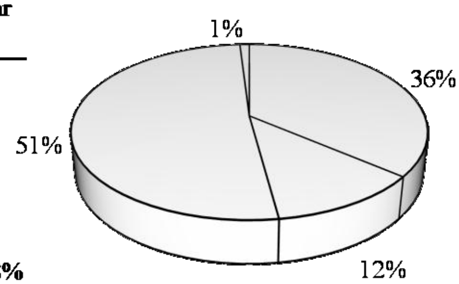
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

(1) The cost does not exceed the fair market value at the time of investment.
(2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
(3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
(4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

❖City of Fargo FargoDome Permanent Fund
Actual Asset Allocation – June 30, 2010

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	9,043,321	36%	
Domestic Small Cap Equity		2,979,487	12%	
Fixed Income		12,877,718	51%	
Cash Equivalents		256,240	1%	
Total Fund	$	25,156,766		16.78%
Policy Benchmark				13.19%



NORTH DAKOTA CULTURAL ENDOWMENT FUND

❖ND Cultural Endowment Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The North Dakota Cultural Endowment Fund (Fund) was created by the State Legislature in 1979 and is governed by NDCC 54-54-08.2.

The Fund was established "to improve the intrinsic quality of the lives of the state's citizens now and in the future through programs approved by the council on the arts." Such programs must:

1. Increase cultural awareness by the state's citizens through programs in arts, crafts, theater, ethnic and folk arts, literature, journalism, public media, historic preservation and interpretation, visual arts, and architecture.
2. Make the items named in #1 above more available to the state's citizens.
3. Encourage the development of talent in the areas named in #1 above within the state.
4. Preserve and increase understanding of North Dakota's heritage and future.

The goals of the Fund are:

- To create a vehicle through which the North Dakota Council on the Arts can secure private and public funds to enhance existing programs;
- And to provide a stable funding source for the Council.

Sources of funding for the Fund are private donations and periodic General Fund appropriations. The current principal balance that must be maintained in the Fund is $150,000. Disbursements from the Fund will amount to approximately $5,000 per year for fellowship grants.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs. Operating and statutory considerations shape the Funds policies and priorities as outlined below:

Objective #1: Investment income is needed to provide balance in investment return sources. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge. Capital growth will be sought through investment in equities.

Objective #3: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations. Cash equivalent investments will be used to achieve this objective.

Objective #4: The risk of violating the mandated minimum balance requirement of $150,000 is to be minimized. This will be achieved by an asset allocation consistent with this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 33.75% S&P 500 domestic stock index, 11.25% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 37% Lehman Aggregate domestic bond index, 5% NCREIF Total real estate index, and 3% 90-day Treasury bills.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 7.26% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 10.44%.

Policy and Guidelines

The asset allocation of the Cultural Endowment Fund is established by the North Dakota Council on the Arts, with input from the SIB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Large Cap Domestic Equities	33.75%
Small Cap Domestic Equities	11.25%
International Equities	10.00%
Domestic Fixed Income	37.00%
Real Estate	5.00%
Cash Equivalents	3.00%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
d. No funds shall be borrowed.
e. No unhedged short sales or speculative margin purchases shall be made.
f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

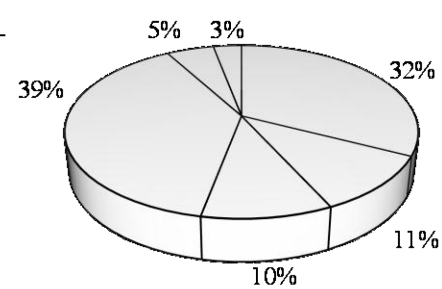
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

(1) The cost does not exceed the fair market value at the time of investment.
(2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
(3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
(4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

❖ND Cultural Endowment Fund
Actual Asset Allocation – June 30, 2010

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	**$**	**75,568**	**32%**	
Domestic Small Cap Equity		**24,928**	**11%**	
International Equity		**23,605**	**10%**	
Fixed Income		**90,496**	**39%**	
Real Estate		**12,028**	**5%**	
Cash Equivalents		**7,188**	**3%**	
Total Fund	**$**	**233,813**		**14.89%**
Policy Benchmark				**11.97%**



NORTH DAKOTA BUDGET STABILIZATION FUND

❖ND Budget Stabilization Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The Budget Stabilization Fund (Fund) is a special fund created in 1987 under Chapter 54-27.2 of the North Dakota Century Code used to deposit general fund moneys in excess of appropriations. Notwithstanding the provisions of sections 54-27.2-01 and 54-27.2-02, $124,936,548 was required to be transferred by the state treasurer to the budget stabilization fund from the general fund on July 1, 2009. This transfer will provide for a total of $324,936,548 in the budget stabilization fund for the biennium beginning July 1, 2009 and ending June 30, 2011. The state investment board shall supervise investment of the budget stabilization fund in accordance with chapter 21-10.

Any interest or other budget stabilization fund earnings must be deposited in the fund. Any amounts provided by law for deposit in the fund and any interest or earnings of the fund which would bring the balance in the fund to an amount greater than five percent of the current biennial state general fund budget, as finally approved by the most recently adjourned special or regular session of the legislative assembly, may not be deposited or retained in the fund but must be deposited instead in the state general fund.

If the director of the office of management and budget projects that general fund revenues for the biennium will be at least two and one-half percent less than estimated by the most recently adjourned special or regular session of the legislative assembly, and if the governor orders a transfer, the state treasurer shall transfer the appropriate funds from the budget stabilization fund to the state general fund to offset the decrease in general fund revenues. The amount transferred from the budget stabilization fund upon order of the governor may not exceed the difference between an amount two and one-half percent below the general fund revenue projections for the biennium and the general fund revenue projections for the biennium by the director of the office of management and budget.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory. In accordance with this Investment Policy Statement, the Fund's assets may be invested directly or through collective investment vehicles.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect the relatively unknown life-span and the moderate risk tolerance of the Fund. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation of the Fund is established by the Office of Management and Budget, with input from the SIB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Short-term Fixed Income and BND CDs	Minimum of 90%
Bank Loans w/floating yield	Maximum of 5%
Absolute Return Strategies	Maximum of 5%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
d. No funds shall be borrowed.
e. No unhedged short sales or speculative margin purchases shall be made.
f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

   For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

   For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

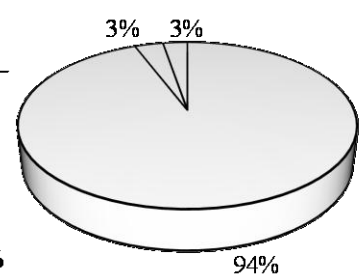
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

   (1) The cost does not exceed the fair market value at the time of investment.
   (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
   (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
   (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

❖ **ND Budget Stabilization Fund**
Actual Asset Allocation – June 30, 2010

Asset Allocation		Fair Value	Percent of Total	One Year Return
Short-term Fixed Income & BND CDs	$	305,656,798	94%	
Bank Loans w/floating yield		10,481,431	3%	
Absolute Return Strategies		9,039,328	3%	
Total Fund	$	325,177,557		7.38%
Policy Benchmark				0.15%



NATIONAL BOARD CERTIFICATION FUND

❖National Board Certification Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Constraints

House Bill 1400, Section12 and Section 49, passed by the Sixty-first Legislative Assembly of North Dakota, created a special fund, in the State Treasury, known as the National Board Certification Fund. The sum of $500,000 is appropriated, to the Superintendent of Public Instruction, for the purpose of creating the Fund.

The State Investment Board shall invest the Fund in accordance with Chapter 21-10. All interest and income received on investments are appropriated on a continuing basis to the Superintendent of Public Instruction for the purpose of allowing the Education Standards and Practices Board to award grants to teachers pursuing National Board Certification.

It is the intent of the Fund to maintain the initial principal amount and to only use the investment earnings for future expenditures. An additional $102,500 has been appropriated for the 2009-2011 biennium for anticipated grant awards. Future biennium appropriations may be needed until sufficient investment income has accrued within the fund.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Funds in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives are to obtain a reasonable rate of return on the Fund while maintaining sufficient liquidity to meet known or anticipated financial obligations. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as the 90-day Treasury bill.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation of the Fund is established by DPI, with input from the SIB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Cash Equivalents	100%

This cash will be held in an enhanced money market account at the Bank of North Dakota.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.

b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.

c. No transaction shall be made which threatens the tax exempt status of the Fund.

d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

e. No unhedged short sales or speculative margin purchases shall be made.

f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

(1) The cost does not exceed the fair market value at the time of investment.
(2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
(3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
(4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

❖National Board Certification Fund
Actual Asset Allocation – June 30, 2010

Asset Allocation	Fair Value	Percent of Total	One Year Return
Cash Equivalents	$500,604	100%	*
Policy Benchmark			*

RETIREE HEALTH INSURANCE CREDIT FUND

❖Retiree Health Insurance Credit Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Constraints

The North Dakota Public Employees Retirement System (NDPERS) Retiree Health Insurance Credit Fund was established in 1989 to provide for prefunding of premiums for medical coverage to state employees and employees of participating political subdivisions in accordance with Chapter 54-52.1 of the North Dakota Century Code. The plan is administered by a seven member Board of Trustees (the Board). The Chair is appointed by the governor, three members are elected by the active members of the plans, one member is elected by the retired members, one is appointed by the Attorney General and the seventh member is the State Health Officer or their designee.

The NDPERS plan is a defined benefit program that provides for a partial payment of a retiree's medical insurance premium based on the number of years of service.

Funding for the NDPERS plan is provided by a monthly employer contribution of one percent of payroll. On a monthly basis, benefit payments are netted out against contributions and the balance forwarded to the trust's custodian for investment.

Each year the NDPERS Board has an actuarial valuation performed. The current actuarial assumed rate of return on assets for the plan is 8.0%.

Responsibilities and Discretion of the State Investment Board (SIB)

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The Board is charged by NDCC chapters 54-52, 21-10-02 and 39-03.1 to establish policies for the investment goals and asset allocation of the Fund. The State Investment Board (SIB) is charged with implementing the asset allocation as promptly and prudently as possible in accordance with Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

Fund 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. (NDCC 21-10-07)

The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

The SIB may at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives subject to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.

Delegation of Authority

Management responsibility for NDPERS funds not assigned to the North Dakota State Investment Board (SIB) in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, which must establish written policies and procedures for the operation of the NDPERS funds, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1) (a).

2. Investment diversification, investment quality, qualification of money managers, and amounts to be invested by money managers pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:

    a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
    b. The use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.
    c. All assets must be held in custody by the SIB's master custodian or such other custodians as are selected by the SIB.

3. Guidelines for the selection and redemption of investments will be in accordance with NDCC 21-10-02.1(1) (d).

4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

Investment Goals

The investment goals of the Fund have been established by the NDPERS Board based upon consideration of the Board's strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term.

Goal #1 Accumulate sufficient wealth through a diversified portfolio of investments which will enable the State of North Dakota to pay all current and future retirement benefits and expense obligations of the Fund.

Goal #2 To obtain an investment return in excess of that needed to allow for increases in a retiree's credit to maintain the purchasing power of their benefit.

Investment Performance Objective

The NDPERS Board will seek to make investments that generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement in federal and state law.

It is in the best interest of NDPERS and its beneficiaries that performance objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

a. The Fund's rate of return, over the long term, should equal that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10-year and longer periods the Fund should match or exceed the expected rate of return projected in the most recent asset/liability study without exceeding the expected risk for the period as measured by standard deviation.

Asset Allocation

In recognition of the plan's performance objectives, benefit projections, and capital market expectations, the NDPERS Board has established the following asset allocation:

Date of Last Asset Allocation Study: NDPERS Board Approved February 2009 – SEI Corporation

Domestic Large Cap	37%
Domestic Small Cap	9%
International Equities	14%
Core Plus Fixed Income	40%
Expected Return	8.4%
Standard Deviation of Returns	11.7%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

PERS requires that in implementing this asset allocation that the State Investment Board seek to maximize return within the scope of these policies while limiting investment costs.

Restrictions

A. No transaction may be made which threatens the tax exempt status of the Fund.

   Social Investing is defined as "The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

B. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

   Economically targeted investing is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

C. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

   The Exclusive Benefit Rule is met if the following four conditions are satisfied:

(1) The cost does not exceed the fair market value at the time of investment.
(2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
(3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
(4) The safeguards and diversity that a prudent investor would adhere to are present.

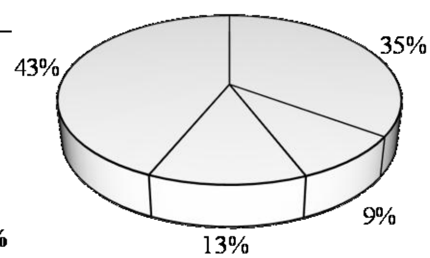
Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

❖Retiree Health Insurance Credit Fund
Actual Asset Allocation – June 30, 2010

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 15,625,723	35%	
Domestic Small Cap Equity	4,118,262	9%	
International Equity	5,644,764	13%	
Core Plus Fixed Income	19,583,540	43%	
Total Fund	$44,972,289		16.86%
Policy Benchmark			12.97%



ACTUARIAL SECTION

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
5605 N. MacArthur Blvd.
Suite 870
Irving, TX 75038-2631
469.524.0000 phone
469.524.0003 fax
www.gabrielroeder.com

October 25, 2010

Board of Trustees
North Dakota Teachers' Fund for Retirement
1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100

Subject: Actuarial Valuation as of July 1, 2010

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the North Dakota Teachers' Fund for Retirement (TFFR) as of July 1, 2010.

All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion the results presented also comply with the North Dakota Century Code, and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries. All are Enrolled Actuaries and Members of the American Academy of Actuaries, and all are experienced in performing valuations for large public retirement systems. They all meet the Qualification Standards of the American Academy of Actuaries.

ACTUARIAL VALUATION

The primary purposes of the valuation report are to determine the adequacy of the current employer contribution rate, to describe the current financial condition of TFFR, and to analyze changes in TFFR's condition. In addition, the report provides information required by TFFR in connection with Governmental Accounting Standards Board Statement No. 25 (GASB 25), and it provides various summaries of the data. Valuations are prepared annually, as of July 1 of each year, the first day of TFFR's plan and fiscal year.

FINANCING OBJECTIVES

The member and employer contribution rates are established by statute. The member rate is set at 7.75%. Effective July 1, 2008, the employer rate increased from 7.75% to 8.25%. Effective July 1, 2010, the employer rate increased again from 8.25% to 8.75%. The total addition of 1.00% to the employer contribution rate will remain in effect until TFFR is 90% funded on an actuarial basis.

The rates are intended to be sufficient to pay TFFR's normal cost and to amortize TFFR's unfunded actuarial accrued liability (UAAL) over a period of 30 years from the valuation date; although at any given time the statutory rates may be insufficient. A thirty-year period is the maximum amortization period allowed by GASB 25 in computing the Annual Required Contribution (ARC). The thirty-year period is in common use for public-sector plans and is considered reasonable by the actuary.

Board of Trustees
October 25, 2010
Page 2

PROGRESS TOWARD REALIZATION OF FINANCING OBJECTIVES

In order to determine the adequacy of the 8.75% statutory employer contribution rate, it is compared to the GASB 25 Annual Required Contribution (ARC). The ARC is equal to the sum of (a) the employer normal cost rate, and (b) the level percentage of pay required to amortize the UAAL over a 30-year period. For this calculation, payroll is assumed to increase 3.25% per year. As of July 1, 2010, the ARC is 12.79%, increased from 10.78% last year. This is greater than the 8.75% rate currently required by law. The shortfall (the negative margin) between the rate mandated by law (8.75%) and the rate necessary to fund the UAAL in 30 years is -4.04%.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) decreased from last year. The funded ratio at July 1, 2009 was 77.7%, while it is 69.8% as of July 1, 2010. Based on market values rather than actuarial values of assets, the funded ratio increased to 54.5%, compared to 53.5% last year.

The plan has a net asset loss of $404 million from previous years which has not yet been recognized in the actuarial value of assets, because of the five-year smoothing. This unrecognized asset loss is due to large market losses during FY 2008 and FY 2009. As the unrecognized loss is recognized over the next three years, the ARC is expected continue to increase and the funded ratio is expected to continue decreasing, assuming the plan earns 8.00% in the future, unless the contribution rates or benefit provisions are changed.

REPORTING CONSEQUENCES

TFFR is required to report in its Comprehensive Annual Financial Report (CAFR) for the current fiscal year ending June 30, 2010 that actual contributions received in FY 2010 were less than the ARC. The FY 2010 8.25% statutory rate was 76.5% of the 10.78% ARC determined by the last valuation. Next year, the CAFR for FY 2011 will show that the 8.75% statutory rate is only 68.4% of the 12.79% ARC. There are no other accounting consequences for the state or the other school districts that sponsor TFFR, since it is a cost-sharing, multiple-employer retirement system.

BENEFIT PROVISIONS

The actuarial valuation reflects the benefit and contribution provisions set forth in the North Dakota Century Code. These have not changed from the prior year's valuation. However, it is worth noting the effect of two pieces of 2009 legislation. First, legislation enacted in 2009 called for a one-time payment to TFFR retirees in December 2009. A payment of $4.4 million was made due to this legislation. Second, legislation enacted in 2009 increased the employer contribution rate from 8.25% to 8.75%, effective as of July 1, 2010. Both of these changes were recognized in last year's valuation.

ASSUMPTIONS AND METHODS

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. On January 21, 2010, the Board adopted new

Board of Trustees
October 25, 2010
Page 3

assumptions, effective for this valuation. These new assumptions were recommended by the actuary, following an analysis of plan experience for the five-year period ending June 30, 2009. We believe the assumptions are internally consistent and are reasonable, based on the actual experience of TFFR. These actuarial assumptions and methods comply with the parameters for disclosure in GASB 25.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates, and funding periods.

DATA

Member data for retired, active, and inactive participants was supplied as of July 1, 2010, by the staff of the Retirement and Investment Office (RIO). We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data. Asset information was also supplied by the RIO staff.

CAFR SCHEDULES

The undersigned provided the information used to prepare all of the schedules and exhibits in this section except for the Schedule of Retirees and Beneficiaries, which was prepared by the Retirement and Investment Office staff.

We also provided the information shown on the Schedule of Funding Progress and the Schedule of Employer Contributions in the Financial Section.

Sincerely,
Gabriel, Roeder, Smith & Co.

J. Christian Conradi

J. Christian Conradi, ASA, MAAA, EA
Senior Consultant

Leslie L. Thompson

Leslie L. Thompson, FSA, MAAA, EA
Senior Consultant

Daniel J. White

Daniel J. White, FSA, MAAA, EA
Senior Consultant

J:\2039\2010\Val\CAFR Letter 2010.docx

Gabriel Roeder Smith & Company

SUMMARY OF ACTUARIAL VALUATION RESULTS

Valuation Date	7/1/2010	7/1/2009	
Fiscal Year Ending	6/30/2011	6/30/2010	6/30/2010
		After Assumption Changes	From 2009 Valuation
Membership			
• Number of			
- Active Members	9,907	9,707	9,707
- Retirees and Beneficiaries	6,672	6,466	6,466
- Inactive, Vested	1,472	1,490	1,490
- Inactive, Nonvested	331	292	292
- Total	18,382	17,955	17,955
• Payroll	$465.0 million	$440.0 million	$440.0 million
Statutory contribution rates			
• Employer	8.75%	8.25%	8.25%
• Member	7.75%	7.75%	7.75%
Assets			
• Market value	$1,437.9 million	$1,309.7 million	$1,309.7 million
• Actuarial value	1,842.0 million	1,900.3 million	1,900.3 million
• Return on market value	13.9%	-27.0%	-27.0%
• Return on actuarial value	-0.5%	1.7%	1.7%
• Ratio - actuarial value to market value	128.1%	145.1%	145.1%
• External cash flow %	-3.5%	-3.3%	-3.3%
Actuarial Information			
• Normal cost %	10.57%	10.57%	10.26%
• Unfunded actuarial accrued liability (UAAL)	$795.2 million	$610.6 million	$545.6 million
• Funded ratio	69.8%	75.7%	77.7%
• Funding period	Infinite	Infinite	Infinite
GASB 25 ARC			
• Amortization period	30 years	30 years	30 years
• Amortization method	Level % -3.25%	Level % -3.25%	Level % -2.00%
• Calculated contribution rate	12.79%	10.92%	10.78%
• Margin	-4.04%	-2.67%	-2.53%
Gains/(Losses)			
• Asset experience	$(159.5) million	$(118.3) million	$(118.3) million
• Liability experience	(6.1) million	1.8 million	1.8 million
• Benefit changes	0.0 million	(4.4) million	(4.4) million
• Assumption/method changes	(71.9) million	(65.0) million	0.0 million
• Total	$(237.5) million	$(185.9) million	$(120.9) million

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

ACTUARIAL ASSUMPTIONS

1. Investment Return Rate — 8.00% per annum, compounded annually, equal to an assumed 3.00% inflation rate plus a 5.65% real rate of return, less 0.65% for expected investment and administrative expenses. (Adopted July 1, 1990; allocation among inflation, real rate of return, and expenses modified July 1, 2010.)

2. Mortality Rates

   a. Post Termination Non-Disabled: GRS tables as shown. 80% of GRS Table 378; 75% of GRS Table 379. (Adopted July 1, 2010.)

   b. Post Retirement Disabled: RP-2000 Disabled-Life tables for males and females multiplied by 80% and 95% respectively. (Adopted July 1, 2010.)

   c. Active Mortality: Nondisabled post-termination mortality rates multiplied by 60% for males and 40% for females. (Adopted July 1, 2010.)

Number of Deaths per 100				
	Male Annuitants		Female Annuitants	
Age	Nondisabled	Disabled	Nondisabled	Disabled
20	0.044	1.806	0.023	0.708
25	0.057	1.806	0.023	0.708
30	0.069	1.806	0.028	0.708
35	0.073	1.806	0.039	0.708
40	0.092	1.806	0.057	0.708
45	0.136	1.806	0.078	0.708
50	0.222	2.318	0.115	1.096
55	0.381	2.835	0.283	1.572
60	0.358	3.363	0.354	2.075
65	0.457	4.014	0.327	2.662
70	1.198	5.007	0.672	3.575

Summary of Actuarial Assumptions and Methods (continued)

3. Retirement Rates — The following rates of retirement are assumed for members eligible to retire. (Adopted July 1, 2010.)

Retirements Per 100 Members				
	Unreduced Retirement*		Reduced Retirement	
Age	Male	Female	Male	Female
50	25.00%	15.00%		
51	25.00%	15.50%		
52	25.00%	16.00%		
53	25.00%	16.50%		
54	25.00%	17.00%		
55	20.00%	17.50%	1.50%	1.50%
56	20.00%	18.00%	1.50%	1.50%
57	20.00%	18.50%	1.50%	1.50%
58	20.00%	19.00%	1.50%	1.50%
59	20.00%	19.50%	1.50%	1.50%
60	20.00%	20.00%	4.00%	3.00%
61	20.00%	20.00%	4.00%	3.00%
62	45.00%	35.00%	9.00%	8.00%
63	35.00%	30.00%	7.00%	12.00%
64	35.00%	30.00%	10.00%	15.00%
65	40.00%	30.00%		
66	30.00%	30.00%		
67	30.00%	30.00%		
68	30.00%	30.00%		
69	30.00%	30.00%		
70	25.00%	25.00%		
71	25.00%	25.00%		
72	25.00%	25.00%		
73	25.00%	25.00%		
74	25.00%	25.00%		
75	100.00%	100.00%		

* If a member reaches eligibility for unreduced retirement before age 65 under the rule of 85 (under Tier 1) or the Rule of 90 (under Tier 2), 10% is added to the rate just at the age the member becomes first eligible for an unreduced retirement benefit.

Summary of Actuarial Assumptions and Methods (continued)

4. Disability Rates — Shown below for selected ages. (Adopted July 1, 2010.)

Disabilities per 100 Members	
Age	Number
20	0.011
25	0.011
30	0.011
35	0.011
40	0.033
45	0.055
50	0.088
55	0.154
60	0.297

5. Termination Rates — Termination rates based on service, for causes other than death, disability, or retirement. (Adopted July 1, 2010.)

Termination Rates		
Service	Male	Female
0	33.00%	30.00%
1	15.00%	15.00%
2	12.00%	10.00%
3	9.00%	8.50%
4	8.00%	7.00%
5	7.00%	6.00%
6	6.00%	5.00%
7	5.00%	4.50%
8	4.00%	4.25%
9	3.75%	4.00%
10	3.50%	3.50%
11	3.25%	3.25%
12	3.00%	3.00%
13	2.75%	2.75%
14	2.50%	2.50%
15-19	1.25%	2.00%
20-24	1.25%	1.50%
25-28	1.25%	0.75%
29 and over	0.00%	0.00%

6. Salary Increase Rates — Inflation rate of 3.00% plus productivity increase rate of 1.50%, plus step-rate/promotional increase as shown below. (Adopted July 1, 2010.)

Summary of Actuarial Assumptions and Methods (continued)

Years of Service	Annual Step-Rate Promotional Component	Annual Total Salary Increase
0	10.25%	14.75%
1	3.50%	8.00%
2	3.25%	7.75%
3	3.00%	7.50%
4	2.75%	7.25%
5	2.50%	7.00%
6	2.25%	6.75%
7	2.00%	6.50%
8	1.75%	6.25%
9	1.75%	6.25%
10	1.50%	6.00%
11	1.50%	6.00%
12	1.25%	5.75%
13	1.25%	5.75%
14	1.00%	5.50%
15	1.00%	5.50%
16	0.75%	5.25%
17	0.75%	5.25%
18	0.75%	5.25%
19	0.50%	5.00%
20	0.50%	5.00%
21	0.50%	5.00%
22	0.50%	5.00%
23	0.25%	4.75%
24	0.25%	4.75%
25+	0.00%	4.50%

7. Payroll Growth Rate — 3.25% per annum. This assumption does not include any allowance for future increase in the number of members. (Adopted July 1, 2010.)

8. Percent Married — For valuation purposes, 75% of members are assumed to be married. Male members are assumed to be three years older than their spouses, and female members are assumed to be three years younger than their spouses. (Adopted July 1, 1992.)

9. Percent Electing a Deferred Termination Benefit — Terminating members are assumed to elect the most valuable benefit at the time of termination. Termination benefits are assumed to commence at the first age at which unreduced benefits are available. (Adopted July 1, 1990.)

10. Provision for Expense — The assumed investment return rate represents the anticipated net rate of return after payment of all administrative expenses and investment expenses. These expenses are expected to reduce the gross investment return by 0.65%. (Adopted July 1, 2010.)

Summary of Actuarial Assumptions and Methods (continued)

ASSET VALUATION METHOD

The actuarial value of assets is based on the market value of assets with a five-year phase-in of actual investment return in excess of (or less than) expected investment income. Expected investment income is determined using the assumed investment return rate and the market value of assets (adjusted for receipts and disbursements during the year). The actual investment return for this purpose is determined net of all investment and administrative expenses.

ACTUARIAL COST METHOD

The GASB Annual Required Contribution (ARC) is determined using the Entry Age Normal actuarial cost method. This method assigns the plan's total actuarial present value of future benefits to various periods. The actuarial accrued liability is assigned to years prior to the valuation, and the normal cost is assigned to the year following the valuation. The remaining costs are assigned to future years.

The normal cost rate is determined as a level percentage of payroll for a hypothetical group of new entrants, based on the characteristics (age at hire, sex, pay at hire) of actual new members joining TFFR during FY 2005 through FY 2009. The normal cost is determined on an aggregate basis for this group of hypothetical new entrants by dividing the total actuarial present value of future benefits by the actuarial present value of their future pay. Entry age is determined as the age at member's enrollment in TFFR. In the calculation of the normal cost, the benefit provisions applicable to future Tier 2 members were used. The actuarial accrued liability is the difference between the total present value of future benefits and the actuarial present value of future normal costs. The unfunded actuarial accrued liability (UAAL) is the excess of the actuarial accrued liability over the actuarial value of assets.

AMORTIZATION PERIOD AND METHOD

The GASB Annual Required Contribution (ARC) is determined as the sum of (a) the employer normal cost rate, and (b) a level percentage of payroll required to amortize the unfunded actuarial accrued liability over 30 years. If the calculated ARC is less than the 8.75% statutory employer contribution rate, the 8.75% rate will be treated as the ARC. The 30-year period is an open period, and does not decrease in subsequent valuations.

SCHEDULE OF ACTIVE MEMBERS

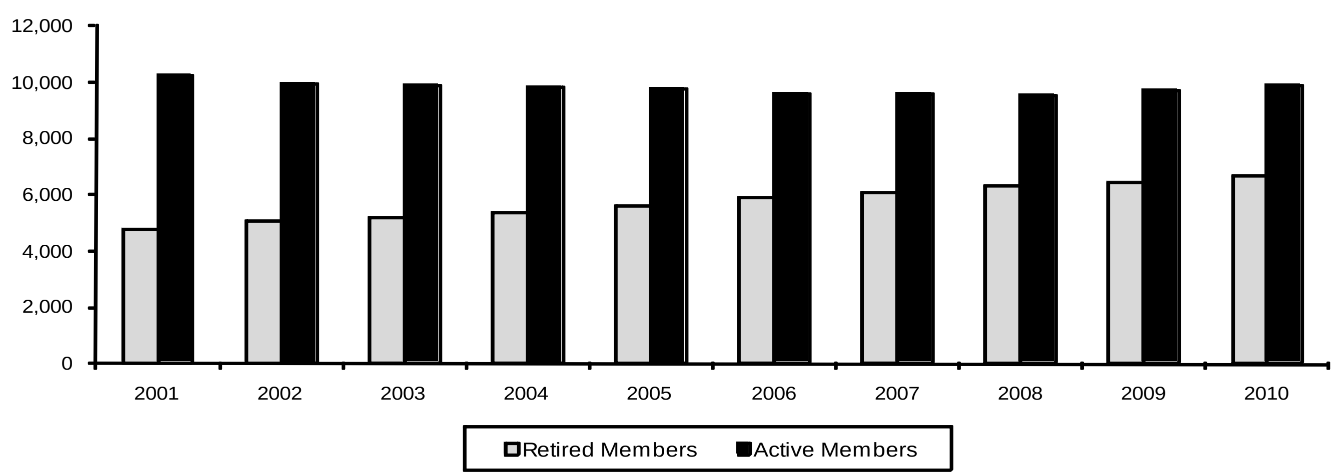
Valuation Year	Active Members Number	Active Members Percent Increase	Covered Payroll Amount in $ Millions	Covered Payroll Percent Increase	Average Salary $ Amount	Average Salary Percent Increase	Average Age	Average Service
2001	10,239	2.1	342.2	5.9	33,421	3.7	44.4	14.4
2002	9,931	(3.0)	348.1	1.7	35,052	4.9	44.5	14.4
2003	9,916	(0.2)	367.9	5.7	37,105	5.9	44.8	14.6
2004	9,826	(0.9)	376.5	2.3	38,321	3.3	44.9	14.7
2005	9,801	(0.3)	386.6	2.7	39,447	2.9	44.9	14.7
2006	9,585	(2.2)	390.1	0.9	40,703	3.2	44.8	14.6
2007	9,599	0.1	401.3	2.9	41,810	2.7	44.7	14.5
2008	9,561	(0.4)	417.7	4.1	43,684	4.5	44.6	14.4
2009	9,707	1.5	440.0	5.3	45,327	3.8	44.5	14.3
2010	9,907	2.1	465.0	5.7	46,937	3.6	44.2	14.0

SCHEDULE OF RETIREES AND BENEFICIARIES

Valuation Year	Number Added During Year	Annual Benefits Added (in mils)	Number Removed During Year	Annual Benefits Removed (in mils)	Number Receiving End of Year	Average Annual Benefit	Annual Pension Benefits (in mils)	Percent Increase In Annual Benefits
2001	162		212		4,777	$ 11,940	$57.7	7.6%
2002	505		228		5,054	13,824	67.5	17.0
2003	312		189		5,177	14,436	72.0	6.7
2004	385	$ 8.3	189	$ 1.9	5,373	15,060	77.2	7.2
2005	385	8.9	172	1.8	5,586	15,708	84.5	9.5
2006	501	12.3	194	2.0	5,893	16,596	91.8	8.6
2007	380	8.8	196	1.9	6,077	17,208	99.7	8.6
2008	406	9.4	166	1.9	6,317	17,724	106.5	6.8
2009	346	7.9	197	2.5	6,466	18,168	114.0	7.0
2010	406	10.1	200	2.0	6,672	18,768	124.5	9.2

Detail on annual benefits added and removed is not available prior to 2004.

ACTIVE MEMBERS VS RETIRED MEMBERS
10-YEAR SUMMARY



ANALYSIS OF CHANGE IN GASB ANNUAL REQUIRED CONTRIBUTION (ARC)

	7/1/2010	7/1/2009
Prior valuation	10.78 %	9.24 %
Increases/(decreases) due to:		
Open amortization	(0.13)%	(0.09)%
Growth in covered payroll	(0.18)%	(0.21)%
Employer contributions received at 8.25%; rather than 10.78% or 9.24%	0.11 %	0.01 %
Liability experience	0.07 %	(0.03)%
Investment experience	2.00 %	1.79 %
Assumption changes	0.14 %	0.00 %
Change in amortization method	0.00 %	0.00 %
Legislative changes	0.00 %	0.07 %
Total	2.01 %	1.54 %
Current valuation	12.79 %	10.78 %
Statutory employer contribution rate*	8.75 %	8.25 %
Margin available	(4.04)%	(2.53)%

* Effective 7/1/10, the employer contribution rate increases to 8.75%.

ANALYSIS OF CHANGE IN UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)

	Unfunded Actuarial Accrued Liability ($ in millions)	
	7/1/2010	7/1/2009
Prior valuation	$ 545.6	$ 421.2
Increases/(decreases) due to:		
Amortization payments	$ 12.1	$ 3.5
Investment experience	159.5	118.3
Assumption changes	71.9	-
Liability experience	6.1	(1.8)
Change in actuarial methods	-	-
Legislative changes	-	4.4
Total	$ 249.6	$ 124.4
Current valuation	$ 795.2	$ 545.6

SOLVENCY TEST

	Actuarial Accrued Liability (AAL) (in millions)				Portion of AAL Covered by Valuation Assets		
Valuation Year	Active Member Contributions	Retirees and Beneficiaries	Active/Inactive Members (Employer Financed)	Actuarial Value of Assets ($ in millions)	Active Member Contributions	Retirees and Beneficiaries	Active/Inactive Members (Employer Financed)
2001	$413.9	$ 551.6	$ 502.2	$1,414.7	100.0%	100.0%	89.4%
2002	421.5	643.9	510.3	1,443.5	100.0	100.0	74.1
2003	451.4	689.4	549.5	1,438.4	100.0	100.0	54.2
2004	475.3	755.2	569.9	1,445.6	100.0	100.0	37.8
2005	498.2	820.8	646.2	1,469.7	100.0	100.0	23.3
2006	504.4	929.1	640.3	1,564.0	100.0	100.0	20.4
2007	526.9	1,000.1	682.3	1,750.1	100.0	100.0	32.7
2008	547.3	1,074.8	708.6	1,909.5	100.0	100.0	40.6
2009	576.8	1,134.2	734.8	1,900.3	100.0	100.0	25.8
2010	600.4	1,246.1	790.7	1,842.0	100.0	99.6	0.0

SUMMARY OF BENEFIT PROVISIONS

1. Effective Date: July 1, 1971.

2. Plan Year: Twelve-month period ending June 30th.

3. Administration: The Teachers' Fund for Retirement (TFFR) is administered by a Board of Trustees. A separate State Investment Board is responsible for the investment of the trust assets, although the TFFR Board establishes the asset allocation policy. The Retirement and Investment Office is the administrative agency for TFFR.

4. Type of Plan: TFFR is a qualified governmental defined benefit retirement plan. For Governmental Accounting Standards Board purposes, it is a cost-sharing multiple-employer public employee retirement system.

5. Eligibility: All certified teachers of any public school in North Dakota participate in TFFR. This includes teachers, supervisors, principals, administrators, etc. Non-certified employees such as teacher's aides, janitors, secretaries, drivers, etc. are not allowed to participate in TFFR. Eligible employees become members at their date of employment.

6. Employee Contributions: All active members contribute 7.75% of their salary per year. The employer may "pick up" the member's contributions under the provisions of Internal Revenue Code Section 414(h).

7. Salary: The member's total earnings are used for salary purposes, including overtime, etc., and including nontaxable wages under a Section 125 plan, but excluding certain extraordinary compensation, such as fringe benefits or unused sick and vacation leave.

8. Employer Contributions: The district or other employer which employs a member contributes a percentage of the member's salary. This percentage consists of a base percentage of 7.75%, plus, since July 1, 2008, additions as shown below.

Effective Date	Addition to 7.75% Base Rate	Employer Contribution Rate
July 1, 2008	0.50%	8.25%
July 1, 2010	1.00%	8.75%

However, the additions are subject to a "sunset" provision, so the contribution rate will revert to 7.75% once the funded ratio reaches 90% measured using the actuarial value of assets. The contribution rate will not automatically increase back to 8.75% if the funded ratio falls back below 90%.

9. Service: Employees receive credit for service while a member. A member may also purchase credit for certain periods, such as time spent teaching at a public school in another state, by paying the actuarially determined cost of the additional service. Special rules and limits govern the purchase of additional service.

10. Tiers: Members who join TFFR by June 30, 2008, are in Tier 1, while members who join later are in Tier 2. If a Tier 1 member terminates, takes a refund, and later rejoins TFFR after June 30, 2008, that member will be in Tier 2 after being reemployed.

Summary of Benefit Provisions (continued)

11. Final Average Compensation (FAC): The average of the member's highest three (Tier 1 members) or five (Tier 2 members) plan year salaries. Monthly benefits are based on one-twelfth of this amount.

12. Normal Retirement

    a. Eligibility:
       - Tier 1 members may retire upon Normal Retirement on or after age 65 with credit for 3 years of service, or if earlier, when the sum of the member's age and service is at least 85.
       - Tier 2 members may retire upon Normal Retirement on or after age 65 with credit for 5 years of service, or if earlier, when the sum of the member's age and service is at least 90.

    b. Monthly Benefit: 2.00% of FAC (monthly) times years of service.

    c. Payment Form: Benefits are paid as a monthly life annuity, with a guarantee that if the payments made do not exceed the member's assessments plus interest, determined as of the date of retirement, the balance will be paid in a lump-sum to the member's beneficiary. Optional forms of payment are available; see below.

13. Early Retirement

    a. Eligibility: Tier 1 members may retire early after reaching age 55 with credit for three years of service, while Tier 2 members may retire early after reaching age 55 with credit for five years of service.

    b. Monthly Benefit: 2.00% of FAC (monthly) times years of service, multiplied by a factor which reduces the benefit 6% for each year from the earlier of (i) age 65, or (ii) the age at which current service plus age equals 85 (Tier 1 members) or 90 (Tier 2 members).

    c. Payment Form: Same as for Normal Retirement above.

14. Disability Retirement

    a. Eligibility: A member is eligible provided he/she has credit for at least one year of service.

    b. Monthly Benefit: 2.00% of FAC (monthly) times years of service with a minimum 20 years of service.

    c. Payment Form: The disability benefit commences immediately upon the member's retirement. Benefits cease upon recovery or reemployment. Disability benefits are payable as a monthly life annuity with a guarantee that, at the member's death, the sum of the member's contributions plus interest as of the date of retirement that is in excess of the sum of payments already received will be paid in a lump-sum to the member's beneficiary.

    d. All alternative forms of payment other than option 5 and the partial lump-sum option are also permitted in the case of disability retirement. Disability benefits are converted to normal retirement benefits when the member reaches normal retirement age or age 65, whichever is earlier.

Summary of Benefit Provisions (continued)

15. Deferred Termination Benefit

    a. Eligibility: A Tier 1 member with at least three years of service, or a Tier 2 member with at least five years of service, who does not withdraw his/her contributions from the fund, is eligible for a deferred termination benefit.

    b. Monthly Benefit: 2.00% of FAC (monthly) times years of service. Both FAC and service are determined at the time the member leaves active employment. Benefits may commence unreduced at age 65 or when the member’s age and service is 85 (Tier 1 members) or 90 (Tier 2 members). Reduced benefits may commence at or after age 55 if the member is not eligible for an unreduced benefit.

    c. Payment Form: The form of payment is the same as for Normal Retirement above.

    d. Death Benefit: A member who dies after leaving active service but before retiring is entitled to receive a benefit as described below in 17b.

16. Withdrawal (Refund) Benefit

    a. Eligibility: Tier 1 members leaving covered employment with less than three years of service, and Tier 2 members leaving covered employment with less than five years of service, are eligible. Optionally, vested members may withdraw their contributions plus interest in lieu of the deferred benefits otherwise due.

    b. Benefit: The member who withdraws receives a lump-sum payment of his/her employee contributions, plus the interest credited on these contributions. Interest is credited at 6% per year (0.5% per month).

17. Death Benefit

    a. Eligibility: Death must have occurred while an active or an inactive, non-retired member.

    b. Benefit: Upon the death of a nonvested member, a refund of the member's contributions and interest is paid. Upon the death of a vested member, the beneficiary may elect (i) the refund benefit above, (ii) payment for 60 months of the normal retirement benefit, based on FAC and service determined at the date of death, or (iii) a life annuity of the normal retirement benefit, determined under Option One below, based on FAC and service as of the date of death, but without applying any reduction for the member's age at death. In determining the reduction for Option One, members not eligible for normal retirement benefits use the Fund's option tables for disabled members.

18. Optional Forms of Payment: There are optional forms of payment available on an actuarially equivalent basis, as follows:

    a. Option 1 - A life annuity payable while either the participant or his beneficiary is alive, "popping-up" to the original life annuity if the beneficiary predeceases the member.

    b. Option 2 - A life annuity payable to the member while both the member and beneficiary are alive, reducing to 50% of this amount if the member predeceases the beneficiary, and "popping-up" to the original life annuity if the beneficiary predeceases the member.

Summary of Benefit Provisions (continued)

c. Option 3a - A life annuity payable to the member, with a guarantee that, should the member die prior to receiving 60 payments (five years), the payments will be continued to a beneficiary for the balance of the five-year period. (This option has been replaced by Option 3b. It is not available to employees who retire on or after August 1, 2003. Retirees who elected this option prior to that date are unaffected.)

d. Option 3b - A life annuity payable to the member, with a guarantee that, should the member die prior to receiving 240 payments (twenty years), the payments will be continued to a beneficiary for the balance of the twenty-year period. (This option replaced Option 3a effective August 1, 2003.)

e. Option 4 - A life annuity payable to the member, with a guarantee that, should the member die prior to receiving 120 payments (ten years), the payments will be continued to a beneficiary for the balance of the ten-year period.

f. Option 5 - A nonlevel annuity payable to the member, designed to provide a level total income when combined with the member's Social Security benefit. This option is not available to disabled retirees.

   In addition, members may elect a partial lump-sum option (PLSO) at retirement. Under this option, a member receives an immediate lump-sum equal to 12 times the monthly life annuity benefit and a reduced annuity. The reduction is determined actuarially. The member can then elect to receive the annuity benefit in one of the other optional forms, except that members who receive a PLSO may not elect Option 5 – the level income option. The PLSO is not available to disabled retirees or retirees who are not eligible for an unreduced retirement benefit.

   Actuarial equivalence is based on tables adopted by the Board of Trustees.

19. Cost-of-living Increase: From time to time, TFFR has been amended to grant certain post-retirement benefit increases. However, TFFR has no automatic cost-of-living increase features.

SUMMARY OF PLAN CHANGES

1991 Legislative Session:

1. Benefit multiplier increased from 1.275% to 1.39% for all future retirees.

2. Provide a post-retirement benefit increase for all annuitants receiving a monthly benefit on June 30, 1991. The monthly increase is the greater of a 10% increase or a level increase based on years of service and retirement date:

   a. $3 per year of service for retirements before 1980.
   b. $2 per year of service for retirements between 1980 and 1983.
   c. $1 per year of service for retirements from 1984 through June 30, 1991.

   Minimum increase is $5 per month. Maximum increase is $75 per month.

1993 Legislative Session:

1. Benefit multiplier increased from 1.39% to 1.55% for all future retirees.

2. Provide a post-retirement benefit increase for all annuitants receiving a monthly benefit on June 30, 1993. The monthly increase is the greater of a 10% increase or a level increase based on years of service and retirement date:

   a. $3 per year of service for retirements before 1980.
   b. $2.50 per year of service for retirements between 1980 and 1983.
   c. $1 per year of service for retirements from 1984 through June 30, 1993.

   Minimum increase is $5 per month. Maximum increase is $100 per month.

3. Minimum retirement benefit increased to $10 times years of service up to 25, plus $15 times years of service greater than 25. (Previously was $6 up to 25 years of service plus $7.50 over 25 years of service.)

4. Disability benefit changed to 1.55% of FAC times years of service using a minimum of 20 years of service.

1995 Legislative Session:

There were no material changes made during the 1995 legislative session.

1997 Legislative Session:

1. Benefit multiplier increased from 1.55% to 1.75% for all future retirees.

2. Member assessment rate and employer contribution rate increased from 6.75% to 7.75%.

3. A $30.00/month benefit improvement was granted to all retirees and beneficiaries.

Summary of Plan Changes (continued)

1999 Legislative Session:

1. Active members will now be fully vested after three years (rather than five years) of service.

2. Early retirement benefits will be reduced 6% per year from the earlier of (i) age 65, or (ii) the date as of which age plus service equals 85 (rather than from age 65 in all cases).

3. An ad hoc COLA was provided for all retirees and beneficiaries. This increase is equal to an additional $2 per month for each year of service plus $1 per month for each year since the member's retirement.

4. The formula multiplier was increased from 1.75% to 1.88% effective July 1, 1999.

2001 Legislative Session:

1. An ad hoc COLA was provided for all retirees and beneficiaries. The ad hoc COLA increase is equal to an additional $2.00 per month for each year of service plus $1.00 per month for each year since the member's retirement. Retirees and beneficiaries will also receive two additional increases equal to 0.75% times the monthly benefit, payable July 1, 2001 and July 1, 2002. The two 0.75% increases are conditional. If the actuarial margin is a shortfall, i.e., is negative, by 60 basis points or more, or if the margin has been negative by 30 or more basis points for two years, the Board could elect to suspend the increase.

2. The formula multiplier was increased from 1.88% to 2.00% effective July 1, 2001.

2003 Legislative Session:

1. Partial lump-sum option adopted, equal to twelve times the monthly life annuity benefit. Not available if level-income option is elected. Not available for reduced retirement or disability retirement.

2. Five-year certain and life option replaced with 20-year certain and life. This does not impact retirees who retired under the five-year certain and life option.

3. Employer service purchase authorized.

4. Active members of the Department of Public Instruction are permitted to make a one-time irrevocable election to transfer to the North Dakota Public Employees Retirement System in FY2004. Both assets and liabilities for all TFFR service will be transferred for electing employees. Transferred assets will be based on the actuarial present value of the member's accrued TFFR benefit, or the member's contribution account balance if larger.

2005 Legislative Session:

There were no material changes made during the 2005 legislative session.

Summary of Plan Changes (continued)

2007 Legislative Session:

1. For active members hired on or after July 1, 2008 (called Tier 2 members):

   a. Members will be eligible for an unreduced retirement benefit when they reach age 65 with at least five years of service (rather than three years of service); or if earlier, when the sum of the member's age and service is at least 90 (rather than 85).
   b. Members will be eligible for a reduced (early) retirement benefit when they reach age 55 with five years of service, rather than three years of service.
   c. Members will be fully vested after five years of service (rather than three years of service).
   d. The Final Average Compensation for Tier 2 members is the average of the member's highest five plan year salaries, rather than the average of the three highest salaries.

2. The employer contribution rate increases from 7.75% to 8.25% effective July 1, 2008, but this rate will reset to 7.75% once the Fund reaches a 90% funded ratio, measured using the actuarial value of asset. (If the funded ratio later falls below 90% again, the contribution rate will not automatically return to 8.25%.)

3. Employer contributions are required on the salary of reemployed retirees.

4. Active members of the Department of Career and Technical Education are permitted to make a one-time irrevocable election to transfer to the North Dakota Public Employees Retirement System in FY 2008. Both assets and liabilities for all TFFR service will be transferred for electing employees. Transferred assets will be the actuarial present value of the member's accrued TFFR benefit, or the member's contribution account balance, if larger.

2009 Legislative Session:

1. An individual who retired before January 1, 2009, and is receiving monthly benefits is entitled to receive a supplemental payment from the fund. The supplemental payment is equal to an amount determined by taking twenty dollars multiplied by the member's number of years of service credit plus fifteen dollars multiplied by the number of years since the member's retirement as of January 1, 2009. The supplemental payment may not exceed the greater of 10% of the member's annual annuity or $750.00. TFFR will make the supplemental payment in December 2009.

2. The employer contribution rate increases from 8.25% to 8.75% effective July 1, 2010, but this rate will be reset to 7.75% once the Fund reaches a 90% funded ratio, measured using the actuarial value of assets. (If the funded ratio later falls below 90% again, the contribution rate will not automatically return to 8.75%.)

This page intentionally blank.

STATISTICAL SECTION

This part of the Retirement and Investment Office's (RIO) comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about RIO's overall financial health.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CHANGES IN NET ASSETS
PENSION TRUST FUND

ADDITIONS:

Fiscal Year	Member Contributions	Employer Contributions	Employer Contributions as a Percentage of Annual Covered Payroll	Investment and Other Income	Purchased Service Credit	Total Additions
2001	$ 26,289,672	$ 26,289,206	7.75	$ (107,137,559)	$ 1,942,467	$ (52,616,214)
2002	27,244,008	27,243,542	7.75	(110,415,690)	1,927,764	(54,000,376)
2003	28,851,110	28,850,725	7.75	24,501,262	2,507,168	84,710,265
2004	29,635,970	29,635,584	7.75	220,243,131	4,383,456	283,898,141
2005	30,388,650	30,388,265	7.75	180,763,780	3,292,441	244,833,136
2006	31,171,156	31,170,851	7.75	220,713,886	3,225,589	286,281,482
2007	31,865,772	31,865,466	7.75	346,767,841	2,629,006	413,128,085
2008	33,237,677	33,683,550	7.75	(140,625,425)	3,636,528	(70,067,670)
2009	34,712,846	37,487,655	8.25	(492,738,080)	2,176,734	(418,360,845)
2010	36,848,481	39,836,646	8.25	179,066,695	1,413,481	257,165,303

DEDUCTIONS:

Fiscal Year	Benefits Paid to Participants	Refunds	Administrative Charges	Total Deductions	Change in Net Assets
2001	$ 57,740,914	$ 3,127,841	$ 1,099,331	$ 61,968,086	$ (115,968,462)
2002	67,482,482	2,743,408	1,066,309	71,292,199	13,418,066
2003	72,044,977	1,729,764	1,056,611	74,831,352	209,066,789
2004	77,153,054	5,800,100	1,513,788	84,466,942	160,366,194
2005	84,498,130	2,733,407	2,086,849	89,318,386	196,963,096
2006	91,818,092	2,697,308	1,620,623	96,136,023	316,992,062
2007	99,737,905	3,328,931	1,592,060	104,658,896	(174,726,566)
2008	106,456,334	5,500,476	1,639,521	113,596,331	(183,664,001)
2009	113,966,079	2,362,251	1,707,506	118,035,836	(536,396,681)
2010	124,472,154	2,557,240	1,902,796	128,932,190	128,233,113

BENEFIT AND REFUND DEDUCTIONS BY TYPE

	Annuity Payments					Refunds			
Fiscal Year	Service Retirements	PLSO Distributions	Disability Retirements	Beneficiaries	Total Annuity Payments	Separation	Death	Total Refunds	Total Benefit Expenses
2001	$ 52,946,453	$ -	$ 781,619	$ 4,012,842	$ 57,740,914	$ 2,435,789	$ 307,619	$ 3,127,841	$ 60,484,322
2002	62,037,432	-	841,690	4,603,360	67,482,482	2,522,300	221,108	2,743,408	70,225,890
2003	66,307,771	-	885,718	4,851,489	72,044,977	1,660,035	69,729	1,729,764	73,774,741
2004	71,091,246	40,136	893,973	5,127,699	77,153,054	5,686,052	114,048	5,800,100	79,886,461
2005	77,838,622	372,761	890,333	5,396,414	84,498,130	2,581,112	152,295	2,733,407	87,195,438
2006	84,795,930	420,224	950,658	5,651,280	91,818,092	3,012,819	316,112	2,697,308	95,147,023
2007	91,808,846	953,744	1,142,896	5,832,419	99,737,905	5,139,164	361,312	3,328,931	103,066,836
2008	98,381,551	692,139	1,296,946	6,085,698	106,456,334	5,154,211	346,265	5,500,476	111,956,810
2009	105,258,155	895,742	1,419,050	6,393,132	113,966,079	2,131,709	230,542	2,362,251	116,328,330
2010	115,203,349	821,478	1,440,481	7,006,846	124,472,154	2,300,466	256,774	2,557,240	127,029,394

PRINCIPAL PARTICIPATING EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

	2010			2001		
Participating Employer	**Covered Employees**	**Rank**	**% of Total System**	**Covered Employees**	**Rank**	**% of Total System**
Bismarck Public Schools	1,054	1	9.77%	904	2	8.68%
Fargo Public Schools	1,037	2	9.61%	985	1	9.45%
Grand Forks Schools	774	3	7.17%	771	3	7.40%
Minot Schools	642	4	5.95%	621	4	5.96%
West Fargo Schools	611	5	5.66%	372	5	3.57%
Mandan Public Schools	297	6	2.75%	261	6	2.51%
Dickinson Schools	238	7	2.21%	244	7	2.34%
Jamestown Schools	220	8	2.04%	243	8	2.33%
Williston Schools	198	9	1.83%	190	9	1.82%
Devils Lake Schools	176	10	1.63%	165	10	1.58%
All Other [1]	6,600		61.15%	6,566		63.03%
Total (231 & 284 employers) [2]	10,793		100.00%	10,418		100.00%

[1] In 2010 "all other" consisted of:

Type	Number	Employees
School Districts	173	6,066
County Superintendents	11	11
Special Education Units	21	383
Vocational Centers	5	53
State Agencies/Institutions	4	77
Colleges/Universities	3	3
Other	4	7
Total	221	6,600

[2] This schedule includes all employees who earned service credit during the fiscal year. If an employee worked for more than one employer during the year, that employee is counted multiple times. The total differs from the actuary's total active members as the actuary's total only includes those employees who were active at the end of the fiscal year and only counts each individual one time.

SCHEDULE OF PARTICIPATING EMPLOYERS AT JUNE 30, 2010

School Districts

Adams
Alexander
Anamoose
Apple Creek Elementary
Ashley
Bakker Elementary
Baldwin Elementary
Barnes County North
Beach
Belcourt
Belfield
Beulah
Billings County School
Bismarck
Bottineau
Bowbells
Bowman
Burke Central
Carrington
Cavalier
Center-Stanton
Central Cass
Central Elementary
Central Valley
Dakota Prairie
Devils Lake
Dickinson
Divide
Drake
Drayton
Dunseith
Earl Elementary
Edgeley
Edinburg
Edmore
Eight Mile
Elgin/New Leipzig
Ellendale
Emerado Elementary
Enderlin Area School
Eureka Elementary
Fairmount
Fargo
Fessenden-Bowdon
Finley-Sharon
Flasher
Fordville Lankin
Fort Ransom Elementary
Fort Totten
Fort Yates
Gackle-Streeter
Garrison
Glen Ullin
Glenburn
Goodrich
Grafton
Grand Forks
Grenora
Griggs County Central
Halliday
Hankinson
Harvey
Hatton
Hazelton – Moffit
Hazen
Hebron
Hettinger
Hillsboro
Hope
Horse Creek Elementary
Jamestown
Kenmare
Kensal
Kidder County School Dist
Killdeer
Kindred
Kulm
Lakota
LaMoure
Langdon
Larimore
Leeds
Lewis and Clark
Lidgerwood
Linton
Lisbon
Litchville-Marion
Little Heart Elementary
Lone Tree Elementary
Maddock
Mandan
Mandaree
Manning Elementary
Manvel Elementary
Maple Valley
Mapleton Elementary
Marmarth Elementary
Max
Mayville – Portland CG
McClusky
McKenzie County School District
Medina
Menoken Elementary
Midkota
Midway
Milnor
Minnewauken
Minot
Minto
Mohall-Lansford-Sherwood
Montefiore
Montpelier
Mott-Regent
Mt. Pleasant
Munich
Napoleon
Naughton Rural
Nedrose
Nesson
New Elementary
New England
New Rockford-Sheyenne
New Salem-Almont
New Town
Newburg United
North Border School
North Central of Towner
North Sargent
North Star
Northern Cass
Northwood
Oakes
Oberon Elementary
Page
Park River
Parshall
Pingree – Buchanan
Pleasant Valley Elementary
Powers Lake
Richardton-Taylor
Richland
Robinson
Rolette
Roosevelt
Rugby
Sargent Central
Sawyer
Scranton
Selfridge
Solen – Cannonball
South Heart
South Prairie Elementary
St. John's School
St. Thomas
Stanley

SCHEDULE OF PARTICIPATING EMPLOYERS (Continued)

School Districts (cont.)
Starkweather
Sterling Elementary
Strasburg
Surrey
Sweet Briar Elementary
TGU
Thompson
Tioga
Turtle Lake – Mercer
Twin Buttes Elementary
Underwood
United
Valley
Valley City
Velva
Wahpeton
Warwick
Washburn
West Fargo
Westhope
White Shield
Williston
Wing
Wishek
Wolford
Wyndmere
Yellowstone
Zeeland

Total School Districts 183

County Superintendents
Billings County
Bottineau County
Logan County
McHenry County
McKenzie County
Morton County
Nelson County
Rolette County
Slope County
Ward County
Williams County

Total County Supts. 11

Special Education Units
Burleigh County Special Ed.
East Central Special Ed.
Great NW Education Co-Op GST Educational
James River Multidistrict Spec
Lake Region Special Ed.
Lonetree Special Ed.
Oliver – Mercer Special Ed.
Peace Garden Special Ed.
Roughrider Education Services
Pembina Special Ed.
Northern Plains Special Ed.
Rural Cass County Special Ed.
Sheyenne Valley Special Ed.
Souris Valley Special Ed.
South Central Prairie Special Ed.
South Valley Special Ed.
Southwest Special Ed.
Upper Valley Special Ed.
West River Student Services
Wil-Mac Special Ed.

Total Special Ed Units 21

Vocational Centers
N Central Area Career & Tech
North Valley Career & Tech Ctr
Roughrider Area Career & Tech
SE Region Career & Tech Ctr
Sheyenne Valley Area Voc Ctr

Total Vocational Centers 5

State Agencies & Institutions
ND Center for Distance Education
ND School for the Blind
ND School for the Deaf
ND Youth Correctional Cntr

Total State Agencies & Institutions 4

Colleges/Universities
Bismarck State College
ND State College of Science
ND State University

Total Colleges/Univ. 3

Other
ND High School Activities Assn.
ND Education Assn.
Roughrider Education Services
Valley City Teacher Center

Total Other 4

Total Employers 231

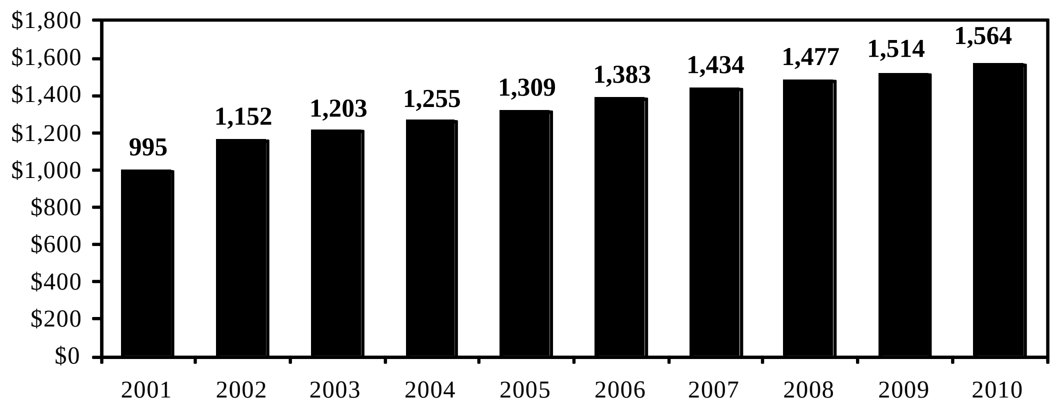
SCHEDULE OF RETIREES RESIDING IN NORTH DAKOTA BY COUNTY

County	Number	Average Benefit
Adams	18	$ 1,485
Barnes	131	1,636
Benson	37	1,711
Billings	4	1,265
Bottineau	104	1,451
Bowman	47	1,556
Burke	35	1,380
Burleigh	680	1,732
Cass	769	1,787
Cavalier	67	1,343
Dickey	62	1,142
Divide	26	1,895
Dunn	29	1,542
Eddy	34	1,364
Emmons	27	1,424
Foster	38	1,640
Golden Valley	16	1,273
Grand Forks	491	1,866
Grant	29	1,238
Griggs	29	$ 1,282
Hettinger	25	1,686
Kidder	30	1,426
LaMoure	47	1,504
Logan	22	1,489
McHenry	57	1,285
McIntosh	36	1,591
McKenzie	42	1,669
McLean	107	1,509
Mercer	73	1,734
Morton	219	1,710
Mountrail	80	1,337
Nelson	52	1,368
Oliver	17	1,809
Pembina	77	1,722
Pierce	59	1,511
Ramsey	129	1,422
Ransom	48	1,322
Renville	33	1,513
Richland	118	$ 1,626
Rolette	66	1,502
Sargent	31	1,168
Sheridan	17	1,450
Sioux	6	854
Slope	5	917
Stark	185	1,569
Steele	19	1,333
Stutsman	170	1,537
Towner	25	1,430
Traill	84	1,481
Walsh	130	1,566
Ward	502	1,651
Wells	57	1,510
Williams	173	1,600
Out-of-State	1,258	1,286
GRAND TOTALS:	6,672	$ 1,564

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Valuation Year			Years of Service								
		< 5	5 - 9	< 10	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	> 34	TOTAL
2001	Number of Retirees			146	404	416	545	1,012	1,174	1,080	4,777
	Average Monthly Benefit			235	401	455	696	942	1,311	1,442	995
	Average Years of Service			6	12	17	22	27	32	39	28
2002	Number of Retirees			171	412	417	567	1,066	1,332	1,089	5,054
	Average Monthly Benefit			318	354	519	804	1,080	1,513	1,651	1,152
	Average Years of Service			6	12	17	22	27	32	39	28
2003	Number of Retirees			187	420	409	585	1,076	1,409	1,091	5,177
	Average Monthly Benefit			259	391	533	826	1,140	1,592	1,716	1,203
	Average Years of Service			6	12	17	22	27	32	39	28
2004	Number of Retirees			206	426	399	597	1,130	1,513	1,102	5,373
	Average Monthly Benefit			264	398	545	879	1,212	1,657	1,751	1,255
	Average Years of Service			6	12	17	23	27	32	39	28
2005	Number of Retirees			230	431	403	615	1,182	1,612	1,113	5,586
	Average Monthly Benefit			272	377	577	887	1,281	1,722	1,833	1,309
	Average Years of Service			6	12	17	23	27	32	38	28
2006	Number of Retirees	74	195		436	417	627	1,254	1,750	1,140	5,893
	Average Monthly Benefit	208	302		399	607	938	1,351	1,804	1,938	1,383
	Average Years of Service	3	7		13	17	23	28	32	38	28
2007	Number of Retirees	77	206		437	418	643	1,310	1,843	1,143	6,077
	Average Monthly Benefit	207	299		404	634	982	1,415	1,850	2,012	1,434
	Average Years of Service	3	7		13	17	23	28	32	38	28
2008	Number of Retirees	83	222		451	421	670	1,363	1,938	1,169	6,317
	Average Monthly Benefit	220	310		410	656	1,025	1,471	1,897	2,066	1,477
	Average Years of Service	3	7		13	17	23	28	32	38	28
2009	Number of Retirees	90	243		450	420	692	1,410	2,008	1,153	6,466
	Average Monthly Benefit	216	308		417	670	1,074	1,515	1,942	2,120	1,514
	Average Final Average Salary	1,723	1,984		1,751	2,144	2,627	2,972	3,318	3,315	2,910
	Average Years of Service	3	7		13	17	23	28	32	38	28
2010	Number of Retirees	90	262		463	430	717	1,438	1,971	1,301	6,672
	Average Monthly Benefit	199	316		441	695	1,130	1,569	1,984	2,194	1,564
	Average Final Average Salary	1,695	2,034		1,901	2,253	2,761	3,100	3,403	3,427	3,018
	Average Years of Service	3	7		13	17	23	28	32	38	28

Additional detail for service < 10 years is not available prior to 2006. Average Final Average Salary detail not available prior to FY2009.



SCHEDULE OF RETIREES BY BENEFIT AMOUNT

Monthly Benefit Amount	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Under $200	199	193	185	177	171	157	146	134	119	154
200 to 399	466	475	470	461	460	465	466	473	481	646
400 to 599	500	517	539	552	590	619	637	671	705	927
600 to 799	446	469	506	527	563	593	637	663	715	538
800 to 999	410	417	419	420	423	432	434	439	458	490
1,000 to 1,199	527	529	538	540	542	528	517	513	503	470
1,200 to 1,399	514	505	498	493	492	478	458	450	431	417
1,400 to 1,599	556	550	534	519	498	474	455	432	423	349
1,600 to 1,799	550	525	510	483	449	422	392	358	327	229
1,800 to 1,999	526	513	499	474	438	382	348	297	261	173
2,000 & Over *								747	631	384
2,000 to 2,199	445	412	377	338	310	270	245			
2,200 to 2,399	381	353	329	287	258	227	202			
2,400 to 2,599	287	267	250	228	190	157	133			
2,600 to 2,799	237	208	185	160	150	119	105			
2,800 to 2,999	178	155	144	126	102	86	68			
3,000 & Over *			334	292	257	177	130			
3,000 to 3,199	124	110								
3,200 to 3,399	84	70								
3,400 to 3,599	72	61								
3,600 to 3,799	46	41								
3,800 to 3,999	34	24								
4,000 & Over	90	72								
TOTAL	6,672	6,466	6,317	6,077	5,893	5,586	5,373	5,177	5,054	4,777

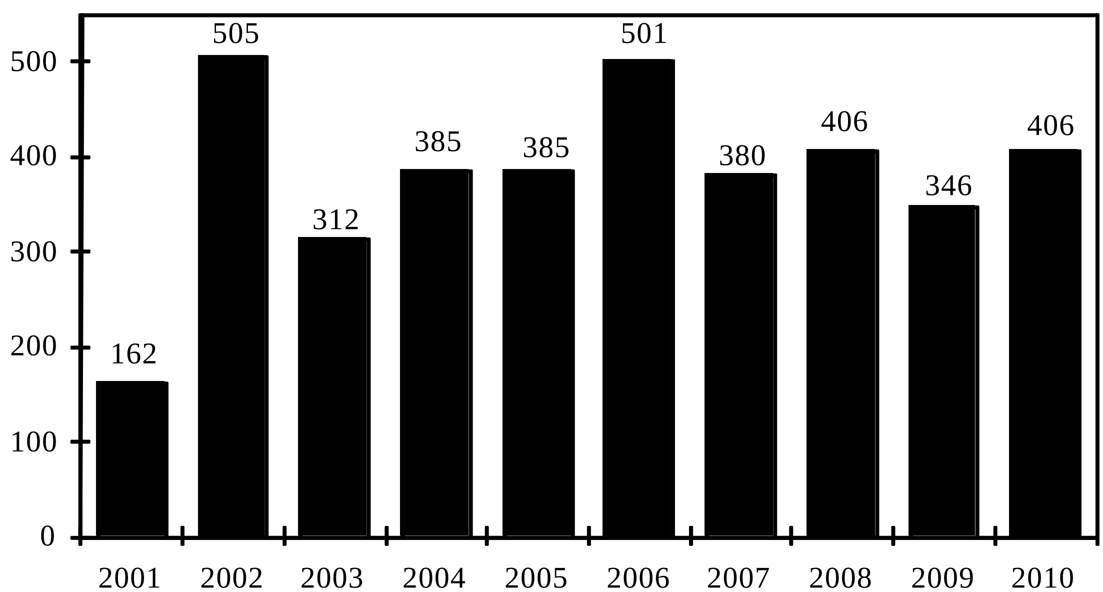
* Breakdown of data for monthly benefits > $2,000 is not available for years prior to 2004, and > $3,000 prior to 2009.

SCHEDULE OF RETIREES BY BENEFIT TYPE

Form of Payment	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Service:										
Straight Life	2,583	2,560	2,578	2,541	2,549	2,544	2,527	2,531	2,566	2,566
100% J&S	2,095	1,963	1,836	1,697	1,570	1,361	1,243	1,128	1,030	872
50% J&S	500	468	458	433	408	372	357	333	328	301
5 Years C&L	32	32	32	33	34	34	35	34	32	31
10 Years C&L	179	174	169	166	157	154	151	149	149	140
20 Years C&L	55	46	38	34	28	16	8	0	0	0
Level	585	590	584	580	567	539	495	458	422	354
Subtotal	6,029	5,833	5,695	5,484	5,313	5,020	4,816	4,633	4,527	4,264
Disability:										
Straight Life	88	85	81	73	66	61	59	57	55	50
100% J&S	11	13	12	12	11	9	10	11	10	10
50% J&S	7	6	5	4	4	5	6	9	8	7
5 Years C&L	2	2	2	2	2	2	2	2	2	2
10 Years C&L	2	1	1	1	1	1	1	1	1	1
20 Years C&L	1	1	1	1	1	1	1	0	0	0
Subtotal	111	108	102	93	85	79	79	80	76	70
Beneficiaries:										
Straight Life	522	513	506	482	475	466	457	442	439	431
5 Years C&L	6	6	9	11	8	9	9	6	2	2
10 Years C&L	3	5	5	7	12	12	12	16	10	10
20 Years C&L	1	1	0	0	0	0	0	0	0	0
Subtotal	532	525	520	500	495	487	478	464	451	443
TOTAL	6,672	6,466	6,317	6,077	5,893	5,586	5,373	5,177	5,054	4,777

SCHEDULE OF NEW RETIREES BY TYPE

Valuation Year	Retirement	Disability	Beneficiary	Total
2001	115	9	38	162
2002	456	10	39	505
2003	266	6	40	312
2004	342	5	38	385
2005	351	6	28	385
2006	466	8	27	501
2007	332	8	40	380
2008	357	10	39	406
2009	304	8	34	346
2010	366	8	32	406



PAYMENTS TO INVESTMENT CONSULTANTS
FOR FISCAL YEARS ENDED JUNE 30

PENSION POOL PARTICIPANTS

	2010	(restated) 2009	2008	2007	2006
INVESTMENT MANAGERS					
Domestic Large Cap Equity:					
AllianceBernstein Capital Management *	$ 252,829	$ 1,233	$ -	$ -	$ -
The Clifton Group *	263,156	84,121	-	-	-
Declaration Management & Research LLC *	1,104,813	-	-	-	-
Epoch Investment Partners	2,253,844	1,039,747	750,984	-	-
European Credit Management *	258,751	206,886	189,841	-	-
Los Angeles Capital Management *	616,788	448,835	627,332	694,224	745,621
LSV Asset Management	544,008	460,844	596,487	627,189	601,936
Mellon Capital Management	75,117	433,778	922,539	841,678	-
Northern Trust Global Investments *	-	53,277	(320)	456,072	177,332
Prudential Investment Management *	73,997	341,803	293,177	-	-
State Street Global Advisors *	1,826	42,965	144,955	572,824	24,122
Wells Capital Management Co. *	135,313	241,392	1,221,370	2,104,890	4,904
Westridge Capital Management, Inc.	-	298,304	584,925	568,689	543,316
Total Domestic Large Cap Equity	5,580,442	3,653,185	5,331,290	5,865,566	2,097,231
Domestic Small Cap Equity:					
Callan Associates Inc.	735,212	534,239	111,692	106,919	75,401
The Clifton Group *	307,599	72,907	-	-	-
Corsair Capital (reclassified from Alternatives 7/1/09) *	1,140,081				
SEI Investments Management Co. *	139,146	918,546	2,221,532	2,237,847	2,635,502
Total Domestic Small Cap Equity	2,322,038	1,525,692	2,333,224	2,344,766	2,710,903
International Equity:					
Bank of Ireland Asset Management	-	-	231,286	367,618	344,610
Capital Guardian Trust Company	278,328	409,573	721,012	734,011	662,525
The Clifton Group	86,789	93,396	-	-	-
Dimensional Fund Advisors	331,117	250,385	207,791	-	-
Lazard Asset Management	-	-	168,235	385,717	360,262
LSV Asset Management	335,924	370,918	789,271	813,989	711,900
State Street Global Advisors	257,184	250,514	377,186	373,900	291,655
Wellington Trust Company, NA	426,370	331,897	490,485	466,239	442,878
Total International Equity	1,715,712	1,706,683	2,985,266	3,141,474	2,813,830
Emerging Markets Equity:					
BlackFriars Asset Management	162,921	124,072	243,261	202,658	59,106
Capital Guardian Trust Company	-	-	-	-	300,224
Capital International *	523,627	525,000	656,250	-	-
Dimensional Fund Advisors	254,114	159,310	251,978	284,295	226,859
J.P. Morgan Investment Management, Inc. *	812,919	301,488	314,349	309,740	156,328
PanAgora Asset Management, Inc.	192,768	133,067	263,231	219,298	63,104
UBS Global Asset Management	320,092	220,316	546,104	496,221	432,929
Total Emerging Markets Equity	2,266,441	1,463,253	2,275,173	1,512,212	1,238,550
Domestic Fixed Income:					
Bank of North Dakota	34,771	41,873	79,825	91,128	80,304
Calamos Advisors LLC	407,217	340,643	522,810	424,710	-
The Clifton Group	15,544	93,498	-	-	-
J.P. Morgan Investment Management, Inc.	1,251,397	1,522,491	1,606,393	703,125	-
PIMCO *	5,232,458	244,483			
Prudential Investment Management	197,085	169,582	224,754	230,399	133,901
RMK Timberland Investment Mgmt.	-	-	-	-	412,804
SEI Investments Management Co.	39,460	6,977	-	-	-

PAYMENTS TO INVESTMENT CONSULTANTS
FOR FISCAL YEARS ENDED JUNE 30

PENSION POOL PARTICIPANTS (Continued)

	2010	(restated) 2009	2008	2007	2006
INVESTMENT MANAGERS (cont.)					
Timberland Investment Resources *	2,688,409	818,935	3,596,378	843,000	12,022,865
Trust Company of the West	-	-	-	76,469	299,027
Wells Capital Management, Inc.	163,106	136,373	174,789	181,612	146,039
Western Asset Management Company	101,490	102,337	156,624	168,222	136,234
Total Domestic Fixed Income	10,130,937	3,477,192	6,361,573	2,718,665	13,231,174
High Yield Fixed Income:					
Declaration Management & Research LLC *	787,851	168,759	7,031	-	-
Goldman Sachs Asset Management *	970,558	440,810	251,837	110,647	-
Loomis Sayles & Company	590,660	411,522	567,711	554,291	485,906
PIMCO *	372,285	268,049	66,455	-	-
Trust Company of the West *	952,333	1,104,372	451,490	-	-
Wells Capital Management, Inc.	211,702	500,807	1,042,791	1,009,349	500,657
Total High Yield Fixed Income	3,885,389	2,894,319	2,387,315	1,674,287	986,563
International Fixed Income:					
UBS Global Asset Management	262,573	278,189	286,966	267,314	265,882
Brandywine Asset Management	447,706	385,373	419,075	382,959	344,396
Total International Fixed Income	710,279	663,562	706,041	650,273	610,278
Real Estate:					
INVESCO Realty Advisors *	1,157,461	1,071,305	745,911	708,879	705,687
J.P. Morgan Investment Management, Inc. *	1,898,305	1,956,455	2,418,987	2,144,259	1,516,689
Total Real Estate	3,055,766	3,027,760	3,164,898	2,853,138	2,222,376
Alternative Investments:					
Adams Street Partners *	812,239	1,050,075	946,207	1,080,138	961,377
Coral Partners, Inc. *	737,717	827,471	973,463	1,037,472	1,137,086
Corsair Capital *	-	346,138	365,112	565,104	-
Hearthstone Homebuilding Investors, LLC *	232,757	(717,002)	(280,445)	1,697,762	5,554,616
InvestAmerica L&C, LLC *	558,215	177,785	187,500	187,500	187,500
Matlin Patterson Global Opportunities, LLC *	766,878	(6,536)	901,140	740,551	729,871
Quantum Energy Partners *	205,933	192,704	364,808	387,705	-
Quantum Resources Management *	150,000	150,000	150,000	98,954	-
Total Alternative Investments	3,463,739	2,020,635	3,607,785	6,194,843	8,757,950
Cash Equivalents:					
The Northern Trust Company, Inc.	29,642	14,331	57,539	51,177	122,988
Total Investment Manager Fees	33,160,385	20,446,612	29,210,104	27,006,401	34,791,843
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	570,972	551,849	741,919	664,524	648,728
INVESTMENT CONSULTANT					
Callan Associates Inc.	190,879	188,799	197,734	176,260	181,705
SIB SERVICE FEES	33,123	22,608	16,070	13,442	12,033
SECURITIES LENDING FEES					
Rebates	(237,860)	152,080	5,871,386	15,456,908	10,044,445
Fees	63,250	82,112	214,760	290,207	261,337
Total Securities Lending Fees	(174,610)	234,192	6,086,146	15,747,115	10,305,782

PAYMENTS TO INVESTMENT CONSULTANTS
FOR FISCAL YEARS ENDED JUNE 30

INSURANCE POOL PARTICIPANTS

	2010	(restated) 2009	2008	2007	2006
INVESTMENT MANAGERS					
Domestic Large Cap Equity:					
The Clifton Group *	$ 328,385	$ 373,925	$ -	$ -	$ -
Los Angeles Capital Management *	164,823	104,393	127,696	129,444	134,125
LSV Asset Management	87,269	70,004	74,445	80,512	84,145
State Street Global Advisors *	1,248	12,674	25,395	112,420	10,868
Westridge Capital Management, Inc.	-	94,488	169,773	136,069	119,733
Total Domestic Large Cap Equity	581,725	655,484	397,309	458,445	348,871
Domestic Small Cap Equity:					
The Clifton Group *	390,421	221,082	-	-	-
Research Affiliates	106,631	85,949	109,426	-	-
SEI Investments Management	-	58,418	198,434	382,764	382,694
Total Domestic Small Cap Equity	497,052	365,449	307,860	382,764	382,694
International Equity:					
Capital Guardian Trust Company	208,162	193,395	241,112	265,710	258,024
Dimensional Fund Advisors	83,070	55,616	40,530	-	-
Lazard Asset Management	-	-	24,588	90,303	96,692
LSV Asset Management	225,184	182,431	199,709	216,449	215,086
The Vanguard Group	50,785	29,127	45,138	49,690	55,961
Total International Equity	567,201	460,569	551,077	622,152	625,763
Domestic Fixed Income:					
Bank of North Dakota	58,340	58,375	58,692	60,914	119,080
Brookfield Investment Management	51,899	75,328	127,097	56,220	-
The Clifton Group *	-	516,425	853,284	-	-
Declaration Management & Research LLC	39,163				
Prudential Investment Management	180,577	161,549	164,533	138,546	-
Wells Capital Management, Inc.	500,223	419,769	425,196	455,171	475,084
Western Asset Management Company	414,506	384,219	398,731	430,831	442,296
Total Domestic Fixed Income	1,244,708	1,615,665	2,027,533	1,141,682	1,036,460
Inflation Protected Assets					
J.P. Morgan Investment Management, Inc.	839,066	512,663	-	-	-
Northern Trust Global Investments *	31,109	48,927	59,045	55,354	55,493
Timberland Investment Resources *	221,700	116,863	-	-	-
Western Asset Management Company *	590,444	9,124	-	151,504	-
Total Inflation Protected Assets	1,682,319	687,577	59,045	206,858	55,493
Real Estate:					
J.P. Morgan Investment Management, Inc.	557,938	786,098	1,173,188	1,088,484	443,730
Enhanced Cash					
Prudential Investment Management	218,275	99,805	277,555	-	-
Total Investment Manager Fees	5,349,218	4,670,647	4,793,567	3,900,385	2,893,011
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	323,560	288,023	300,326	250,812	276,945
INVESTMENT CONSULTANT					
Callan Associates	96,975	95,858	92,632	87,827	88,132
SIB SERVICE FEES	7,881	6,099	5,301	4,881	4,366
SECURITIES LENDING FEES					
Rebates	7,052	1,244,805	7,072,529	14,887,734	11,746,006
Fees	56,356	199,028	217,060	149,391	201,103
Total Securities Lending Fees	63,408	1,443,833	7,289,590	15,037,125	11,947,109

PAYMENTS TO INVESTMENT CONSULTANTS
FOR FISCAL YEARS ENDED JUNE 30

INDIVIDUAL INVESTMENT ACCOUNT

	2010	2009	2008	2007	2006
INVESTMENT MANAGERS					
SEI Investments Management	$ 174,464	$ -	$ -	$ -	$ -
State Street Global Advisors	-	73,830	141,727	130,161	72,797
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	1,166	654	651	660	654
SIB SERVICE FEES	5,115	4,561	3,581	3,487	2,944

*Indicates fee schedule for this account includes some form of performance based fees.

See reconciliation of current year investment expenses to financial statements on page 69.

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

PENSION INVESTMENT POOL

	2010	2009	2008	2007	2006
Public Employees Retirement System					
Net assets beginning of year	$ 1,353,174,174	$ 1,810,756,057	$ 1,934,234,168	$ 1,634,909,225	$ 1,475,694,042
Net increase/(decrease)					
in fair value of investments	153,004,660	(463,523,677)	(133,303,450)	285,031,437	152,103,565
Interest, dividends and other income	32,225,018	35,721,096	43,867,012	43,845,522	36,924,447
Expenses	6,413,077	6,636,715	11,447,763	9,471,759	12,827,174
Net securities lending income	115,645	157,919	362,091	329,743	264,345
Net incr/(decr) in net assets					
resulting from unit transactions	(22,100,000)	(23,300,506)	(22,956,001)	(20,410,000)	(17,250,000)
Net assets end of year	$ 1,510,006,420	$ 1,353,174,174	$ 1,810,756,057	$ 1,934,234,168	$ 1,634,909,225
City of Bismarck Employees Pension Plan					
Net assets beginning of year	$ 39,763,978	$ 49,652,732	$ 51,545,555	$ 44,002,952	$ 40,305,437
Net increase/(decrease)					
in fair value of investments	3,838,691	(10,902,385)	(2,969,501)	6,407,926	3,073,287
Interest, dividends and other income	1,121,694	1,205,465	1,396,664	1,381,274	1,054,196
Expenses	190,180	196,099	330,632	256,348	437,255
Net securities lending income	2,783	4,265	10,646	9,751	7,287
Net incr/(decr) in net assets					
resulting from unit transactions	-	-	-	-	-
Net assets end of year	$ 44,536,966	$ 39,763,978	$ 49,652,732	$ 51,545,555	$ 44,002,952
City of Bismarck Police Pension Plan					
Net assets beginning of year	$ 17,958,666	$ 22,986,491	$ 24,060,610	$ 20,386,327	$ 18,501,337
Net increase/(decrease)					
in fair value of investments	1,907,796	(5,454,384)	(1,541,978)	3,189,234	1,570,167
Interest, dividends and other income	476,013	513,627	610,805	599,580	487,465
Expenses	87,805	89,034	147,621	118,932	175,864
Net securities lending income	1,402	1,966	4,675	4,401	3,222
Net incr/(decr) in net assets					
resulting from unit transactions	-	-	-	-	-
Net assets end of year	$ 20,256,072	$ 17,958,666	$ 22,986,491	$ 24,060,610	$ 20,386,327
Job Service of North Dakota					
Net assets beginning of year	$ 72,147,891	$ 89,914,256	$ 94,697,478	$ 84,340,399	$ 81,450,677
Net increase/(decrease)					
in fair value of investments	7,565,552	(15,799,734)	(2,847,451)	11,691,612	4,905,261
Interest, dividends and other income	2,042,786	1,998,050	2,133,511	2,325,117	1,916,260
Expenses	305,699	301,287	622,355	416,599	1,073,229
Net securities lending income	4,884	10,350	26,176	18,666	17,719
Net incr/(decr) in net assets					
resulting from unit transactions	(3,805,228)	(3,673,744)	(3,473,103)	(3,261,717)	(2,876,289)
Net assets end of year	$ 77,650,186	$ 72,147,891	$ 89,914,256	$ 94,697,478	$ 84,340,399
City of Fargo Employee Pension Plan					
Net assets beginning of year	$ 21,872,249	$ 29,620,050	$ -	$ -	$ -
Net increase/(decrease)					
in fair value of investments	2,756,456	(7,476,802)	(2,060,774)	-	-
Interest, dividends and other income	510,050	557,875	357,768	-	-
Expenses	106,028	106,556	138,325	-	-
Net securities lending income	1,958	2,682	3,641	-	-
Net incr/(decr) in net assets					
resulting from unit transactions	(500,000)	(725,000)	31,457,740	-	-
Net assets end of year	$ 24,534,685	$ 21,872,249	$ 29,620,050	$ -	$ -

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

PENSION INVESTMENT POOL (Continued)

	2010	2009	2008	2007	2006
City of Grand Forks Pension Plan					
Net assets beginning of year	$ 30,006,961	$ -	$ -	$ -	$ -
Net increase/(decrease) in fair value of investments	3,626,358	1,238,569	-	-	-
Interest, dividends and other income	674,685	122,529	-	-	-
Expenses	137,909	51,129	-	-	-
Net securities lending income	3,136	1,502	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	741,926	28,695,490	-	-	-
Net assets end of year	$ 34,915,157	$ 30,006,961	$ -	$ -	$ -
Grand Forks Park District Pension Plan					
Net assets beginning of year	$ -	$ -	$ -	$ -	$ -
Net increase/(decrease) in fair value of investments	(138,086)	-	-	-	-
Interest, dividends and other income	30,872	-	-	-	-
Expenses	11,082	-	-	-	-
Net securities lending income	185	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	3,688,465	-	-	-	-
Net assets end of year	$ 3,570,354	$ -	$ -	$ -	$ -
TOTAL PENSION INVESTMENT POOL					
Net assets beginning of year	$ 1,534,923,919	$ 2,002,929,586	$ 2,104,537,811	$ 1,783,638,903	$ 1,615,951,493
Net increase/(decrease) in fair value of investments	172,561,427	(501,918,413)	(142,723,154)	306,320,209	161,652,280
Interest, dividends and other income	37,081,118	40,118,642	48,365,760	48,151,493	40,382,368
Expenses	7,251,780	7,380,820	12,686,696	10,263,638	14,513,522
Net securities lending income	129,993	178,684	407,229	362,561	292,573
Net incr/(decr) in net assets resulting from unit transactions	(21,974,837)	996,240	5,028,636	(23,671,717)	(20,126,289)
Net assets end of year	$ 1,715,469,840	$ 1,534,923,919	$ 2,002,929,586	$ 2,104,537,811	$ 1,783,638,903

INSURANCE INVESTMENT POOL

	2010	2009	2008	2007	2006
Workforce Safety & Insurance Fund					
Net assets beginning of year	$ 1,082,338,485	$ 1,257,695,472	$ 1,299,957,605	$ 1,200,779,620	$ 1,168,192,236
Net increase/(decrease) in fair value of investments	86,825,301	(165,281,764)	(38,116,867)	75,378,694	715,343
Interest, dividends and other income	44,376,314	47,266,977	50,628,924	49,231,820	41,248,969
Expenses	5,098,648	4,616,101	4,557,824	3,806,600	2,828,034
Net securities lending income	214,216	773,901	783,634	374,071	451,106
Net incr/(decr) in net assets resulting from unit transactions	2,400,000	(53,500,000)	(51,000,000)	(22,000,000)	(7,000,000)
Net assets end of year	$ 1,211,055,668	$ 1,082,338,485	$ 1,257,695,472	$ 1,299,957,605	$ 1,200,779,620
State Fire & Tornado Fund					
Net assets beginning of year	$ 22,315,554	$ 25,660,561	$ 28,467,050	$ 24,566,021	$ 22,845,575
Net increase/(decrease) in fair value of investments	2,554,316	(3,758,616)	(1,888,307)	2,215,277	450,751
Interest, dividends and other income	1,002,687	977,252	1,011,901	1,075,299	872,241
Expenses	91,987	97,685	88,889	72,371	61,266
Net securities lending income	4,533	9,042	8,806	7,824	8,720
Net incr/(decr) in net assets resulting from unit transactions	575,000	(475,000)	(1,850,000)	675,000	450,000
Net assets end of year	$ 26,360,103	$ 22,315,554	$ 25,660,561	$ 28,467,050	$ 24,566,021

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

INSURANCE INVESTMENT POOL (Continued)

	2010	2009	2008	2007	2006
State Bonding Fund					
Net assets beginning of year	$ 2,150,027	$ 2,541,528	$ 2,729,760	$ 2,703,646	$ 2,618,683
Net increase/(decrease) in fair value of investments	137,116	(477,513)	(199,930)	225,746	48,219
Interest, dividends and other income	80,281	90,769	100,393	107,480	93,108
Expenses	4,322	5,513	9,563	7,898	7,298
Net securities lending income	219	756	868	786	934
Net incr/(decr) in net assets resulting from unit transactions	400,000	-	(80,000)	(300,000)	(50,000)
Net assets end of year	$ 2,763,321	$ 2,150,027	$ 2,541,528	$ 2,729,760	$ 2,703,646

	2010	2009	2008	2007	2006
Petroleum Tank Release Compensation Fund					
Net assets beginning of year	$ 6,298,834	$ 8,541,351	$ 10,022,172	$ 9,292,010	$ 9,254,759
Net increase/(decrease) in fair value of investments	339,451	(1,549,239)	(700,200)	775,170	205,297
Interest, dividends and other income	194,448	268,874	356,171	376,839	326,035
Expenses	9,161	14,385	29,741	24,457	22,139
Net securities lending income	531	2,233	2,949	2,610	3,058
Net incr/(decr) in net assets resulting from unit transactions	(200,000)	(950,000)	(1,110,000)	(400,000)	(475,000)
Net assets end of year	$ 6,624,103	$ 6,298,834	$ 8,541,351	$ 10,022,172	$ 9,292,010

	2010	2009	2008	2007	2006
Insurance Regulatory Trust Fund					
Net assets beginning of year	$ 3,235,054	$ 4,083,147	$ 3,982,228	$ 3,690,531	$ 2,978,086
Net increase/(decrease) in fair value of investments	133,302	(203,636)	(162,849)	145,567	24,805
Interest, dividends and other income	55,755	64,262	122,260	101,231	92,959
Expenses	8,575	9,247	9,288	5,640	5,953
Net securities lending income	328	528	796	539	634
Net incr/(decr) in net assets resulting from unit transactions	700,000	(700,000)	150,000	50,000	600,000
Net assets end of year	$ 4,115,864	$ 3,235,054	$ 4,083,147	$ 3,982,228	$ 3,690,531

	2010	2009	2008	2007	2006
ND Health Care Trust Fund					
Net assets beginning of year	$ 2,308,711	$ 2,285,114	$ 2,210,049	$ 19,530,767	$ 18,581,480
Net increase/(decrease) in fair value of investments	-	-	-	-	-
Interest, dividends and other income	8,373	24,591	76,044	506,858	950,929
Expenses	983	994	979	1,179	1,642
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	-	-	-	(17,826,397)	-
Net assets end of year	$ 2,316,101	$ 2,308,711	$ 2,285,114	$ 2,210,049	$ 19,530,767

	2010	2009	2008	2007	2006
Risk Management Fund					
Net assets beginning of year	$ 3,252,697	$ 3,597,393	$ 3,695,796	$ 3,263,199	$ 2,438,261
Net increase/(decrease) in fair value of investments	391,534	(477,819)	(231,219)	243,237	(30,158)
Interest, dividends and other income	151,308	146,455	144,326	148,090	111,959
Expenses	12,687	14,680	12,747	9,593	7,861
Net securities lending income	605	1,348	1,237	863	998
Net incr/(decr) in net assets resulting from unit transactions	-	-	-	50,000	750,000
Net assets end of year	$ 3,783,457	$ 3,252,697	$ 3,597,393	$ 3,695,796	$ 3,263,199

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

INSURANCE INVESTMENT POOL (Continued)

	2010	2009	2008	2007	2006
Risk Management Workers Comp Fund					
Net assets beginning of year	$ 1,864,433	$ 3,057,338	$ 4,221,728	$ 3,765,613	$ 2,905,892
Net increase/(decrease) in fair value of investments	242,300	(426,876)	(305,448)	319,237	4,963
Interest, dividends and other income	102,186	93,030	152,814	146,847	112,448
Expenses	11,250	9,931	13,125	10,851	8,713
Net securities lending income	421	872	1,369	882	1,023
Net incr/(decr) in net assets resulting from unit transactions	1,000,000	(850,000)	(1,000,000)	-	750,000
Net assets end of year	$ 3,198,090	$ 1,864,433	$ 3,057,338	$ 4,221,728	$ 3,765,613
ND Association of Counties Fund					
Net assets beginning of year	$ 929,491	$ 1,122,826	$ 1,216,882	$ 791,257	$ 385,409
Net increase/(decrease) in fair value of investments	114,484	(223,010)	(127,524)	100,031	11,765
Interest, dividends and other income	35,633	35,516	38,236	29,240	15,551
Expenses	5,541	6,228	5,148	3,908	2,293
Net securities lending income	208	387	380	262	164
Net incr/(decr) in net assets resulting from unit transactions	-	-	-	300,000	380,661
Net assets end of year	$ 1,074,275	$ 929,491	$ 1,122,826	$ 1,216,882	$ 791,257
ND Association of Counties Program Savings Fund					
Net assets beginning of year	$ 689,257	$ 802,195	$ 851,526	$ 526,560	$ 403,009
Net increase/(decrease) in fair value of investments	82,493	(137,140)	(75,391)	55,757	10,908
Interest, dividends and other income	28,732	28,364	29,646	21,745	14,400
Expenses	3,972	4,446	3,861	2,710	1,909
Net securities lending income	145	284	275	174	152
Net incr/(decr) in net assets resulting from unit transactions	-	-	-	250,000	100,000
Net assets end of year	$ 796,655	$ 689,257	$ 802,195	$ 851,526	$ 526,560
PERS Group Insurance Fund					
Net assets beginning of year	$ 3,996,417	$ 4,390,870	$ 4,056,887	$ 1,923,916	$ 1,370,395
Net increase/(decrease) in fair value of investments	-	-	-	-	-
Interest, dividends and other income	38,909	106,547	334,983	444,207	304,521
Expenses	1,000	1,000	1,000	1,000	1,000
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	-	(500,000)	-	1,689,764	250,000
Net assets end of year	$ 4,034,326	$ 3,996,417	$ 4,390,870	$ 4,056,887	$ 1,923,916
City of Bismarck Deferred Sick Leave Fund					
Net assets beginning of year	$ 729,156	$ 799,142	$ 826,225	$ 740,239	$ 710,962
Net increase/(decrease) in fair value of investments	82,542	(99,854)	(57,118)	56,893	4,983
Interest, dividends and other income	34,359	33,397	33,570	31,863	26,757
Expenses	3,653	3,829	3,835	3,014	2,750
Net securities lending income	145	300	300	244	287
Net incr/(decr) in net assets resulting from unit transactions	-	-	-	-	-
Net assets end of year	$ 842,549	$ 729,156	$ 799,142	$ 826,225	$ 740,239

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

INSURANCE INVESTMENT POOL (Continued)

	2010	2009	2008	2007	2006
City of Fargo FargoDome Permanent Fund					
Net assets beginning of year	$ 17,578,204	$ 16,070,540	$ 12,102,562	$ 9,748,034	$ 7,316,376
Net increase/(decrease)					
in fair value of investments	2,389,046	(3,002,920)	(1,474,491)	1,043,035	216,395
Interest, dividends and other income	823,931	603,865	492,384	339,243	235,113
Expenses	102,595	99,654	54,510	29,827	21,991
Net securities lending income	4,031	6,373	4,595	2,077	2,141
Net incr/(decr) in net assets					
resulting from unit transactions	4,400,000	4,000,000	5,000,000	1,000,000	2,000,000
Net assets end of year	$ 25,092,617	$ 17,578,204	$ 16,070,540	$ 12,102,562	$ 9,748,034
Cultural Endowment Fund					
Net assets beginning of year	$ 204,223	$ 268,986	$ 274,568	$ 218,552	$ -
Net increase/(decrease)					
in fair value of investments	22,732	(63,711)	(29,699)	27,678	7,263
Interest, dividends and other income	7,822	8,338	9,101	8,158	6,054
Expenses	1,405	1,683	1,566	1,251	978
Net securities lending income	43	88	82	61	54
Net incr/(decr) in net assets					
resulting from unit transactions	-	(7,795)	16,500	21,370	206,159
Net assets end of year	$ 233,415	$ 204,223	$ 268,986	$ 274,568	$ 218,552
Budget Stabilization Fund					
Net assets beginning of year	$ 190,101,212	$ 198,837,270	$ 99,876,003	$ 99,876,516	$ -
Net increase/(decrease)					
in fair value of investments	11,710,253	(15,274,089)	(8,591,387)	-	-
Interest, dividends and other income	10,013,545	6,647,958	8,845,339	4,989,847	3,618,316
Expenses	259,540	109,927	131,522	8,860	6,586
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets					
resulting from unit transactions	113,551,376	-	98,838,837	(4,981,500)	96,264,786
Net assets end of year	$ 325,116,846	$ 190,101,212	$ 198,837,270	$ 99,876,003	$ 99,876,516
DPI Board Certification Fund					
Net assets beginning of year	$ -	$ -	$ -	$ -	$ -
Net increase/(decrease)					
in fair value of investments	-	-	-	-	-
Interest, dividends and other income	1,609	-	-	-	-
Expenses	750	-	-	-	-
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets					
resulting from unit transactions	500,000	-	-	-	-
Net assets end of year	$ 500,859	$ -	$ -	$ -	$ -
TOTAL INSURANCE INVESTMENT POOL					
Net assets beginning of year	$ 1,337,991,755	$ 1,529,753,733	$ 1,474,613,291	$ 1,381,519,259	$ 1,240,087,126
Net increase/(decrease)					
in fair value of investments	105,024,870	(190,976,187)	(51,960,430)	80,586,322	1,670,534
Interest, dividends and other income	56,955,892	56,396,195	62,377,571	57,564,721	48,033,490
Expenses	5,616,069	4,995,303	4,923,644	3,989,327	2,980,551
Net securities lending income	225,425	796,112	805,291	390,393	469,271
Net incr/(decr) in net assets					
resulting from unit transactions	123,326,376	(52,982,795)	48,841,654	(41,458,077)	94,239,389
Net assets end of year	$ 1,617,908,249	$ 1,337,991,755	$ 1,529,753,733	$ 1,474,613,291	$ 1,381,519,259