INDEPENDENT AUDITOR’S REPORT

The Honorable John Hoeven, Governor of the State of North Dakota

Members of the Legislative Assembly of the State of North Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Dakota as of and for the year ended June 30, 2010, which collectively comprise the State’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of North Dakota’s management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following state entities and discretely presented component units:

- Bank of North Dakota
- Beginning Farmer Revolving Loan Fund
- Board of University and School Lands
- Building Authority
- College SAVE Plan
- Community Water Facility Loan Fund
- Developmentally Disabled Facility Loan Program
- Guarnanteed Student Loan Program
- Housing Finance Agency
- Job Service North Dakota
- Mandan Remediation Trust
- PACE and AG PACE Funds
- Public Employees Retirement System
- Retirement and Investment Office
- State Fair Association
- Student Loan Trust
- Workforce Safety and Insurance
- All Discretely Presented Component Units

The financial statements of the above entities reflect total assets and revenues of the government-wide financial statements and fund financial statements as follows:

<table>
<thead>
<tr>
<th>Financial Statement</th>
<th>Percent of Assets</th>
<th>Percent of Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government-Wide Financial Statements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governmental Activities</td>
<td>28%</td>
<td>14%</td>
</tr>
<tr>
<td>Business-Type Activities</td>
<td>83%</td>
<td>34%</td>
</tr>
<tr>
<td>Aggregate Discretely Presented Component Units</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Fund Financial Statements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Major Governmental Funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Fund</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>School Permanent Trust Fund</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Major Enterprise Funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of North Dakota</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Housing Finance Agency</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Workforce Safety and Insurance</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Aggregate Remaining Fund Statements</td>
<td>76%</td>
<td>54%</td>
</tr>
</tbody>
</table>
Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the North Dakota University System's component units were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

The actuary for the North Dakota Teachers' Fund for Retirement has determined the Fund's unfunded actuarial accrued liability is approximately $795 million at June 30, 2010. 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 current actuarial assumptions.

The actuary for the North Dakota Public Employees Retirement System has determined that the Fund's unfunded actuarial accrued liability is approximately $586 million at June 30, 2010. Also, the actuary for the Highway Patrolmen's Retirement System has determined that the Fund's unfunded actuarial accrued liability is approximately $7 million at June 30, 2010. 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 are insufficient to meet the actuarially determined requirement. If unchanged, this difference will further increase the actuarial contribution requirement in future valuations.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Dakota, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 17 to the basic financial statements, the Bank of North Dakota elected to present an unclassified balance sheet because current assets are not matched with current liabilities. Presentation of a classified balance sheet would give the false impression that there is a liquidity problem at the bank. Presentation of a classified balance sheet for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated.

As described in Note 20 to the basic financial statements, the State of North Dakota implemented two new accounting standards for the year ending June 30, 2010. The new standards were GASB Statement No. 51, "Accounting and Financial Reporting for Intangible..."

In accordance with Government Auditing Standards, we have also issued under separate cover, our report dated December 15, 2010 on our consideration of the State of North Dakota’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management’s Discussion and Analysis and Budgetary Comparison Schedules and related reconciliations and notes are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of North Dakota’s basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and in, our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The data included in the introductory and statistical sections of this report has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we do not express an opinion thereon.

Robert R. Peterson  
State Auditor  
December 15, 2010

Edwin J. Nagel, Jr., CPA  
Director