Index

NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The primary authority for the State's accounting and reporting requirements is the Office of Management and Budget. The Office of Management and Budget has adopted the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the State's accounting policies are as follows:

A. REPORTING ENTITY

For financial reporting purposes, the State of North Dakota has included all funds, organizations, agencies, boards and commissions that make up its legal entity. The State has also included all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State 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 the State.

As required by accounting principles generally accepted in the United States of America, these financial statements present the State of North Dakota (the primary government) and its component units. The component units are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

BLENDED COMPONENT UNITS

These component units are entities that are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State. They are reported as part of the State and blended into the appropriate fund types.

Building Authority (Debt Service Fund and Capital Projects Fund) - The Building Authority was created by the Legislature as a separate instrumentality of the State. Its purpose is to promote the general welfare of the citizens of the State by providing financing for use by the State in altering, repairing, maintaining or constructing buildings and making any improvements connected to State buildings. The Industrial Commission, which consists of the governor, the attorney general, and the commissioner of agriculture, is the governing board of the Building Authority. The funds and account groups of the Building Authority were audited by other independent auditors for the fiscal year ended June 30, 2010, and their report has been previously issued under a separate cover.

DISCRETELY PRESENTED COMPONENT UNITS

These component units are entities that are legally separate from the State, but are financially accountable to the State. The component units' columns of government-wide financial statements include the financial data of these entities.

MAJOR COMPONENT UNITS

Comprehensive Health Association (Proprietary Fund Type) - The Association was established by the Legislature with participating membership consisting of those insurance companies, licensed or authorized to do business in the State. It provides low cost access to health insurance coverage for residents of the State who are denied adequate health insurance and are considered uninsurable. The Association is governed by a board of eight members of which five are representatives of the State and is regulated by the State Insurance Department. The Association was audited by other independent auditors for the calendar year ended December 31, 2009, and their report has been previously issued under a separate cover.

Public Finance Authority (Proprietary Fund Type) - The Finance Authority was created by the Legislature as a separate agency of the State. The purpose of the Finance Authority is to make funds available for borrowing by North Dakota political subdivisions through the issuance of its bonds and the purchase of municipal securities of the political subdivisions. The Finance Authority has been granted all powers required in order to accomplish this purpose and is under the control and management of the Industrial Commission. The Fund was audited by other independent auditors for the calendar year ended December 31, 2009, and their report has been previously issued under a separate cover.

North Dakota Development Fund, Inc. (Proprietary Fund Type) - The Development Fund was established as a statewide nonprofit development corporation with the authority to take equity positions in; to provide loans to; or to use other innovative financing mechanisms to provide capital for new or expanding businesses in North Dakota or relocating businesses to North Dakota. A board of directors consisting of eight members, all of whom are appointed by the governor, manages the corporation. The deputy director of the Department of Commerce (a State agency) is the corporation's chief executive officer. The director of the Department of Commerce (governor-appointed cabinet position) is responsible for developing rules, subject to the approval of the board of directors, necessary to implement the administration of the corporation. The Fund was audited by other independent auditors for the fiscal year ended

June 30, 2010, and their report has been previously issued under a separate cover.

The **NDSU Research and Technology Park, Inc.** is a nonprofit organization developed to promote an economic environment dedicated to applied research and technology discovery for the benefit of NDSU, its faculty and staff, students, and the citizens of North Dakota. Its facilities are located on the campus of NDSU in Fargo, North Dakota. The organization was established in 1999 and is exempt from federal and state income taxes as it is organized under Section 501(c)(3) of the Internal Revenue Code. The majority of the Park's board of directors (six of ten) consists of people who work in private industry. Vacancies are filled by a majority vote of the board. Officers of NDSU fill three of the ten positions on the Park's board. The president of NDSU serves as president of the board of directors. The status of the Park as a discretely presented component unit is primarily due to the control by the NDSU president over the final building plans for any new building at the Park. This control is based on feedback from the Legislative Budget Section and is required by the land lease between the State Board of Higher Education and the Park, as well as NDUS policy. The Park was audited by other independent auditors for the fiscal year ended June 30, 2010, and their report has been previously issued under separate cover.

The **UND Aerospace Foundation** is a North Dakota nonprofit organization organized in 1985 to encourage and develop the University of North Dakota's John D. Odegard School of Aerospace Sciences. The Foundation's principal activities consist of developing and conducting training programs, research and development, and consulting services related to the aerospace industry. The Foundation is managed by a board of directors consisting of five to seven members, including two or more persons who are active in the aerospace industry and/or graduates of UND with an interest in the aerospace industry, elected by the board; a senior manager of the Foundation, elected by the board; the dean of the Odegard School of Aerospace Sciences; and the president of the university. The Foundation benefits the university, financially and otherwise, through its promotion of the Odegard School and its programs and in the sharing of resources. The Foundation is reported as a discretely presented component unit as UND has voting members on the board of directors and because of the extent of the financial relationship between the entities. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2010, and their report has been previously issued under separate cover.

The **Bismarck State College Foundation** is a legally separate, tax-exempt organization providing support and recognition to BSC through a variety of programs. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college. The Foundation is managed by a 75-member board of directors comprised of leading citizens, both alumni and friends of the college, as well as seven ex-officio members that are officers/employees of BSC. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2010, and their report has been previously issued under separate cover.

Dickinson State University Foundation, Inc. was organized in 1952 as a nonprofit corporation to provide an avenue through which alumni and friends of the university may contribute financially to the university. Gifts, grants, and bequests to the Foundation benefit present and future students by providing scholarship assistance and the funding of special projects not available through other funding sources. The Foundation is managed by a 26-member board of directors comprised of leading citizens, both alumni and friends of DSU, as well as two ex-officio members that are officers/employees of DSU. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2010, and their report has been previously issued under separate cover.

North Dakota State University Development Foundation is an incorporated, nonprofit organization developed solely for the benefit of NDSU. The Foundation is approved by the IRS as a charitable, tax-exempt organization and designated by the university as the repository for private giving to the university. Their purpose is to raise, manage, and disburse contributions for the benefit of NDSU. The Foundation is managed by a 60-member board of trustees comprised of leading citizens, both alumni and friends of the university, as well as four ex-officio members: the president of NDSU, the president and vice president of the Alumni Association, and the executive director of the Development Foundation and Alumni Association. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2010, and their report has been previously issued under separate cover.

Alumni Association of the University of North Dakota and UND Foundation - The Alumni Association of the University of North Dakota was incorporated in 1915 for the purpose of (1) keeping classmates in contact with each other, (2) keeping graduates and former students informed of happenings at UND, and (3) involving the graduates, former students, and special friends in the ongoing growth and development of UND. UND Foundation was incorporated in 1978 to replace the Alumni Association Development Fund and is the umbrella organization for alumni and private support for the total University of North Dakota. These two legally separate nonprofit corporations have the same board of directors and the same executive vice president, but different board presidents and vice presidents. The board of directors consists of 21 voting members who are alumni of UND and three ex-officio members that are officers of UND. The Alumni Association and the Foundation were audited by other independent auditors for the fiscal year ended June 30, 2010, and their report has been previously issued under separate cover.

RE Arena, Inc., UND Arena Services, Inc., UND Sports Facilities, Inc., Arena Holdings Charitable LLC and Affiliates are related organizations with common board of directors and management organized in 2003 for the benefit of UND. These organizations operate and maintain a multipurpose sports and entertainment arena in Grand Forks, ND. The arena is used primarily for UND athletics and activities. UND Sports Facilities, Inc. is the sole member of Arena Holdings Charitable LLC. RE Arena, Inc. conducts the day-to-day operations of the arena as an agent for Arena Holdings. UND Arena Services, Inc. is the legal manager of Arena Holdings. These organizations were audited by other independent auditors for the fiscal year ended May 31, 2009, and their combined report has been previously issued under separate cover.

NONMAJOR COMPONENT UNITS

Dakota College at Bottineau Development Foundation and Logrollers are separate legal entities that were established to act primarily as fund-raising organizations to supplement the resources that are available to DCB. The Foundation and Logrollers are managed by the same eight-member board of directors comprised of leading citizens, both alumni and friends of the college, as well as one ex-officio member that is an officer of DCB. However, each entity has separate committees that direct each organization's activities. The Foundation and Logrollers were audited by other independent auditors for the fiscal year ended June 30, 2010, and their combined report has been previously issued under separate cover.

Lake Region Community College Foundation was established in 1959 to provide a permanent structure through which support for Lake Region State College could be channeled. The work and the resources of the Foundation are managed by a 27-member board of directors elected by the Foundation membership to serve three-year terms. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2010, and their report has been previously issued under separate cover.

Mayville State University Foundation was established to act primarily as a fund-raising organization to supplement the resources that are available to Mayville State University (MaSU). The Foundation is managed by a 15-member board of directors comprised of leading citizens, both alumni and friends of the university, as well as one ex-officio member that are officers/employees of MaSU. The **Comet Athletic Club**, a legally separate nonprofit organization, operates as an entity within the Foundation. The Club's purpose is to promote, support, and encourage interest and participation in MaSU sports. Their financial activity is reflected in the Foundation's financial statements.

Minot State University Development Foundation was incorporated in 1978 exclusively for the benefit of Minot State University (MiSU). Its purpose is to establish, promote and stimulate voluntary financial support for the benefit of the university, especially in the building of endowment and in addressing the long-term priorities of the university. The Foundation is managed by a board of directors comprising 13 voting members, two of who are ex-officio appointments from the Board of Regents and the Alumni Association, and three ex-officio members who are employees of MiSU. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2010, and their report has been previously issued under separate cover.

North Dakota State College of Science Foundation was established to act primarily as a fund-raising organization to supplement the resources that are available to NDSCS. The Foundation is managed by a 13-member board of directors comprised of leading citizens, both alumni and friends of the college, as well as three ex-officio members that are officers/employees of NDSCS. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2010, and their report has been previously issued under separate cover.

NDSU FOUNDATIONS

North Dakota 4-H Foundation is a legally separate, non-profit 501(c)(3) organization committed to supporting 4-H programs with private funds for furthering leadership development, education, research and scholarships and creating opportunities for the youth of North Dakota. The foundation is managed by board of directors comprised of 15 voting members, of which 2 are employees of NDSU.

North Dakota State University Research Foundation is a legally separate, non-profit 501(c)(3) organization created to provide support to NDSU in its mission by enabling NDSU faculty to enhance their involvement in research, technology transfer, and business endeavors. Through linkages with public and private businesses and industries, the foundation facilitates the commercialization of research technologies developed by NDSU faculty and staff. The foundation is managed by an 11-member board of directors, comprised of five NDSU employees and six individuals who are not employed by NDSU.

North Dakota State University Team Makers Clubs was established in 1950 by a group of local business leaders who recognized the need for a community-based support group to benefit NDSU Bison Athletics. Team Makers is a legally separate, non-profit 501(c)(3) organization to provide financial support, promotion and spirit for NDSU student-athletes and the NDSU Athletics Department in order to achieve excellence. The foundation is managed by board of directors comprised of 11 voting members, of which one is an employee of NDSU.

UND FOUNDATIONS

University of North Dakota Center for Innovation Foundation was incorporated in 1991. The Foundation supports the Center for Innovation at the University of North Dakota to fulfill their mission of helping entrepreneurs, innovators, researchers and students launch new technologies, products and ventures, develop business and marketing plans, access talent and secure sources of venture financing. This fiscal year the foundation supported the College of Business and Public Administration in the amount of $200,831 plus $50,000 for the support of an international marketing specialist at UND. The foundation is managed by a board of directors comprised of 9 members as well as four ex-officio non-voting members who are officers of UND.

The University of North Dakota Research Foundation is the newest foundation and was formed in 2006 to assist the University of North Dakota to advance its research agenda, to commercialize its university innovations and discoveries, and to create economic opportunities for Grand Forks and the State of North Dakota. The foundation works with UND to build successful and strategic partnerships between the university and private companies, resulting in mutual gains for each.

The Fellows of the University of North Dakota was organized in 1970 as a nonprofit corporation for the purpose of supporting and promoting the University of North Dakota. The Fellows provides scholarships, promotion and special project fund-raising for UND. In FY10, the Fellows is managed by a board of directors comprised of five members, including two officers of UND. The Fellows transferred $346,467 to UND for scholarships and special project funding.

Valley City State University Foundation was established to support Valley City State University by involving alumni and friends of the university in activities and private giving that meet the university's needs and advance its welfare. The Foundation is managed by a 22-member board of directors comprised of leading citizens, both alumni and friends of the university, as well as one ex-officio member that are officers of VCSU.

Williston State College Foundation was established to act primarily as a fund-raising organization to supplement the resources that are available to WSC. The Foundation is managed by an 11-member board of directors comprised of leading citizens, both alumni and friends of the college.

Complete financial statements for each of these individual component units may be obtained at the entity's administrative offices as follows:

Building Authority
600 E. Boulevard Ave., 14th Floor
Bismarck, ND 58505-0310

Comprehensive Health Association
4510 13th Avenue SW
Fargo, ND 58108

Public Finance Authority
700 East Main Avenue
Bismarck, ND 58501

North Dakota Development Fund, Inc.
1833 E. Bismarck Expressway
Bismarck, ND 58504

North Dakota State University Research and Technology Park, Inc.
1854 NDSU Research Park Drive
Fargo, ND 58105-5014

University of North Dakota Aerospace Foundation
PO Box 9023
Grand Forks, ND 58202-9023

Bismarck State College Foundation
PO Box 5587
Bismarck, ND 58506-5587

Minot State University Development Foundation
500 University Avenue West
Minot, ND 58707

North Dakota State University Development Foundation
PO Box 5144
Fargo, ND 58105

Alumni Association of the University of North Dakota
PO Box 8157
Grand Forks, ND 58202

Ralph Engelstad Arena, Inc., UND Arena Services, Inc., Arena Holdings Charitable LLC and Affiliates
One Ralph Engelstad Arena Drive
Grand Forks, ND 58203

Dickinson State University Foundation, Inc.
Dickinson State University
Dickinson, ND 58601

Lake Region Community College Foundation
1801 College Drive North
Devils Lake, ND 58301-1598

Mayville State University Foundation
330 3rd Street NE
Mayville, ND 58257

Dakota College at Bottineau Development Foundation and Logrollers
105 Simrall Boulevard
Bottineau, ND 58318

North Dakota State College of Science Foundation
800 Sixth Street North
Wahpeton, ND 58076-0002

North Dakota 4-H Foundation
FLC 219 Dept 7280
PO Box 6050
Fargo, ND 58108-6050

North Dakota State University Research Foundation
1735 NDSU Research Park Drive
Fargo, ND 58105-5014

North Dakota State University Team Makers
NDSU Dept 1200
PO Box 6050
Fargo, ND 58108-6050

University of North Dakota Center for Innovation Foundation
4200 James Ray Drive
Grand Forks, ND 58203

University of North Dakota Research Foundation
4201 James Ray Drive
Grand Forks, ND 58202

Fellows of the University of North Dakota
264 Centennial Drive, Twamley Hall
Grand Forks, ND 58202

Valley City State University Foundation
101 College Street SW
Valley City, ND 58072

Williston State College Foundation
PO Box 1286
Williston, ND 58802-1286

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities.

Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. Net assets restricted by enabling legislation are subject to change by a majority vote of the Legislative Assembly.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue.

FUND FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide statements are reported using the economic resources management focus and the accrual basis of accounting, as are the proprietary and fiduciary fund (agency funds are excluded as they have no measurement focus) financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

The State 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. In accordance with Governmental Accounting Standards Board Statement 20, the State's enterprise funds, with the exception of the Bank of North Dakota, follows all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements. The Bank of North Dakota follows all applicable FASB pronouncements unless they conflict with the GASB pronouncements.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period.

The State considers tax revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Other revenues are considered to be available if received within one year after the fiscal year end. Major revenues that are determined to be susceptible to accrual include interest, federal grants-in-aid, and taxpayer-assessed taxes such as income, sales, corporate, excise, motor fuel taxes and unemployment compensation contributions. Revenues earned under the terms of reimbursement agreements with other governments or private sources are recorded at the time the related expenditures are made if other eligibility requirements have been met. Sales and use taxes are accrued based upon filings received and an estimate of filings due by June 30. Net income taxes from individuals and corporations are accrued based on current income earned by the taxpayer before June 30. Quarterly filings, withholding statements, and other historical data are used to estimate income. The revenue is accrued net of an allowance for uncollectible taxes. Deferred revenue is recorded for receivables that are measurable but not available at year-end.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments, are recorded only when payment is due and payable.

FINANCIAL STATEMENT PRESENTATION

The State reports the following major governmental funds:

The General Fund is the principal operating fund of the State. It is used to account for all financial resources that are not accounted for in other funds. Included are transactions for services such as education, general government, health services, legal and judiciary, natural resources, public safety, regulatory services, agriculture and commerce, and social services.

The Federal Fund accounts for all the financial resources from the federal government.

The School Permanent Trust Fund accounts for moneys belonging to common schools and other public institutions derived from the sale of or leasing of lands owned by the State.

The State reports the following major enterprise funds:

The Bank of North Dakota Fund finances economic development throughout the state, participates in loans with North Dakota financial institutions, and holds interest-bearing deposit accounts for state and political subdivisions of North Dakota.

The Housing Finance Agency Fund is authorized to issue bonds to make loans to mortgage lenders for qualified residential mortgage loans and to make mortgage and construction loans for multi-family housing within the State of North Dakota.

The Mill and Elevator Fund engages in the business of manufacturing and marketing farm products.

The University System Fund accounts for all financial transactions of the colleges and universities that compose the University System of North Dakota.

The Workforce Safety & Insurance Fund is financed entirely by premiums assessed to the employers of North Dakota and provides no-fault medical and disability insurance to all North Dakota employees.

Additionally, the State reports the following fund types:

GOVERNMENTAL FUND TYPES

Special Revenue Funds account for specific revenue sources that are legally restricted to expenditures for specified purposes. Examples include transportation, regulatory, and other activities.

Debt Service Funds account for resources obtained and used for the payment of interest and principal on revenue bonds that are funded primarily through taxes.

Capital Projects Funds account for resources obtained and used for the acquisition, construction or improvement of certain capital facilities (except those financed by non-governmental funds). Such resources are derived principally from proceeds of revenue bonds.

Permanent Funds report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry, such as the common schools within the state.

PROPRIETARY FUND TYPES

Enterprise Funds account for those business-like State activities that provide goods/services to the public, financed primarily through user charges. They are also used to account for operations where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability and other purposes. The State's loan programs, Mill and Elevator, and Fair are reported in this type.

Internal Service Funds account for the financing of goods and/or services provided by one department or agency to another department or agency of a government, or to other governments, on a cost-reimbursement basis. These goods and services include motor pool services; printing, reproduction and mailing services; information technology; and risk management services. In the government-wide statements, internal service funds are included with governmental activities.

FIDUCIARY FUND TYPES

Pension and Other Employee Benefits Trust Funds account for resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit pension plans, defined contribution plan, deferred compensation plan, flexcomp plan, and other post-employment benefit plans.

Investment Trust Funds account for the transactions, assets, liabilities, and fund equity of the external pool participants (City of Bismarck, ND Association of Counties, and City of Fargo Fargodome RIO Investments). The State Investment Board (SIB) provides administrative services for the external pool participants. SIB issues a publicly available financial report that may be obtained by writing to the Retirement and Investment Office, 1930 Burnt Boat Drive, Bismarck, North Dakota 58503. Investment Trust Funds are accounted for in essentially the same manner as Proprietary Funds.

Private Purpose Trust Funds account for resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. Examples include student donations, the State's college savings plan, and a remediation trust.

Agency Funds account for assets held by the State as an agent for other governmental units, or other organizations, and do not involve measurement of results of operations.

D. GENERAL BUDGETARY POLICIES AND PROCEDURES

The State operates through a biennial appropriation that represents departmental appropriations recommended by the governor and presented to the Legislative Assembly at the beginning of each legislative session. The Legislative Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. The governor has line item veto powers over all appropriations subject to legislative override.

Once passed and signed, the appropriation bill becomes the departments' financial plan for the next two years. Changes to the appropriation are limited to Emergency Commission authorization, initiative, allotment, 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. The Legislature has also passed appropriation laws that authorize directors of certain state agencies to transfer appropriation authority among the various divisions of their specific agency, subject to the Budget Section of the North Dakota Legislative Council's approval. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under the North Dakota Century Code (NDCC) section 54-44.1-11 and the University System's unexpended general fund appropriation authority.

The State's biennial budget is prepared primarily on a cash basis. The State does not use encumbrance accounting. The legal level of budgetary control is at the agency, appropriation, funding source and expenditure line item level, with administrative controls established at lower levels of detail in certain instances. The State does not formally budget revenues, and it does not budget by fund. The State appropriation is defined through the use of specific expenditure line items. Capital appropriations are generally made at the agency and project level.

North Dakota's Appropriation Act does not present budgets by GAAP fund. Instead, it authorizes General Fund appropriation authority by agency and Other Budgeted Income appropriation authority by agency. Other budgeted income includes all budgeted resources, other than the General Fund, and includes some governmental, proprietary, and fiduciary fund activities.

During the 2007-2009 biennium, there were general, federal and other funds supplemental appropriations totaling $383,927,075.

E. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for reporting purposes includes cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes investments with original maturity of three months or less. Also cash, as reported, may be under the control of the State Treasurer or by other administrative bodies as determined by law. Cash and cash equivalents are presented on the fund balance sheets as "Cash Deposits at the Bank of North Dakota" and "Cash and Cash Equivalents" to present the unique nature of the relationship between the Bank of North Dakota, an enterprise fund, and other state agencies.

Cash Deposits at the Bank of North Dakota. State agency cash balances, as required by law, are pooled by the State Treasurer and deposited in the Bank of North Dakota, an enterprise fund. These cash balances, in addition to other agency cash deposited at the Bank of North Dakota, are included on the fund balance sheets as "Cash Deposits at the Bank of North Dakota". For purposes of the Government-wide Statement of Net Assets, these amounts have been reclassified to internal balances.

Cash and Cash Equivalents. All cash and cash equivalents, (other than cash deposits at the Bank of North Dakota), as permitted by the North Dakota Century Code, are included on the Government-wide Statement of Net Assets as "Cash and Cash Equivalents".

The State had no cash overdrafts from pooled cash and investments at June 30, 2010.

All interest revenue is allocated to the General Fund unless state law (as outlined in the North Dakota Century Code) requires allocations of interest to other funds.

F. INVESTMENTS

All funds of the State record their investments in accordance with Government Accounting Standards Board (GASB) Statement No. 31, *“Accounting and Financial Reporting for Certain Investments.”* Investments are reported at fair value. Quoted market prices, when available, have been used to value investments. The fair value for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that 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 investment securities, 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 change 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.

Unrealized increases or decreases are computed based on changes in the fair value of investments between years. Security transactions are currently accounted for on a trade date basis. Interest income is recorded when earned. Dividend income is recorded on the ex-dividend date. All investments are maintained separately by fund.

Purchases of other state funds' debt issues by the Bank of North Dakota have been recorded as normal business transactions if they are the result of arms-length transactions.

Investments are presented on the fund balance sheets as "Investments at the Bank of North Dakota" and "Investments" to present the unique nature of the relationship between the Bank of North Dakota, an enterprise fund, and other state agencies.

Investments at the Bank of North Dakota. State agency investments, primarily certificates of deposits of the Bank of North Dakota, are included on the fund balance sheets as "Investments at the Bank of North Dakota.” For purposes of the Government-wide Statement of Net Assets, these amounts have been reclassified to internal balances.

Investments. State agency investments invested at financial institutions other than the Bank of North Dakota are included on the Government-wide Statement of Net Assets as "Investments.”

Differences on the Fund Balance Sheets between the assets, “Cash at the Bank of North Dakota” and “Investments at the Bank of North Dakota,” and the liability, "Deposits Held for Other Funds," is attributable to timing differences resulting from the Bank of North Dakota having a different fiscal year end than many of the other state agencies.

G. 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 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 State has contracted with a third party securities lending agent (Agent) to lend the State'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 value plus accrued interest for domestic securities and 105% of the loaned securities fair value 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 State has no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State.

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. (Land Department was 73 days.) The interest rate sensitivity (duration) of the securities on loan matched the duration of the collateral investments, however the Land Department has an interest sensitivity of 24 days.

The Agent provides indemnification if the borrowers fail to return the underlying securities (and if 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 State or the borrower. All term securities loans can be terminated with five days notice by either the State or the borrower. Cash collateral is invested in accordance with investment guidelines approved by the State. The State cannot pledge or sell collateral securities received unless the borrower defaults.

H. INTERFUND ACTIVITY AND BALANCES

INTERFUND ACTIVITY

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets (such as goods or cash) without equivalent flows of assets in return or a requirement for repayment. Residual transfer amounts exist in the Government-wide Statement of Activities due to different fiscal year ends of various agencies included in business-type activities.

INTERFUND BALANCES

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

I. INVENTORIES AND PREPAID ITEMS

Inventories of Governmental Funds are valued at cost and are recognized principally using the average cost method. Generally, the cost of Governmental Funds' inventories is recorded as an expenditure when consumed rather than when purchased.

Inventories of Proprietary Funds consist primarily of grain inventories from the North Dakota Mill and Elevator Association. Grain inventories are valued at the June 30 Minneapolis grain market values less freight costs to Minneapolis. Grain committed to production is valued at cost, and grain committed to sale is valued at net commitment price. Flour, feed and resale inventories are valued at ingredient cost plus manufacturing costs incurred in their production. Proprietary Funds expense the cost of consumable supplies when used.

Generally, inventories of University System Funds are valued at the lower of cost or fair market value. Cost is generally determined on the first in/first out, or moving weighted average method. Inventories consist of food, books, and other merchandise held for resale in auxiliaries and unrestricted physical plant supplies.

Prepaid items reflect payments for costs applicable to future accounting periods.

Other government fund inventories and prepaid items are reflected as a reservation of fund balance on the balance sheet.

J. UNAMORTIZED BOND ISSUANCE COSTS

In governmental fund types, issuance costs are recognized in the operating statements when incurred. Bond premiums, discounts and issuance costs for proprietary fund types are deferred and amortized over the term of the bonds using the bonds outstanding method, which approximates the effective interest method. The unamortized discount is shown on the balance sheet as a reduction of the bonds payable, and the amortization is included in the statement of revenues, expenses and changes in fund balance as interest expense.

K. CAPITAL ASSETS

Capital assets, which include land, buildings, equipment, intangibles (software, easements and other), construction in progress and infrastructure assets, are valued at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date of donation. Where necessary, estimates of original cost are derived by factoring price levels from the current period to the time of acquisition. Library books are not capitalized as capital assets except for the University System.

All other capital assets with an original cost of $5,000 or more per unit and an estimated useful life in excess of one year are capitalized and reported in the applicable government or business-type activities columns in the government-wide financial statements. Exceptions include: infrastructure reported by the Department of Transportation, the threshold is $100,000; intangible assets such as easements, water rights, patents and trademarks, the threshold is $25,000; and software internally developed, the threshold is $50,000. Capital asset costs include the purchase price or construction cost, plus the costs necessary to place the asset in its intended location and condition for use. In governmental activities, interest costs on self-constructed assets are not capitalized. In business-type activities, interest costs (if material) on self-constructed assets are also included in the cost. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. Normal maintenance and repair costs that do not materially add to the value or extend the life of the asset are not capitalized.

Collections of works of art and historical treasures are not capitalized if the following three criteria are met: (1) Held for public exhibition, education, or research in furtherance of public service, rather than financial gain; (2) Protected, kept unencumbered, cared for, and preserved; (3) Subject to organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The State's non-capitalized collections include the historical artifacts at the various state museums and historical sites, and monuments and other art throughout the capital grounds. Assets that do not meet all three criteria, or that were capitalized as of June 30, 1999, are capitalized and included in the government-wide financial statements.

Infrastructure consists of major statewide public systems and items attached thereto such as freeways, freeway lighting systems, freeway drainage systems, freeway signs, bridges, bridge lighting systems, and sewer systems, including those infrastructure assets acquired prior to June 30, 1980. Infrastructure is reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Department of Transportation uses the first-in first-out method to remove the capitalized cost of a replaced road along with corresponding accumulated depreciation.

Fixed assets in Governmental Funds are recorded as expenditures in the funds used to acquire or construct them in the governmental fund financial statements. Capital assets, along with accumulated depreciation and depreciation expense, which includes amortization of intangible assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Land and construction in progress are not depreciated. With the exception of infrastructure reported by the Department of Transportation (which uses the composite method), other capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	10-50
Infrastructure	10-50
Furniture, Automobiles, and Equipment	3-20
Intangibles	3-99

L. LEASE COMMITMENTS

The State leases land, office facilities, office and computer equipment, and other assets. Leases are classified according to FASB 13. Many of these leases have fiscal funding clauses; however, these clauses have no effect on classifying these leases for accounting purposes. Leases which represent acquisitions are classified as capital leases, and the related assets and liabilities are recorded in the financial statements at the inception of the lease. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease.

M. FEDERAL FUNDS PURCHASED

Federal Funds Purchased represent federal funds borrowed by the Bank of North Dakota from member banks generally on an overnight basis at the federal funds rate.

N. CLAIMS/JUDGMENTS PAYABLE

Claims/Judgments Payable is primarily Workers Compensation Claims Incurred But Not Yet Reported (IBNR) by the claimants as well as claims related to various litigation matters.

O. COMPENSATED ABSENCES

ANNUAL LEAVE

State employees accrue vested annual leave at a variable rate based on years of service. Teachers employed by the State do not receive annual leave. In general, accrued annual leave cannot exceed 30 days at each year end, as set by the agency. The amount of annual leave earned ranges between one and two days per month, and is fixed by the employing unit per section 54-06-14 of the NDCC.

The governmental fund financial statements recognize annual leave when the liability is incurred and payable from available expendable resources. This normally occurs only if an employee has unused reimbursable leave still outstanding at the time of their retirement or resignation. The government-wide financial statements present the cost of accumulated annual leave as a liability. Proprietary and Fiduciary Funds recognize the expense and accrued liability when the annual leave is earned.

SICK LEAVE

The North Dakota Century Code, section 54-06-14, states employees accrue sick leave at the rate of one to a maximum of one and one-half working days per month of employment without limitation on the amount that can be accumulated. Employees vest at ten years of creditable service, at which time the State is liable for ten percent of the employee's accumulated unused sick leave. The governmental fund financial statements recognize sick leave as it is incurred. The government-wide financial statements present the estimated cost of sick leave as a liability after an employee has been employed by the State for five consecutive years.

P. DEPOSITS

The following two liability line items are presented in the Government-wide Statement of Net Assets and/or fund financial statements:

Deposits Held For Other Funds. "Deposits Held for Other Funds" are those deposits held by the Bank of North Dakota for other funds included in the reporting entity and shown on the fund financial statements. For purposes of the Government-wide Statement of Net Assets, these amounts have been reclassified to internal balances.

Other Deposits. "Other Deposits" are those deposits held by the Bank of North Dakota for non-reporting entity third parties. It also includes deposits held for students of the University System.

Differences on the fund balance sheets between the liability "Deposits Held for Other Funds" and the assets "Cash Deposits and Investments at the Bank of North Dakota" are attributable to timing differences resulting from the Bank of North Dakota having a different accounting year end than many other state agencies.

Q. DEFERRED REVENUE

In the government-wide statements and proprietary fund financial statements, deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable.

R. REVENUES AND EXPENDITURES/EXPENSES

In the Government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function for governmental activities (e.g., general government, education, health and human services, etc.). Additionally, revenues are classified between program and general revenues. Program revenues include 1) charges to customers or applicants for goods or services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

In the government-wide financial statements, revenues are reported by source and are further classified as either “general purpose” or “restricted”. General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g., federal grants), available only for specified purposes. Unused restricted revenues at year-end are recorded as reservations of fund balance. When both general purpose and restricted funds are available for use, it is the State’s policy to use restricted resources first.

In the governmental fund financial statements, expenditures are reported by character: “Current,” “Intergovernmental-revenue Sharing,” “Capital Outlay,” or “Debt Service.” Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services.

Capital outlay includes expenditures for real property or infrastructure (e.g., highways). Intergovernmental-revenue sharing accounts for the distribution of certain tax revenues that are shared with local units based upon constitutional and statutory requirements. Debt service includes both interest and principal outlays related to bonds and payments on capitalized leases.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g., salaries, depreciation, and purchases for resale). Operating revenues consist of sales of goods and services, quasi-external operating transactions with other funds, grant revenues for specific activities that are considered to be operating activities of the grantor, receipts from other agencies for reimbursement of operating transactions, and other miscellaneous revenue that should be classified as operating. Grants that would qualify as an operating activity are those that do not subsidize an existing program, rather they finance a program the agency would otherwise not undertake. For certain loan and investment programs, revenue that would normally be classified as non-operating should be classified as operating. Examples of this would include interest and investment income. All other revenues that do not meet the above criteria should be classified as non-operating.

S. NET ASSETS/FUND BALANCE

The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements, and "Fund Balance" on governmental fund statements.

T. CHANGE IN ACCOUNTING PRINCIPLE

The State has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", which is effective for fiscal years June 30, 2010. This statement establishes criteria that governments will use to establish accounting and financial reporting requirements for intangible assets such as software, easements and other intangibles.

NOTE 2 – RESTATEMENTS

The following changes to beginning fund equity (due to correction of errors) as previously reported, is summarized in the following table (expressed in thousands):

					Component Units	
	Government-wide Governmental Activities	Government-wide Business Activities	Other Governmental Funds	University System	NDSU Development Foundation	UND Aerospace Foundation
June 30, 2009, fund balance/net assets, as previously reported	$ 4,388,684	$ 1,642,941	$ 1,313,668	$ 750,617	$ 104,460	$ 7,994
Prior period adjustment:						
Change in accounting principle	1,772	2,243	-	2,243	-	-
Correction of errors	(1,839)	2,051	(1,839)	2,051	8,388	(1,786)
June 30, 2009, fund balance/net assets, as restated	$ 4,388,617	$ 1,647,235	$ 1,311,829	$ 754,911	$ 112,848	$ 6,208

CORRECTION OF ERRORS

The beginning net assets of the Government-wide Governmental Activities $(1,838,521) and Other Governmental Funds Public Safety and Corrections $(1,838,521) were restated for an over estimated accrual of receivables and revenue in the prior period. The beginning net assets of the Government-wide Business Activities $2,051,466 and University System $2,051,466 were restated to properly recognize capital asset payments previously made. The beginning net assets of the Major Component Unit NDSU Development Foundation was restated by $8,387,783, to properly reflect the under accrual of pledges receivable in previous periods. The beginning net assets of the Major Component Unit UND Aerospace Foundation was restated by $(1,785,984) for the over accrual of a receivable related to an airport hangar.

NOTE 3 - DETAILED NOTES ON ACCOUNT BALANCES

A. DEPOSITS

CUSTODIAL CREDIT RISK

The State minimizes custodial credit risk by restrictions set forth in state statute. Custodial credit risk is risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure the State would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties.

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. The State does not have a formal policy that addresses custodial credit risk for deposits.

At June 30, 2010, the bank balance of the primary government's deposits was $790,572,903. Of the bank amount, $671,253,791 was uncollateralized and uninsured.

There were significant concentrations of uninsured and uncollateralized deposits in the Bank of North Dakota and University System at June 30, 2010. Their uninsured and uncollateralized deposits totaled $664.0 million and $5 million, and their bank deposits totaled $664.8 million and $7.2 million, respectively.

At June 30, 2010, the bank balance of the major component units' deposits was $61,310,164. Of the bank amount, $11,721,151 was uncollateralized and uninsured.

The internal receivable amount in the governmental activities column in the Statement of Net Assets includes Cash and Investments at the Bank of North Dakota for governmental activities. The internal payable amount in the business-type activities column includes deposits the Bank has for governmental activities. Because the Bank has a different fiscal year end, these internal balances do not equal.

B. INVESTMENTS

The investment policies of the State of North Dakota are governed by NDCC 6-09-07, 15-10-12, and 21-04-02, indicating that all public funds must be deposited in the Bank of North Dakota unless there are other constitutional or statutory provisions. If there are no statutory provisions and the funds are invested outside the Bank of North Dakota, the state agency must have the permission of the North Dakota Industrial Commission.

Investments are generally managed by the State Investment Board, the North Dakota Board of University and School Lands, the Bank of North Dakota, and the North Dakota State Treasurer's Office. Management responsibilities and investment instruments as authorized by statute are as follows:

1. State Investment Board (SIB) – NDCC 21-10 designates the SIB with investment responsibilities for the Public Employees' Retirement System, Bonding Fund, Teachers' Fund for Retirement, Fire and Tornado Fund, Workforce Safety & Insurance Fund, and other specific funds. The Century Code states the SIB shall apply the prudent investor rule in investing funds under its supervision. The retirement funds belonging to the teachers' fund for retirement and the public employee's retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

   The State Investment Board's investment policy allows investment managers to use derivative securities. Managers are specifically permitted to use treasury futures and options, S&P 500 index future options, and currency forwards and futures to hedge portfolio risk, but not to speculate or to leverage the portfolio. Managers may use their discretion to use other derivatives to enhance returns, reduce risk, or facilitate the management of index funds. SIB's policy with respect to these derivatives is that their use may not increase the credit, market, or legal risk level associated with a fully invested portfolio of common stocks or fixed income obligations, depending on the manager's designated role.

2. North Dakota Board of University and Schools Lands – The Century Code states that the Board of University and School Lands shall apply the prudent investor rule in investing its funds. Also, NDCC 15-03 allows the Board to invest in first mortgages on farmlands to the extent such mortgages are guaranteed or insured by the United States or any instrumentality thereof, or if not so guaranteed or insured, not exceeding in amount 80 percent of the actual value of the property on which the same may be loaned, such value to be determined by competent appraisal.

3. The Bank of North Dakota – NDCC 6-09 authorizes the Bank of North Dakota. The Bank is owned and operated by the State of North Dakota under the supervision of the North Dakota Industrial Commission. The Bank may have investments in anything that any bank lawfully may do, except what is restricted by NDCC 6-09.

4. The North Dakota State Treasurer's Office – The North Dakota Constitution and various sections of the Century Code authorize the State Treasurer to invest all State funds deposited with the State Treasury. However, the State Treasurer must invest the public funds with the Bank of North Dakota unless there is statutory authority to do otherwise. Generally, the State Treasurer pools deposits and invests in money market accounts and Bank of North Dakota certificates of deposit.

5. University System – NDCC 15-55-05 and 15-55-06 govern the investment of proceeds of revenue bonds and revenues pledged to bondholders. Investments governed by a gift instrument are covered under NDCC 15-67-04. Subject to any limitations in the gift instrument, such funds may be invested in any real or personal property deemed advisable by the governing board.

Agency investments, of the primary government, under management of the State Investment Board are included below with the Pension and Investment Trust funds.

<u>INTEREST RATE RISK</u>

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 State 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. However, North Dakota Housing Finance's respective bond resolutions permit only investments that will not adversely affect the rating quality of the outstanding bonds. Also, the maturity date or the date on which such investment obligations may be redeemed shall coincide as nearly as practicable with the date or dates on which moneys in the funds or accounts for which the investments were made will be required. The Bank of North Dakota's investment policy provides for a duration range of one to five years, which will serve to decrease interest rate risk.

At June 30, 2010, the following table shows the debt securities of the primary government and major component units by investment type and maturity (expressed in thousands).

Primary Government (includes Pension and Investment Trust Funds)

Investment Type	Total Market Value	Less Than 1 Year	1 - 6 Years	6 - 10 Years	More Than 10 Years
Asset Backed Securities	$ 34,954	$ 6,461	$ 5,505	$ 2,557	$ 20,431
Commercial Mortgage-Backed	36,606	3,974	1,034	71	31,527
Corporate Bonds	1,072,966	141,258	491,738	258,612	181,358
Corporate Convertible Bonds	139,746	28	123,795	2,791	13,132
Government Agencies	163,031	27,054	106,715	14,717	14,545
Government Bonds	512,097	197,390	190,941	59,435	64,331
Government Mortgage-Backed	348,357	-	236,592	12,126	99,639
Index-Linked Government Bonds	114,002	1,652	109,577	-	2,773
Municipal/Provincial Bonds	30,402	1,350	7,020	1,080	20,952
Non-Government-Backed CMOs	70,861	16,004	-	6,127	48,730
Short Term Bills and Notes	5,455	5,455	-	-	-
Short Term Investment Funds	31,135	31,135	-	-	-
Pooled Investments	620,818	66,676	307,689	246,150	303
Total Debt Securities	$ 3,180,430	$ 498,437	$ 1,580,606	$ 603,666	$ 497,721

The market values of inflation-indexed bonds are reflected in the columns above, 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 (CMO's), 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 State has no policy regarding IO or PO strips.

Major Component Units

	Total Market Value	Less Than 1 Year	1 - 6 Years	6 - 10 Years	More Than 10 Years
US Treasuries and Agencies	$ 288	$ 30	$ 46	$ 211	$ 1
Money Market Funds	590	590	-	-	-
Corporate Bonds	2,685	190	1,035	1,345	115
Mutual Bond Funds	36,838	-	18,394	45	18,399
Total Debt Securities	$ 40,401	$ 810	$ 19,475	$ 1,601	$ 18,515

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State does not have an investment policy that specifically addresses credit risk, however the Bank of North Dakota has established a minimum credit quality rating for its investment in debt securities. The State Investment Board maintains a highly diversified portfolio of debt securities encompassing a wide range of credit ratings. 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 Bank of North Dakota's investment policy provides minimum credit quality ratings for its investments and asset allocation ranges for investments as a percentage of the total portfolio.

As of June 30, 2010, the following tables present the debt securities of the primary government and major

Primary Government (includes Pension and Investment Trust Funds) S&P Credit Rating*

	Total Market Value	AAA	AA	A	BBB
Asset Backed Securities	$ 34,955	$ 13,216	$ 5,543	$ 1,820	$ 5,632
Commercial Mortgage-Backed	35,814	26,988	1,943	3,503	2,323
Corporate Bonds	1,050,774	22,460	45,087	187,627	440,515
Corporate Convertible Bonds	139,747	2,336	1,556	22,746	26,303
Government Agencies	153,914	143,918	1,242	3,785	3,725
Government Bonds	205,161	141,298	529	28,789	11,057
Government Mortgage Backed	183,522	183,219	-	-	303
Index Linked Government Bonds	112,350	2,773	-	-	-
Municipal/Provincial Bonds	21,186	3,172	5,031	7,431	1,149
Non-Government Backed CMOs	70,860	35,323	2,037	1,464	1,576
Pooled Investments	651,953	262,433	256,418	1,637	119,731
Total Credit Risk Debt Securities	2,660,236	$ 837,136	$ 319,386	$ 258,802	$ 612,314
US Gov't & Agencies	520,194				
Total Debt Securities	$ 3,180,430				

*Majority of debt securities rated by S&P, however some were determined by Moody's, Fitch or manager determined.

component units, and their respective ratings (expressed in thousands).

BB	B	CCC	CC	C	D	Not Rated
$ 575	$ 4,327	$ 1,235	$ 63	$ -	$ 176	$ 2,368
-	-	-	-	-	-	1,057
131,063	93,768	24,282	1,754	347	1,643	102,228
26,812	17,982	6,705	-	-	-	35,307
103	136	-	-	-	-	1,005
5,010	170	-	-	-	-	18,308
-	-	-	-	-	-	-
-	-	-	-	-	-	109,577
2,751	-	-	-	-	-	1,652
4,746	5,365	14,772	1,769	278	566	2,964
2,087	9,452	-	-	-	-	195
$ 173,147	$ 131,200	$ 46,994	$ 3,586	$ 625	$ 2,385	$ 274,661

Component Units

S & P Credit Rating*	Total Market Value	Money Market Funds	Corporate Bonds	Mutual Bond Funds
AAA	$ 401	$ -	$ 186	$ 215
AA	523	-	523	-
A	1,165	-	1,040	125
BBB	955	-	114	841
BB	105	-	105	-
B	171	-	171	
C	25	-	25	-
NR	36,768	590	521	35,657
Total Credit Risk Debt Securities	40,113	$ 590	$ 2,685	$ 36,838
US Treasuries	288			
Total Debt Securities	$ 40,401			

*Majority of debt securities rated by S&P, however some were determined by Moody's, Fitch or manager determined.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State does not have an investment policy that specifically addresses concentrations of credit risk in a single issuer, however the Bank of North Dakota has established asset allocation ranges for investments as a percentage of their total portfolio.

The Bank of North Dakota had the following concentrations at June 30, 2010 (expressed in thousands):

	Amount	Percent
Federal Agency		
Federal Home Loan Bank	$ 67,147	16.9%
Mortgage-backed		
Fannie Mae	74,449	18.8%
Freddie Mac	80,601	20.3%
Corporate Bonds		
Bank of America	25,195	6.3%
JP Morgan Chase & Co	25,149	6.3%
Morgan Stanley	25,173	6.3%
Federal Home Loan Bank Stock	22,193	5.6%

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 State Investment Board does not have a formal investment policy governing foreign currency risk, the board 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 Board of University and School Lands treats currency exposure in two different ways, depending on the type of investment. For the Board's international equity portfolio, the currency exposure is not hedged, as currency exposure is one of the things that add diversity to the overall portfolio. For foreign bonds, the Board fully hedges the currency exposure, as the purpose of this portfolio is to generate income for distribution to trust beneficiaries. The board does not have a formal policy regarding foreign currency risk.

At June 30, 2010, foreign currency risk exposure on investments managed by the Board of University and School Lands and State Investment Board were as follows (expressed in thousands).

Primary Government (includes Pension and Investment Trust Funds)

Currency	Short-Term	Debt	Equity	Total
Australian dollar	$ (11,700)	$ 10,287	$ 21,648	$ 20,235
Brazilian real	-	5,849	8,369	14,218
British pound sterling	362	6,122	71,106	77,590
Canadian dollar	(3,823)	4,198	8,358	8,733
Chinese yuan renminbi	2,236	-	-	2,236
Danish krone	(311)	19	3,918	3,626
Euro	(26,079)	(368)	111,916	85,469
Hong Kong dollar	(2,958)	-	9,316	6,358
Hungarian forint	(254)	190	-	(64)
Iceland krona	30	-	-	30
Indonesian rupiah	-	4,931	-	4,931
Israeli shekel	-	-	1,200	1,200
Japanese yen	(24,088)	-	75,123	51,035
Malaysian ringgit	-	5,607	-	5,607
Mexican peso	(313)	6,973	-	6,660
New Zealand dollar	1,456	4,111	126	5,693
Norwegian krone	1,703	2,481	2,644	6,828
Polish zloty	(135)	6,518	-	6,383
Singapore dollar	(589)	-	4,100	3,511
South African rand	-	1,382	61	1,443
South Korean won	-	6,070	544	6,614
Swedish krona	(5,093)	5,581	7,176	7,664
Swiss franc	(8,281)	-	28,791	20,510
Turkish lira	3,989	-	-	3,989
International commingled funds (various currencies)	-	75,976	332,729	408,705
Total international investment securities	$ (73,848)	$ 145,927	$ 687,125	$ 759,204

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 States' 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, the State 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 States' 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 Statement of Changes in Net Assets and totaled $97.4 million. At June 30, 2010, the State investment portfolio had the notional futures shown below (expressed in thousands).

Futures	Notional Value
Cash and cash equivalent derivative futures	
Long	$110,876
Short	(31,990)
Equity derivative futures	
Long	492,773
Short	-
Fixed income derivative futures	
Long	40,488
Short	(43,571)
Total futures	$568,576

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 States' 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 State, 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 State, through its investment manager, pays a premium at the beginning of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Gains and losses on options are determined based on fair values and recorded with the net change in fair value of investments in the Statement of Changes in Net Assets and totaled $1.5 million. At June 30, 2010, the State investment portfolio had the following option balances (expressed in thousands).

Options	Fair Value
Cash and cash equivalent options	
Call	$ (22)
Put	-
Equity options	
Call	-
Put	1,934
Fixed income options	
Call	25
Put	(2)
Total options	$ 1,935

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 State, 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. 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. The maximum loss that would be recognized at June 30, 2010, if all counterparties failed to perform as contracted is $345 thousand. Swap fair values are determined by a third party pricing source. At June 30, 2010, the States' investment portfolio had the swap fair value balances as shown below (expressed in thousands).

Credit Default Swaps

Counterparty	Notional Amount	Expiration Date	Fair Value
Deutsche Bank AG New York	$ 45	3-20-2014	$ (9)
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)
Total credit default swaps	$ 345		$ (13)

Interest Rate Swaps

Counterparty	Notional Amount	Rate	Counterparty Rate	Expiration Date	Fair Value
Barclays Bank PLC London	$ 1,376	4.25%	LIBOR*	4-27-2013	$ 23

*One month London interbank Offered Rate (LIBOR)

Currency Forwards – Currency forwards represent forward exchange contracts that are entered into in order to manage the exposure to changes in currency exchange rates on the currency denominated portfolio holdings. A forward exchange contract is a commitment to purchase or sell a currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net change in fair value of investments in the Statement of Changes in Net Assets and totaled $9.8 million. At June 30, 2010, the States' investment portfolio included the currency forwards balances shown below (expressed in thousands).

Currency	Cost	Purchases	Sales	Fair Value
Australian dollar	$ (20,566)	$ 495	$ (19,781)	$ (19,286)
Brazilian real	270	4,201	(4,201)	-
British pound sterling	(16,125)	11,662	(27,651)	(15,989)
Canadian dollar	(12,535)	86	(12,435)	(12,349)
Chinese yuan renminbi	2,281	2,236	-	2,236
Danish krone	(5,243)	-	(5,194)	(5,194)
Euro	(74,628)	3,931	(77,611)	(73,680)
Hong Kong dollar	(4,417)	-	(4,417)	(4,417)
Hungarian forint	30,805	8	(2,067)	(2,059)
Japanese yen	(28,483)	-	(29,226)	(29,226)
Mexican peso	(1,914)	150	(2,019)	(1,869)
New Zealand dollar	(1,459)	1,840	(3,177)	(1,337)
Norwegian krone	(1,217)	2,361	(3,560)	(1,199)
Polish zloty	(1,745)	1,882	(3,549)	(1,667)
Singapore dollar	(653)	-	(652)	(652)
Swedish krona	(5,197)	2,956	(8,049)	(5,093)
Swiss franc	(11,808)	-	(12,292)	(12,292)
Turkish lira	3,941	3,989	-	3,989
United States dollar	181,803	217,538	(35,735)	181,803
Total forwards subject to currency risk				$ 1,719

Derivative Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the value of an interest rate-based derivative investment. The State does not have a formal investment policy regarding such derivative investments. At June 30, 2010, the tables below show the States' derivative investments subject to interest rate risk (expressed in thousands).

	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 Market 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	$ -

Mill and Elevator Derivative Financial Instruments – The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010, and the changes in fair value of such derivative instruments for the year then ended as reported in the State's financial statements are $618,488, classified as derivative-grain futures contract (one contract equals 5,000 bushels) and $618,488, classified as deferred inflowed of resources. The fair value of the grain futures contracts was determined on the Minneapolis Grain Exchange. The margin requirement is $.60 per bushel, unless the market price changes the limit for two consecutive days, then the margin requirement is $.90 per bushel. The Mill has entered into futures contracts for spring wheat to lock in a price for a future delivery or settlement period. These contracts are entered into to protect the Mill against price fluctuation of the commodity. The price protection is needed to cover any long or short positions compared to flour sales.

Futures	Brokerage Firm	Number of Contracts	Average Cost	Fair Value	Effective Date
Sept 2010	ADM Investor Services	(202)	$ 5.3480	$ 5.1225	June 2010
Sept 2010	MF Global	(277)	5.3820	5.1225	June 2010
Dec 2010	ADM Investor Services	22	5.3160	5.2850	June 2010
Dec 2010	MF Global	133	5.2400	5,2850	March, April, June 2010
March 2011	MF Global	41	5.4530	5.4825	Sept 2009, Jan, March, June 2010
May 2011	MF Global	3	5.6600	5.5775	May 2010

The Mill is exposed to credit risk on hedging derivative instruments that are in asset positions. All grain futures trades are completed using two different national brokerage firms on the Minneapolis Grain Exchange. The firms are rated A and BBB by the Standard & Poors Rating Service.

The Mill is exposed to rollover risk on grain futures trades whenever the hedge ration (defined in aggregate of the size across all futures months relative to the underlying net cash position) does not equal 1.0. At June 30, 2010, the table below shows the hedge ratio by futures month going forward:

Period	Hedge Ratio
Sept 2010	0.9
Dec 2010	1.0
Mar 2011	1.1
May 2011	0.9
Net Position	0.9

Alternative Investments - In relation to investment asset allocation, the State 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 State 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 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.

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 State 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 market values (publically traded stocks or bonds). The State owns units of these funds rather than the individual securities. Contributions or withdrawals from these fund can be done as needed.

Private Equity – See definition above. The State 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 Equity - See definition above. The State 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 State 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 State 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 State utilizes this strategy in its US equity and fixed income 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 in Real Estate and Real Estate 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 State 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 State 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 State has included these types of investments in fixed income asset allocations.

C. SECURITIES LENDING

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

Primary Government (Includes Pension and Investment Trust Funds)

Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for cash collateral:			
US agency securities	$ 7,721	$ -	$ 7,920
US government securities	13,506	-	13,754
US corporate fixed income securities	71,160	-	73,140
Global government fixed income securities	2,862	-	3,014
US equities	40,476	-	42,075
Global equities	3,478	-	3,712
Lent for non-cash collateral:			
US agency securities	-	-	-
US government securities	-	47	-
US corporate fixed income securities	266	273	-
US equities	16	16	-
Global equities	-	-	-
Total	$ 139,485	$ 336	$ 143,615

D. ENDOWMENT FUNDS

The endowment funds reported herein are donor-restricted funds in the custody of the University System. NDCC Section 59-21 applies to the investment of endowments governed by a gift instrument. Subject to any limitations in the gift instrument such funds may be invested in any real or personal property deemed advisable by the governing board. NDCC Section 59-21-02.5a(7) applies to standard of conduct in the administration of powers to make and retain investments. It states that in managing and investing an institutional fund, the needs of the institution and the fund to make distributions and to preserve capital must be considered. Given the flexibility in NDCC 59-21-02, campuses have differing policies with respect to spending investment income and net appreciation on endowment funds. UND's policy allows up to 4.5% of the average of the last five years of assets in the Alerus endowment pool to be expended. NDSU allows expenditure of 80 percent of appreciation. MiSU allows for 4.5 percent of earning to be used for scholarships and .5 percent for administrative expenses. MaSU, VCSU, and WSC give departments authority to spend all investment income earned on the endowment funds. Net appreciation on investments are available for expenditure and consists of the following at June 30, 2010:

		Reflected in net assets as:
Mayville State University	$ 453	Expendable scholarships & fellowships
Minot State University	54,568	Expendable scholarships & fellowships
University of North Dakota	458,000	Non –expendable scholarships & fellowships
Williston State College	3,685	Cash in bank
Total NDUS	$ 516,706	

Endowment funds reported herein do not include the Federal Land Grant Fund held by the State Land Department. The annual proceeds from assets held by the State Land Commissioner are deposited into each college/university's operating fund at the State Treasury and are used for current operating purposes. Bismarck State College, Lake Region State College and Williston State College do not participate in the proceeds allocated by the State Land Department. Total assets held by the State Land Department and proceeds for the fiscal year ended June 30, 2010 are $51.7 million and $1.67 million respectively.

E. REVERSE REPURCHASE AGREEMENTS

State statutes permit the State to enter into reverse repurchase agreements, that is, the sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in fair value of the securities. All sales of investments under these agreements are for fixed terms. In investing the proceeds of these agreements, State policy is for the term to maturity of the investment to be the same as the term of the agreement. Such matching existed at year end. These agreements are secured by Fed book-entry securities held in the State's name. At June 30, 2010, the State had reverse repurchase agreements of $8,117,000 included in securities lending collateral on the statement of net assets. The highest month end balance for the previous year was $8,117,000, with an average daily balance of $1,434,000. The weighted average interest rate as of year end was 0.25 percent. The weighted average interest rate paid during the year was .25 percent. The fair value of these securities at June 30, 2010, was $8,117,000.

F. RECEIVABLES

Receivables at June 30, 2010, consist of the following (expressed in thousands):

	General	Federal	School Permanent Trust Fund	Other Governmental Funds	Bank of North Dakota	Housing Finance	Mill & Elevator	University System
Receivables:								
Accounts	$ 8,056	$ 6,629	$ 15,406	$ 47,004	$ -	$ 547	$ 30,355	$ 20,945
Less Allowance	(4,208)	-	-	(12,711)	-	-	(1,753)	(3,451)
Taxes	210,477	-	2,800	113,247	-	-	-	-
Less Allowance	(22,014)	-	-	(294)	-	-	-	-
Interest	1,336	-	9,690	2,696	34,548	4,014	-	-
Less Allowance	-	-	-	(959)	-	-	-	-
Current Loans and Notes	193	209	2,870	64,357	453,618	17,773	287	10,405
Less Allowance	(26)	-	-	(3,332)	-	-	-	(1,475)
Noncurrent Loans and Notes	-	-	40,968	-	2,246,121	904,626	-	37,525
Less Allowance	-	-	-	-	(42,468)	-	-	(5,415)
Net Receivables	$ 193,814	$ 6,838	$ 71,734	$ 210,008	$ 2,691,819	$ 926,960	$ 28,889	$ 58,534

	Workforce Safety & Insurance	Other Enterprise Funds	Internal Service Funds	Fiduciary Funds	Major Component Units	Total
Receivables:						
Accounts	$ 38,777	$ 29,897	$ 340	$ 23	$ 26,422	$ 224,401
Less Allowance	(4,500)	(5,102)	-	-	-	(31,725)
Taxes	-	-	-	19,230	-	345,754
Less Allowance	-	-	-	(2,191)	-	(24,499)
Interest	7,770	2,045	56	9,531	4,391	76,077
Less Allowance	-	-	-	-	-	(959)
Current Loans and Notes	-	8,885	-	-	2,366	560,963
Less Allowance	-	-	-	-	-	(4,833)
Noncurrent Loans and Notes	-	69,137	-	-	13,396	3,311,773
Less Allowance	-	(973)	-	-	(4,502)	(53,358)
Net Receivables	$ 42,047	$ 103,889	$ 396	$ 26,593	$ 42,073	$ 4,403,594

G. INTERFUND ACCOUNTS AND TRANSFERS

DUE FROM OTHER FUNDS/DUE TO OTHER FUNDS

Interfund balances at June 30, 2010, consist of the following (expressed in thousands):

Due To General Fund From:	
Federal Fund	$ 93,319
Nonmajor Governmental Funds	18,439
Bank of North Dakota	1,871
Mill and Elevator	6,260
Nonmajor Enterprise Funds	5,157
All Others	785
Total Due To General Fund	$ 125,831

Due To Federal Fund From:	
General Fund	$ 2,193
Nonmajor Governmental Funds	15,628
All Others	277
Total Due To Federal Fund	$ 18,098

Due To Internal Service Funds From:	
General Fund	$ 2,998
Federal Fund	707
Nonmajor Governmental Funds	879
University System	705
All Others	495
Total Due To Internal Service Funds	$ 5,784

Due To School Permanent Trust Fund From:	
Nonmajor Enterprise Funds	$ 2,788
All Others	917
Total Due To School Permanent Trust Fund	$ 3,705

Included in the Nonmajor Enterprise Funds is an advance from the Developmentally Disabled Fund for $636,568. This is not expected to be repaid within one year.

Due To Nonmajor Governmental Funds From:	
General Fund	$ 703
Federal Fund	6,459
Nonmajor Governmental Funds	2,084
Internal Service Funds	7,248
All Others	436
Total Due To Nonmajor Governmental Funds	$ 16,930

Due To Bank of North Dakota From:	
Housing Finance	$ 7,574
Mill and Elevator	6,000
Nonmajor Enterprise Funds	612
All Others	323
Total Due To Bank of North Dakota	$ 14,509

Included in the Nonmajor Enterprise Funds amount is a loan to Roughrider Industries for $434,962. Of this $385,030 is not expected to be repaid within one year.

Due To University System From:	
General Fund	$ 11,532
Federal Fund	3,091
Nonmajor Enterprise Funds	1,138
All Others	351
Total Due To University System	$ 16,112

Due To All Other Funds From:	
All Other	$ 1,533

Included in this category are all other enterprise funds and fiduciary funds.

These balances are a result of a time lag between the dates that (1) services are provided and goods received or reimbursable expenditures occur, (2) the payments are made, (3) the transactions are entered into the accounting system, and (4) because of transactions occurring between funds with a fiscal year other than June 30, 2010.

A reconciliation of Due From's and Due To's is presented below (expressed in thousands):

Due From's		$ 202,502
Differences:		
Bank of ND/General Fund	(1,871)	
Bank of ND/Housing Finance	(7,588)	
Mill & Elevator/Bank of ND	7,400	
Bank of ND/University System	2,473	
Bank of ND/Student Loan Trust	23	
School Permanent Trust Fund/ Developmentally Disabled Loan Fund	(85)	
Bank of ND/Guaranteed Student Loan	779	
Governmental Agencies/Bank of ND	3,191	
Enterprise Funds/Bank of ND	171	
Total Differences		4,493
Due To's		$ 206,995

In addition, the total Internal Receivables and Internal Payables on the Government-wide Statement of Net Assets does not equal due to activity occurring between funds that have different fiscal year ends.

INTERFUND TRANSFERS

A summary of interfund transfers for the fiscal year ended June 30, 2010, follows (expressed in thousands):

	Transfers In						
	General	Federal	Non-major Governmental	Housing Finance	University System	Non-major Enterprise	Total
Transfers Out							
General	$ -	$ 41	$ 45,597	$ -	$ 330,381	$ 11,992	$ 388,011
Federal	-	-	22,076	4,603	-	-	26,679
School Permanent Trust Fund	-	-	39,485	-	1,648	-	41,133
Non-major Governmental	312,103	381	33,509	-	23,666	-	369,659
Bank of North Dakota	15,000	-	-	-	-	-	15,000
Housing Finance	-	-	30	-	-	-	30
University System	-	-	6,675	-	-	-	6,675
Non-major Enterprise	-	-	8,244	-	-	-	8,244
Mill & Elevator	-	-	6,954	-	-	-	6,954
Total	$ 327,103	$ 422	$ 162,570	$ 4,603	$ 355,695	$ 11,992	$ 862,385

(Transfers In do not agree to the statements due to the timing differences noted below.)

Transfers are used for the following purposes:
- Move general fund appropriation amounts to certain agencies.
- Move revenues from the fund that statute requires to collect them to the fund authorized to spend them.
- Move certain excess revenues collected in other funds to the general fund.
- Move receipts restricted for debt service from the funds collected to the debt service funds as payments become due, and move capital project funds paying the construction costs.

For the year ended June 30, 2010, legislatively-mandated transfers were made to the general fund of $295 million and $5.1 million from the Permanent Oil Tax and the State Lottery respectively.

A reconciliation of Transfers In and Transfers Out is presented below (expressed in thousands):

Transfers In		$ 836,674
Differences:		
General Fund/Bank of ND	15,000	
Federal Fund/Bank of ND	(1)	
Beginning Farmer/PACE	110	
State Fair/Bank of ND	10,602	
Total Differences		25,711
Transfers Out		$ 862,385

The above timing differences of $25,711,000 result from transactions between agencies that have different fiscal year ends. This difference is also the total net transfers on the Government-wide Statement of Activities.

H. CAPITAL ASSETS

PRIMARY GOVERNMENT:

The following is a summary of capital assets during the fiscal year (expressed in thousands):

Description	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Governmental Activities:				
Capital Assets Not Being Depreciated				
Land	$ 68,120	$ 1,268	$ (50)	$ 69,338
Construction in Progress	442,892	95,903	(80,447)	458,348
Total Capital Assets Not Being Depreciated	511,012	97,171	(80,497)	527,686
Capital Assets Being Depreciated:				
Buildings and Improvements	436,299	9,541	(209)	445,631
Equipment	214,785	36,020	(14,759)	236,046
Intangibles				
Software	61,852	5,355	-	67,207
Other	4,834	960	-	5,794
Infrastructure	3,145,263	111,467	(10)	3,256,720
Total Capital Assets Being Depreciated	3,863,033	163,343	(14,978)	4,011,398
Less Accumulated Depreciation for:				
Buildings and Improvements	(185,665)	(9,875)	108	(195,432)
Equipment	(102,122)	(17,755)	11,223	(108,654)
Intangibles				
Software	(31,316)	(5,374)	-	(36,690)
Other	(728)	(582)	-	(1,310)
Infrastructure	(2,509,557)	(40,798)	10	(2,550,345)
Total Accumulated Deprecation	(2,829,388)	(74,384)	11,341	(2,892,431)
Total Capital Assets Being Depreciated, Net	1,033,645	88,959	(3,637)	1,118,967
Governmental Activities Capital Assets, Net	$ 1,544,657	$ 186,130	$ (84,134)	$ 1,646,653

Infrastructure assets of the State Water Commission, with a carrying value of $30,516,290 are considered temporarily impaired at June 30, 2010.

Description	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Business-Type Activities:				
Capital Assets Not Being Depreciated				
Land	$ 18,764	$ -	$ -	$ 18,764
Construction in Progress	42,869	64,982	(30,891)	76,960
Total Capital Assets Not Being Depreciated	61,633	64,982	(30,891)	95,724
Capital Assets Being Depreciated:				
Buildings and Improvements	917,418	56,249	(634)	973,033
Equipment	394,345	39,565	(16,780)	417,130
Intangibles				
Software	30,291	1,679	(6)	31,964
Other	339	177	-	516
Infrastructure	158,422	6,064	(6)	164,480
Total Capital Assets Being Depreciated	1,500,815	103,734	(17,426)	1,587,123
Less Accumulated Depreciation for:				
Buildings and Improvements	(397,146)	(22,780)	557	(419,369)
Equipment	(243,245)	(24,474)	14,881	(252,838)
Intangibles				
Software	(15,745)	(2,366)	-	(18,111)
Other	(11)	(39)	-	(50)
Infrastructure	(68,945)	(4,133)	-	(73,078)
Total Accumulated Deprecation	(725,092)	(53,792)	15,438	(763,446)
Total Capital Assets Being Depreciated, Net	775,723	49,942	(1,988)	823,677
Business-Type Activities Capital Assets, Net	$ 837,356	$ 114,924	$ (32,879)	$ 919,401

Description	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Major Component Units:				
Capital Assets Not Being Depreciated				
Land	$ 3,237	$ 21	$ -	$ 3,258
Construction in Progress	1	-	(1)	-
Total Capital Assets Not Being Depreciated	3,238	21	(1)	3,258
Capital Assets Being Depreciated:				
Buildings and Improvements	131,877	333	-	132,210
Equipment	30,218	5,439	(2,210)	33,447
Infrastructure	1,248	-	-	1,248
Total Capital Assets Being Depreciated	163,343	5,772	(2,210)	166,905
Less Accumulated Depreciation for:				
Buildings and Improvements	(33,769)	(6,592)	-	(40,361)
Equipment	(7,898)	(2,913)	413	(10,398)
Infrastructure	(262)	(40)	-	(302)
Total Accumulated Deprecation	(41,929)	(9,545)	413	(51,061)
Total Capital Assets Being Depreciated, Net	121,414	(3,773)	(1,797)	115,844
Major Component Unit Capital Assets, Net	$ 124,652	$ (3,752)	$ (1,798)	$ 119,102

Beginning capital asset balances were adjusted for certain reclassifications.

Depreciation expense was charged to functions/programs of the primary government as follows (expressed in thousands):

Governmental Activities:		
General Government	$	9,259
Education		340
Health and Human Services		4,054
Regulatory		296
Public Safety & Corrections		8,080
Agriculture and Commerce		146
Natural Resources		7,798
Transportation		44,411
Total Governmental Activities Depreciation Expense	$	74,384

Construction In Progress is composed of the following (expressed in thousands):

Project Description:

Governmental Activities	Amount Authorized	Amount Expended Through June 30, 2010	Balance Authorized
Office of Management and Budget	$ 1,500	$ 1,500	$ -
State Courts	1,948	1,376	572
Legislative Assembly	6,130	3,674	2,456
Secretary of State	1,807	1,807	-
State Historical Society	51,700	1,904	49,796
Veterans Home	35,077	21,157	13,920
Department of Human Services	5,446	4,011	1,435
Adjutant General	43,349	34,389	8,960
Department of Corrections	64,534	2,921	61,613
Job Service North Dakota	5,516	211	5,305
Department of Transportation	500,844	385,265	115,579
Seed Department	375	133	242
Total Governmental Activities	$ 718,226	$ 458,348	$ 259,878

Business-Type Activities	Amount Authorized	Amount Expended Through June 30, 2010	Balance Authorized
Workforce Safety and Insurance	$ 14,000	$ 9,426	$ 4,754
State Fair	1,614	1,220	394
PERS Group Insurance	2,759	2,450	309
University System	187,758	63,864	123,894
Total Business-Type Activities	$ 206,131	$ 76,960	$ 129,351

I. OPERATING LEASES

PAYMENTS ON OPERATING LEASES

The State is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the resulting expenditures are recognized as incurred. Lease expenditures for the year ended June 30, 2010, amounted to $12,121,220 for governmental activities and $9,982,899 for business-type activities.

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2010, for all fund types are as follows (expressed in thousands):

Year Ending June 30	Governmental Activities	Business-type Activities
2011	$ 8,838	$ 7,835
2012	2,913	5,650
2013	1,484	4,402
2014	837	3,452
2015	653	2,657
2016-2020	998	7,376
2021-2025	119	11
Total Minimum Lease Payments	$ 15,842	$ 31,383

J. CAPITAL LEASES

The State is obligated under certain leases accounted for as capital leases. In the government-wide and proprietary fund statements, capital assets and a corresponding liability are recorded at the inception of the lease. The liability is reduced by payments of principal, with a portion of the payment allocated to interest expense. For capital leases in governmental funds, other financing sources and expenditures are recorded at lease inception. Lease payments are recorded as debt service expenditures.

The schedule below lists the future minimum lease payments under these capital leases and the present value of the net minimum lease payments at June 30, 2010 (expressed in thousands):

Year Ending June 30	Governmental Activities	Business-type Activities	Major Component Units
2011	$ 1,237	$ 10,551	$ 131
2012	1,016	8,189	126
2013	814	7,844	126
2014	17	7,254	126
2015	4	6,844	126
2016-2020	-	28,627	632
2021-2025	-	16,244	632
2026-2030	-	14,198	632
2031-2035	-	4,572	442
2036-2040	-	1,821	-
2041-2045	-	364	-
Total Minimum Lease Payments	3,088	106,508	2,973
Less: Amount Representing Interest	(246)	(34,047)	(1,189)
Present Value of Future Minimum Lease Payments	$ 2,842	$ 72,461	$ 1,784

The historical costs of assets acquired under capital leases, and included as capital assets on the government-wide statement of net assets at June 30, 2010, is as follows (expressed in thousands):

	Governmental Activities	Business-Type Activities	Major Component Units
Infrastructure	$ -	$ 1,660	$ -
Buildings	-	63,918	-
Equipment	10,463	33,337	1,978
Less: Accumulated Depreciation	(6,207)	(33,149)	(599)
Total	$ 4,256	$ 65,766	$ 1,379

K. LONG-TERM DEBT

Debt authorized is generally limited by the state constitution. The Constitution of North Dakota provides that the State may issue or guarantee the payment of bonds, provided that all bonds in excess of $2 million are: (1) secured by first mortgage upon property and no further indebtedness may be incurred by the State unless evidenced by a bond issue; (2) authorized by law; (3) for a certain purpose; (4) provisioned to pay the interest semiannually; and (5) the principal is paid within 30 years. Additionally, the law authorizing the bond issue must specifically appropriate the provisions to the payment of the principal and interest of the bond.

BONDS AND NOTES PAYABLE

Bonds payable at June 30, 2010, consisted of bonds issued by the State and are accounted for by the respective state agencies in the government-wide financial statements that issued the bonds.

1. REVENUE BONDS

Current state statutes empower certain state agencies to issue bonds as part of their activities. This debt is not backed by the full faith and credit of the State of North Dakota. The principal and interest on such bonds shall be payable only from the applicable agency's program income.

Primary Government

Building Authority

The 2002 Series C Bonds have interest payable semiannually on February 15 and August 15 of each year. The 2001 Series A Bonds, the 2002 Series A and D Bonds, the 2003 Series B and C Bonds, the 2005 Series A Bonds, and the 2006 Series A and B Bonds have interest payable semiannually on June 1 and December 1 of each year. The bonds of each series are subject to optional and/or extraordinary optional redemption prior to maturity upon the occurrence of certain events. The bonds are independently secured by the funds, certain mortgaged property, and all rights, titles, and interests of the Building Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Building Authority with respect to the lease.

All the bond agreements require the establishment and maintenance of reserve funds to be used for debt service payments if amounts in the bond funds are insufficient to make payments. Reserve funds are also required for any positive arbitrage due to the federal government.

Water Commission

The Water Commission was granted authority to issue bonds to finance various flood control and pipeline projects throughout the state of North Dakota.

Interest is payable semiannually on January 1 and July 1 of each year for the Series 2000 A Term Bonds and Series 2007 B, and February 1 and August 1 for the Series 2000 A, 2005 A, 2005 B and 2007 B Serial Bonds. Interest is payable annually on July 1 of each year for all other series bonds. The bonds of each series are subject to optional and/or extraordinary optional redemption prior to maturity at the option of the Water Commission or the occurrence of certain events. All redemption prices are at par plus accrued interest.

Department of Transportation

The North Dakota Department of Transportation (NDDOT) is authorized pursuant to NDCC 24-02, to issue grant and revenue anticipation bonds for the purpose of financing certain qualified federal aid transportation projects. The Series 2005 Bonds are limited obligations of NDDOT, payable solely from federal transportation funds, pledged state highway funds and other moneys.

Interest on the Series 2005 Bonds is payable on June 1 and December 1, of each year. Bonds maturing on or after June 1, 2016, are subject to redemption prior to maturity at the option of NDDOT, at any time on or after June 1, 2015, at a redemption price equal to 100% of the principal amount plus accrued interest.

State Fair

Interest on the 2001 Series Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on December 1, 2011, are not subject to optional redemption prior to maturity, except under extraordinary circumstances.

Student Loan Trust

Interest is payable semiannually on June 1 and December 1 of each year. The proceeds of the Series 2000 B Bonds were used to provide funds for the acquisition of student loans from the Bank of North Dakota. The 2000 Series B Bonds are fixed rate bonds. Under certain conditions, the Industrial Commission may call for early redemption of the 2000 Series B Bonds at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

Interest is payable semiannually on June 1 and December 1 of each year. The 2004 Series A Bonds are variable rate bonds. The rate of interest is determined based on the lesser of either the one-month LIBOR plus .7% or Federal Home Loan Bank plus .7%. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the variable rate bonds are outlined in Section 2.1 of the Fourth Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution. Section 2.2 of the Fourth Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution has deemed these to be Federally Taxable Bonds. The Series 2004 Bonds are subject to redemption prior to maturity at the option of the Commission from any source of funds, in whole or in part, on any date at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

Interest is payable semiannually on June 1 and December 1 of each year. The Subordinate Series 2004 Bonds are variable rate bonds. The rate of interest is determined based on the lesser of either the one-month LIBOR plus .7% or Federal Home Loan Bank plus .7%. Details of the terms and provisions of the variable rate bonds are outlined in Section 2.1 of the Fourth Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution. The Subordinate Series 2004 Bonds are subject to redemption prior to maturity at the option of the commission from any source of funds, in whole or in part, on any date at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

Housing Finance

Housing Finance Bonds were issued to provide financing to purchase mortgage loans to finance multifamily housing projects. The bonds are the direct obligation of the Housing Finance Agency and are secured by the mortgage loans purchased under the applicable resolutions; the revenues, prepayments, insurance and foreclosure proceeds received related to the mortgage loans; and certain funds and accounts established pursuant to the applicable bond resolution. The term bonds of all bond series have mandatory sinking fund requirements starting in 1998.

Revenues Pledged – The agency has homeownership bonds outstanding in the amount of $1,067,743 maturing at various times from July 1, 2010, through July 1, 2041. The bonds have been issued to provide financing to purchase mortgage loans. Annual principal and interest payments on the bonds are expected to require 98 percent of net revenues. Principal and interest paid for the current year and total customer net revenues $255,370 and $166,885, respectively. Bond principal was reduced through customer revenues and the refunding of older bonds with proceeds from new bond issues.

Major Component Units

Public Finance Authority

The bonds of the Public Finance Authority were issued to provide financing to purchase municipal securities in order to provide local political subdivisions with funds to finance local projects. The bonds are direct obligations of the Public Finance Authority and are secured by municipal securities purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions.

Revenue Bonds outstanding (expressed in thousands):

Fund Type/Fund	Maturities	Interest Rates	Balance 6/30/09
Primary Government			
Governmental:			
Building Authority	2011-2025	2.50-5.25	$ 84,334
Water Commission	2011-2049	2.50-5.50	101,903 [1)]
Department of Transportation	2011-2020	3.00-5.00	42,942
Information Technology Department	2011-2014	4.00-5.25	2,923
Proprietary:			
State Fair	2011-2012	3.50-4.60	776
Student Loan Trust	2011-2029	1.05-5.85	14,200 [2)]
Housing Finance:			
Homeownership	2011-2042	0.00-6.15	1,067,743 [2)]
University System:			
VCSU—Valley City	2011-2033	5.68-7.25	3,085
Williston State College	2011-2019	0-3.00	256
Lake Region State College	2011-2017	3.00-5.125	675
UND—Grand Forks	2011-2036	1.00-5.00	70,139
NDSU—Fargo	2011-2037	1.5-5.60	111,110
NDSCS—Wahpeton	2011-2016	4.0-5.50	780
MiSU–Minot	2011-2030	0-6.60	15,241
Dakota College of Bottineau	2011-2012	6.25-6.90	56
MaSU—Mayville	2011-2018	1.55-6.63	5,859
DSU—Dickinson	2011-2020	3.75-5.00	575
BSC—Bismarck	2011-2030	3.4-5.35	3,915
NDUS – Univ. Sys. State Office	2011-2014	4.28	6,958
Total Revenue Bonds Payable— Primary Government			$ 1,533,470
Major Component Units			
Proprietary:			
Public Finance Authority	2011-2034	2.00-10.00	$ 164,282
NDSU Research and Technology Park, Inc.	2011-2032	3.00-5.40	27,335
NDSU Development Foundation	2011-2039	1.50-5.19	21,736
Arena Holdings Charitable LLC	2011-2030	4.60	3,522
UND Foundation	2011-2027	2.50-5.00	13,252
DSU Foundation	2011-2024	5.89	9,200
BSC Foundation	2011-2032	4.50-5.25	3,431
Total Revenue Bonds Payable— Major Component Units			$ 242,758

1) Approximately $53 million of the Water Commission's bonds payable is not associated with fixed assets of the State.
2) Entire amount of bonds payable are not associated with fixed assets of the State.

Debt service requirements to maturity on revenue bond issues for the fiscal years ending June 30 are summarized below (expressed in thousands):

Primary Government:

Governmental Activities

Fiscal Year	Principal	Interest
2011	$ 15,653	$ 10,097
2012	16,707	9,339
2013	16,720	8,675
2014	17,630	7,970
2015	17,297	7,233
2016-2020	81,501	24,638
2021-2025	46,896	9,202
2026-2030	9,644	2,112
2031-2035	2,777	956
2036-2040	1,201	645
2041-2045	1,478	380
2046-2050	925	88
Bond Premium	3,673	(3,673)
Total	$ 232,102	$ 77,662

Business-type Activities

Fiscal Year	Principal	Interest
2011	$ 128,476	$ 52,925
2012	33,350	51,859
2013	32,094	50,709
2014	35,752	49,477
2015	31,218	48,125
2016-2020	162,926	220,427
2021-2025	176,402	182,899
2026-2030	224,151	137,179
2031-2035	260,270	81,900
2036-2040	195,315	21,483
2041-2045	14,630	587
Bond Premium	6,784	(6,784)
Total	$ 1,301,368	$ 890,786

Major Component Units

Fiscal Year	Principal	Interest
2011	$ 15,301	$ 10,724
2012	15,540	10,117
2013	15,288	9,458
2014	15,691	8,794
2015	15,796	8,077
2016-2020	76,117	29,644
2021-2025	50,846	14,815
2026-2030	31,862	4,873
2031-2035	4,569	535
2036-2040	421	40
Bond Premium	1,327	(1,327)
Total	$ 242,758	$ 95,750

2. NOTES PAYABLE

The following is a schedule of notes payable outstanding at June 30, 2010 (expressed in thousands):

Fund Type/Fund	Maturities	Interest Rates	Balance 6/30/08
Primary Government			
Governmental:			
Department of Corrections	2011-2015	4.59	$ 406
Department of Human Services	2011-2015	4.24	2,774
Department of Transportation	2011-2022	4.18	2,195
Office of Management and Budget	2011-2022	4.18	4,010
School for the Deaf	2011-2021	4.8408	236
Information Technology Department	2011-2014	3.47-3.90	9,872
Proprietary:			
Bank of North Dakota	2011-2025	3.01-7.35	403,779
University System	2011-2017	4.22-9.90	8,316
Major Component Units			
UND Aerospace Foundation	2011-2019	2.50-6.00	7,777
NDSU Development Foundation	2011-2013	2.77-6.86	1,793
NDSU Research & Tech Park	2011-2017	0.0-4.00	648
UND Foundation	2011	5.00	100
DSU Foundation	2011-2025	5.625	299

(1) The Bank of North Dakota issued short-term debt to fund loans on a short-term basis.

The Public Finance Authority has a note payable of $3,668,000 due to the Bank of North Dakota which is reported in the state's financial statements as a due to primary government.

Debt service requirements to maturity for notes payable for the fiscal years ending June 30 are summarized below (expressed in thousands):

Primary Government:

Governmental Activities

Fiscal Year	Principal	Interest
2011	$ 2,978	$ 722
2012	4,415	593
2013	4,023	421
2014	3,103	286
2015	563	201
2016–2020	3,059	655
2021–2025	1,352	67
Total	$ 19,493	$ 2,945

Business-type Activities

Fiscal Year	Principal	Interest
2011	$ 1,006	$ 19,286
2012	33,982	18,481
2013	748	17,265
2014	62,384	15,674
2015	15,354	14,058
2016–2020	237,004	50,683
2021–2025	61,617	10,330
Total	$ 412,095	$ 145,777

Major Component Units

Fiscal Year	Principal	Interest
2011	$ 1,535	$ 499
2012	1,378	427
2013	2,200	331
2014	953	264
2015	2,507	151
2016–2020	1,927	150
2021-2025	117	12
Total	$ 10,617	$ 1,834

Changes in General Long-Term Liabilities

Changes in Long-Term Liabilities for the year ended June 30, 2010, are summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Notes Payable	$ 26,523	$ 4,950	$ (11,980)	$ 19,493	$ 2,978
Bonds Payable	251,526	-	(19,425)	232,101	15,785
Capital Leases Payable	4,056	167	(1,381)	2,842	1,118
Intergovernmental Payable	505	32	(393)	144	144
Compensated Absences	35,680	27,674	(24,086)	39,268	2,116
Claims/Judgments Payable	7,742	4,805	(5,972)	6,575	2,191
Total Long-Term Liabilities	$ 326,032	$ 37,628	$ (63,237)	$ 300,423	$ 24,332
Business-Type Activities:					
Short-Term Notes Payable	$ -	$ 10,000	$ (10,000)	$ -	$ -
Notes Payable	317,844	101,108	(6,857)	412,095	1,006
Bonds Payable	1,051,542	478,293	(228,467)	1,301,368	128,817*
Capital Leases Payable	68,096	19,732	(15,367)	72,461	6,677*
Intergovernmental Payable	8,578	13,464	(12,756)	9,286	692
Compensated Absences	28,848	4,881	(2,149)	31,580	3,427
Dividends Payable	1,645	74,855	-	76,500	76,500
Claims/Judgments Payable	772,844	136,732	(135,885)	773,691	97,315
Total Long-Term Liabilities	$ 2,249,397	$ 839,065	$ (411,481)	$ 2,676,981	$ 314,434
Major Component Units:					
Notes Payable	$ 11,534	$ 2,605	$ (3,522)	$ 10,617	$ 1,535
Bonds Payable	259,232	3,875	(20,349)	242,758	15,301
Capital Leases Payable	1,866	-	(82)	1,784	43
Intergovernmental Payable	802	167	(26)	943	317
Total Long-Term Liabilities	$ 273,434	$ 6,647	$ (23,979)	$ 256,102	$ 17,196

*Bonds Payable and Capital Leases Payable includes $25,152,687 and $31,196,308 respectively, classified as Due to Component Units in the Statement of Net Assets for the University System. Of the above amounts, $951,500 and $1,295,464 are shown as current.

Bonds payable reductions include amortization of premium and deferred bond refunding costs.

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end, $1,726,003 of internal service fund compensated absences and $5,082,044 of claims and judgments are included in the above amounts. Other governmental activities compensated absences generally have been liquidated by the General Fund (52%), the Highway Fund (16%), the Federal Fund (22%), and other various funds. Other governmental activities claims and judgments have all been liquidated by the Petroleum Release Compensation Fund.

3. DEFEASED DEBT

Primary Government

Building Authority

On November 15, 2006, the Authority issued $9,770,000 Lease Revenue Refunding Bonds, 2006 B. The proceeds of the issue were for an advance refunding of a portion of the 2001 Series A. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the refunded bonds. The reacquisition price exceeded the net carrying amount of the old debt by $483,000. This amount is netted against the new debt and amortized over the life of the refunded debt, which is the same as the life of the new debt issued. The current refunding was undertaken to reduce total debt service payments over the next fourteen years by $627,000 and resulted in an economic gain of $520,000. As of June 30, 2010, there were bonds of $9,405,000.

Water Commission

On March 17, 2005, the Water Commission issued $21,630,000 Water Development Trust Fund, Water Development and Management Program Refunding Bonds, 2005 Series A. The proceeds of the 2005 Series A Bonds were used to establish an irrevocable escrow account to advance refund the callable maturities totaling $20,340,000 of the Water Commission's outstanding $32,095,000 Water Development Trust Fund, Water Development and Management Program Bonds, 2000 Series A. As of June 30, 2010, $20,340,000 of the 2000 Series A Bonds outstanding is considered defeased, and the liability for those 2000 Series A Bonds is not reflected on the State's financial statements.

Housing Finance

Previous to July 1, 1999, Housing Finance defeased certain general obligation bonds by placing bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State's financial statements. At June 30, 2010, $2,030,000 of bonds outstanding is considered defeased.

University System

North Dakota State University

On December 30, 1985, the North Dakota State University issued $4,833,813 of Housing and Auxiliary Facilities Revenue Refunding Bonds (Series 1985). The purpose of issuing Series 1985 bonds was to refund in advance of maturity the outstanding advanced refunded bonds, which consisted of all bonds outstanding as of December 30, 1985, totaling $7,675,000. The principal amount outstanding as of June 30, 2010, of the original bonds refunded by the advance refunding total $285,000.

North Dakota State College of Science

On June 20, 2001, North Dakota State College of Science issued $2,785,000 of Housing and Auxiliary Facilities Improvement and Refunding Revenue Bonds (Series 2001). These bonds were used to (1) refund, defease and discharge outstanding North Dakota State School of Science Married Student Housing Revenue Bonds 1970 and Dormitory Revenue Bonds of 1972; (2) finance the cost of the construction of the parking lot and related improvements at the College; and (3) to pay certain costs associated with the issuance of the Series 2001 bonds. The principal amount outstanding as of June 30, 2010, of the original bonds refunded is $275,000.

Component Units

Public Finance Authority Bonds

The Finance Authority issued $11,790,000 of revenue bonds (Series 2004 A SRF Bonds) with an average interest rate of 4.16% on October 5, 2004. The net proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As of December 31, 2009, $11,005,000 of bonds outstanding is considered defeased, and the liability has been removed from the balance sheet.

L. ARBITRAGE REBATE PAYABLE

Arbitrage as it applies to government financing refers to the ability of state governments to obtain funds at a tax-exempt rate of interest and to then invest those funds in investments which earn a higher yield, resulting in a profit to the issuer.

The arbitrage rebate rules require that any earnings from the investment of the tax-exempt bond proceeds which exceed the yield on the bonds be remitted to the federal government.

The State has an arbitrage rebate payable to the federal government of approximately $2,143,757 at June 30, 2010. These amounts are reported in the Government-wide and Proprietary Fund Type financial statements as an intergovernmental payable.

NOTE 4 – NET ASSETS

The government-wide statement of net assets reports $2,429,933,613 of restricted net assets, of which $646,643,112 is restricted by enabling legislation.

NOTE 5 – RETIREMENT SYSTEMS

A. DESCRIPTION OF PLANS

The State of North Dakota administers four major retirement systems: North Dakota Public Employees' Retirement System, North Dakota Highway Patrolmen's Retirement System, Retirement Plan for the Employees of Job Service North Dakota and the Teachers' Fund for Retirement. The State also administers the North Dakota Defined Contribution Retirement Plan, which was established January 1, 2000. These retirement systems have implemented Governmental Accounting Standards Boards Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and Statement No. 27, Accounting for Pensions by State and Local Governmental Employers. Certain state employees may also participate in a privately administered retirement system: Teachers' Insurance Annuity Association. The following is a brief description of each plan. More detailed information can be found in the plan agreements and the related legislation.

NORTH DAKOTA PUBLIC EMPLOYEES'
RETIREMENT SYSTEM (PERS)

The North Dakota Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan covering substantially all employees of the State of North Dakota, its agencies, and various participating political subdivisions (Main System). It also covers Supreme and district court judges, the National Guard Security Officers and Firefighters, and as of August 1, 2003, peace officers and correctional officers employed by political subdivisions. It is not subject to the provisions of the Employee Retirement Security Act of 1974. 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.

At June 30, 2010, the number of participating local political subdivisions in PERS was:

Cities and Park Districts	81
Counties	48
School Districts	115
Other	69
Total Participating Local	313

Death and disability benefits are set by statute. If an active employee dies with less than three years of service for the Main System and National Guard/Law Enforcement, or less than five years of service for Supreme and district court judges, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of service for the Main System and National Guard/Law Enforcement, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or monthly payments in an amount equal to the employees' accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

For judges only, the death benefit is changed to the greater of (i) lump sum payment of accumulated contributions, and (ii) 100% of the member's accrued benefit (not reduced on account of age), payable for the spouse's lifetime.

Eligible employees who become totally disabled after a minimum of 180 days of service receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of $100. To qualify under this section, the employee has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for "disabled" is set by the Board in the North Dakota Administrative Code.

For Judges only, the disability benefit formula is changed to 70% of final average salary minus social security and workers compensation benefits.

Pension benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equals or exceeds 85 or at normal retirement age (65), equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 120 months of service, for each year of service. The plan permits early retirement at ages 55-64, with three or more years of service for the Main System and National Guard/Law Enforcement, and five or more years of service for the Supreme and district court judges. The monthly pension benefit for Supreme and district court judges at normal retirement age (65) or the rule of 85 is equal to a percentage of average monthly salary using the highest 36 consecutive months out of the last 120 months of service. The percentage is equal to 3.5% of final average monthly salary multiplied by the first 10 years of service, plus 2.80% of final average monthly salary times the second 10 years of service, plus 1.25% of final average monthly salary times years of service in excess of 20 years. The judicial retirement formula is only applied to eligible judicial service. Non-judicial service benefits are calculated using the 2.00% multiplier. The monthly pension benefit for National Guard at normal retirement age (55), and Law Enforcement, normal retirement age (55) or the rule of 85, is equal to 2.00 percent of their average monthly salary, using the highest 36 months out of the last 120 months of service, for each year of service. The plan permits early retirement at ages 50-55 with three or more years of service.

Employees may elect to receive the pension benefits in the form of a single life, joint and survivor, level social security, term-certain annuity, or partial lump sum with ongoing annuity. Employees may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the employee’s accumulated contributions plus interest.

The System is funded by employee contributions (set by statute) of 4% of regular compensation, with the exception of Supreme and district court judges’ contributions, which are established at 5% of total compensation. During the 1983-1985 biennium, the State implemented the employer pickup provision of the IRS code, whereby a portion or all of the required employee contributions are made by the employer. The State is paying the full employee contribution with the exception of the Supreme and district court judges, in which the State is paying 4 of the 5% contribution. Some of the political subdivisions are paying all or part of the employee contributions. Employer contributions of 4.12% of covered compensation are set by statute. The employer contribution rate for the Supreme and district court judges is also set by statute at 14.52%, and the contribution rate for the National Guard/Law Enforcement is set by the Board at 6.50% for the National Guard, 8.31% for Law Enforcement with previous service, and 6.43% for Law Enforcement without previous service. The required contributions are determined using an entry age normal actuarial funding method.

Except for Supreme and district court judges, the employees’ account balance includes the vested employer contributions equal to the employee’s contributions to an eligible deferred compensation plan.

The minimum member contribution is $25, and the maximum may not exceed certain parameters based upon years of service.

The North Dakota Retirement Board was created by the State Legislature and is the governing authority of PERS. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code.

NORTH DAKOTA HIGHWAY PATROLMEN’S RETIREMENT SYSTEM (NDHPRS)

The North Dakota Highway Patrolmen's Retirement System is a single-employer defined benefit pension plan covering substantially all sworn officers of the Highway Patrol of the State of North Dakota. It is not subject to the provisions of the Employee Retirement Income Security Act of 1974. NDHPRS 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.

Death and disability benefits are set by statute. If an active employee dies with less than 10 years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than 10 years of credited service, the surviving spouse, if any, will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50 percent of the employee's accrued normal retirement benefit. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to any designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days service receive monthly disability benefits that are up to 70 percent of their final average salary, reduced by workers compensation with a minimum benefit of $100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled and apply for benefits within one year of termination.

Pension benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees are entitled to unreduced pension benefits after a minimum of 10 years of service upon attainment of age 55 or when the sum of age and years of credited service equals or exceeds 80. The annual pension benefit is equal to a percentage of average monthly salary using the highest 36 months out of the last 120 months of service. The percentage is equal to the sum of the first 25 years of service multiplied by 3.60% and 1.75% multiplied by years of service in excess of 25, if any. The plan permits early retirement at ages 50-54, with ten or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members’ accumulated contributions plus interest.

The System is funded by employee contributions of 10.30% (of which the State is paying 4%) of total compensation and an employer contribution of 16.70%. The required contributions are determined using an entry age normal cost method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDHPRS. Benefit and contribution provisions are administered in accordance with chapter 39-03 of the North Dakota Century Code.

REFUNDS OF MEMBER CONTRIBUTIONS

Upon termination, if an employee is not vested (is not 65 or does not have three years of service for the Main System and National Guard/Law Enforcement, or five years of service for the Supreme and district court judges, credited for PERS, or is not 60 or does not have ten years of service credited for NDHPRS), they will receive the accumulated employee contributions plus interest. If an employee has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If an employee of the PERS terminated and withdrew their accumulated employee contribution and is subsequently re-employed, they have the option of repurchasing their prior service.

RETIREMENT PLAN FOR THE EMPLOYEES OF JOB SERVICE NORTH DAKOTA (JSND)

The retirement plan for employees of Job Service North Dakota is a single-employer defined benefit public employee retirement plan administered by PERS. The plan is established under NDCC 52-11-01 with benefit provisions established through the plan document, as amended. This plan document, as amended, is authorized by the Plan Administrator, who is the Executive Director of the agency.

On August 1, 2003, the administrative authority and the net assets of the Retirement Plan for Employees of Job Service North Dakota were transferred from the agency to the Public Employees Retirement System Board. This action was based on the passage of House Bill 1064 by the Fifty-eighth Legislative Assembly of North Dakota. The Retirement Plan for Employees of Job Service has an Actuarial Valuation Report produced annually. Requests to obtain or review this report should be addressed to the Executive Director, NDPERS, 400 East Broadway, Suite 505, Bismarck, North Dakota 58501.

Participation in the plan is limited to employees participating in the plan as of September 30, 1980. Employees were vested in the program after the completion of five years of credited service.

The plan provides retirement, disability and death benefits. If the death of a participant occurs prior to their annuity starting date, the surviving spouse who has been married at least two years prior to the participant's death or, if married less than two years is a parent of a child of this marriage, then the spouse shall receive monthly benefits. The amount is the greater of the benefit had the participant retired on the day before they died and elected the Contingent Annuitant Option with 55% of their retirement benefit continued to their spouse or 55% of the smaller of 40% of the deceased participant's average monthly earnings or the deceased participant's normal retirement benefit obtained by increasing their credited service by the period of time between their date of death, and the date they would have attained age 60. Upon remarriage of the surviving spouse before age 60, the death benefit will cease.

If a participant becomes totally disabled, they will be eligible for a monthly disability benefit which shall be equal to the greater of 40% of the participant's average annual earnings or the accrued benefit determined as of their date of disability.

Benefits are established through the plan document, as amended. The System provides a post-retirement cost-of living adjustment each year based on the Consumer Price Index. Employees are entitled to annual pension benefits beginning at normal retirement age (65). Employees may elect optional retirement eligibility at age 62 with 5 years of credited service, at age 60 with 20 years of credited service, or at age 55 with 30 years of credited service. Pension benefits are calculated based on the final average earnings (basic monthly earnings averaged over the highest three consecutive years of basic earnings) of the employee multiplied by the sum of:

- 1.5% times years of credited service up to 5 plus;
- 1.75% times years of credited service between 6 and 10 plus;
- 2.0% times years of credited service in excess of 10.

The System is funded by employee contributions of 7% of retirement wages (of which 4% is paid by the employer in lieu of salary increases). The required employer contributions are determined using the frozen initial liability actuarial cost method, which is the same as the aggregate cost method. Benefit and contribution provisions of the JSND are administered in accordance with chapter 52-11 of the North Dakota Century Code. Effective July 1, 1999, the "scheduled contribution" will be zero as long as the Plan's actuarial value of assets exceeds the actuarial present value of projected benefits. The "scheduled contribution" and amortization will be determined when the plan is not in surplus and will be based on a funding policy adopted by the employer.

TEACHERS' FUND FOR RETIREMENT (TFFR)

The North Dakota Teachers' Fund for Retirement is a cost-sharing multiple-employer defined benefit pension plan covering employees for all public and certain college, State and non-public teachers of the State who meet certain requirements of age, period of productive service and employment. TFFR provides for pension, survivor and disability benefits. Teachers' Fund for Retirement issues a publicly available financial report that may be obtained by writing to the Retirement and

Investment Office, 1930 Burnt Boat Drive, Bismarck, North Dakota 58503.

At June 30, 2010, the number of participating employer units in TFFR was:

Type	Number
Special Education Units	21
Vocational Education Units	5
Public School Districts	183
County Superintendents	11
Other	11
Total	231

Effective July 1, 2008, for purposes of determining pension benefits, members are classified as those employed before July 1, 2008, who have not taken a refund (Tier 1), and those employed after July 1, 2008 (Tier 2).

Tier 1 - A 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 has reached age 65, or the sum of age and years of service 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 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 has reached age 65, or the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 90. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

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

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 twelve 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 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.

Assessments and contributions paid to TFFR are set by NDCC 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 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 assessments paid plus 6% or defer payment until eligible for pension benefits. A nonvested member who terminates covered employment must claim a refund of contributions paid before 70 ½. 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.

The following table summarizes membership information by plan at the actuarial valuation date:

	PERS	NDHPRS	JSND	TFFR
Retirees and Beneficiaries Currently Receiving Benefits:	7,416	113	211	6,672
Special Prior Service Retirees:	18	-	-	-
Terminated Employees:				
Vested	3,375	4	4	1,472
Nonvested	2,183	1	-	331
Total Terminated Employees	5,558	5	4	1,803
Active Employees:				
Vested	14,891	63	31	8,356
Nonvested	5,777	76	-	1,551
Total Active Employees	20,668	139	31	9,907
Date of Annual Valuation	July 1, 2010	July 1, 2010	July 1, 2010	July 1, 2010

The above table includes retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

BASIS OF ACCOUNTING

The public employee retirement systems described above are considered part of the State of North Dakota's reporting entity and are included in the State's financial statements as pension trust funds. The financial statements of these systems are prepared using the accrual basis of accounting. Employee contributions are recognized as revenues 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 contribution. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

METHOD USED TO DETERMINE EMPLOYER CONTRIBUTIONS

Employer contributions for the PERS and NDHPRS were determined by an actuarial formula identified as entry age normal cost method. The formula determines the amount of contributions necessary to fund: (a) the current service cost, which represents the estimated amount necessary to pay for benefits earned by employees during the current service year and, (b) the prior service cost, which represents the amount necessary to pay for benefits earned prior to the effective date of the plan.

METHOD USED TO VALUE INVESTMENTS

Investments are recorded at fair value determined by reference to published market data for publicly traded securities and through the use of independent valuation services and appraisals for other investments. The net increase 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. Unrealized increases or decreases are 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.

Investments of PERS and NDHPRS are commingled and invested. Earnings on the investments and expenses relating to administering the plans are allocated to each plan based upon their percentage of ownership or number of participants.

C. FUNDING STATUS AND PROGRESS

The actuarial methods and assumptions together with the schedule of funding progress is presented by the retirement systems in their separately presented financial reports based upon the actuary reports generated by the studies conducted by the Segal Company and Gabriel, Roeder, Smith and Company. The actuarial value of assets is based on a five-year smoothed fair value basis. Under this method, realized and unrealized gains and losses on investments are smoothed over five years. Below is listed the various actuarial methods and significant assumptions used to determine the annual required contributions, together with the schedule of funding progress.

	PERS NDHPRS	JSND	TFFR
Valuation Date	July 1, 2010	July 1, 2010	July 1, 2010
Actuarial Cost Method	Entry Age Normal	Frozen Initial Liability**	Entry Age Normal
Amortization Method	Level Percent Open	Level Dollar Closed	Level Percentage of Payroll
Remaining Amortization Period	20 years	15 years	30 years***
Asset Valuation Method	5-year smoothed market	5-year smoothed market	5-year smoothed market
Actuarial Assumptions:			
Investment rate of return	8.0%	7.5%	8.0%
Projected salary increase	4.5%*	5.0%	4.5% to 14.75%
Includes inflation at	3.5%	5.0%	3.0%
Post retirement cost-of-living	None	5.0%	None

* Inflation together with wage increases attributable to seniority, merit and "standard of living" increases.

** As of July 1, 2010, the actuarial value of assets exceeds the present value of projected benefits; therefore, the unfunded actuarial accrued liability is currently zero. The frozen initial liability actuarial cost method is the same as the aggregate cost method.

*** 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, and (b) the 8.75% statutory employer contribution rate. Payroll is assumed to increase at 3.25% per annum.

Schedule Of Funding Progress
(Dollars In Millions)

Actuarial Valuation Date	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
PERS						
July 1, 2005	$ 1,236.1	$ 1,361.2	$ 125.1	90.8%	$ 521.1	24.0%
July 1, 2006	1,314.5	1,480.5	166.0	86.8%	547.0	30.3%
July 1, 2007	1,503.1	1,610.2	107.1	93.4%	582.3	18.4%
July 1, 2008	1,609.8	1,737.6	127.8	92.6%	640.7	19.9%
July 1, 2009	1,617.1	1,901.2	284.1	85.1%	697.7	40.7%
July 1, 2010	1,621.7	2,208.4	586.7	73.4%	769.7	76.2%
NDHPRS						
July 1, 2005	$ 40.7	$ 46.3	$ 5.6	87.9%	$ 5.3	105.7%
July 1, 2006	42.8	49.1	6.3	87.0%	5.7	110.5%
July 1, 2007	48.2	51.5	3.3	93.5%	6.1	54.1%
July 1, 2008	50.8	54.6	3.8	93.0%	6.5	58.5%
July 1, 2009	50.2	57.6	7.4	87.2%	7.0	105.0%
July 1, 2010	49.3	61.8	12.5	79.8%	7.7	161.0%
JSND						
July 1, 2005	$ 69.3	N/A*	$ -	N/A	$ 2.2	0.0%
July 1, 2006	70.6	N/A	-	N/A	1.9	0.0%
July 1, 2007	75.7	70.7	(5.0)	107.1%	1.8	0.0%
July 1, 2008	77.0	70.8	(6.2)	108.8%	1.8	0.0%
July 1, 2009	74.5	71.1	(3.4)	104.7%	1.7	0.0%
July 1, 2010	73.5	70.1	(3.4)	104.8%	1.6	0.0%
TFFR						
July 1, 2005	$ 1,469.7	$ 1,965.5	$ 495.5	74.8%	$ 386.6	128.2%
July 1, 2006	1,564.0	2,073.9	509.9	75.4%	390.1	130.7%
July 1, 2007	1,750.1	2,209.3	459.2	79.2%	401.3	114.4%
July 1, 2008	1,909.5	2,330.6	421.1	81.9%	417.7	100.8%
July 1, 2009	1,900.3	2,445.9	545.6	77.7%	440.0	124.0%
July 1, 2010	1,842.0	2,637.2	795.2	69.8%	465.0	171.0%

*The Frozen Initial Liability method does not directly identify an Actuarial Accrued Liability.

D. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Employer contribution rates for PERS and NDHPRS are set by state statute using the entry age normal actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost, (2) an amount for amortization of the unfunded accrued liability over a period of 20 years for PERS and NDHPRS, and (3) the amount necessary to provide for operating expenses. Contribution rates for the Job Service Retirement Plan are established in the plan document, as amended, actuarially determined using the frozen initial liability actuarial cost method, which is the same as the aggregate cost method.

The contribution rate is not actuarially determined for TFFR; it is set by statutory law under the North Dakota Century Code 15-39.1-09. It is required that every eligible teacher be a member of the Fund and assessed at a rate of 7.75 percent of gross salary and that every governmental body employing a teacher pay into the plan a sum equal to 8.25 percent (increasing to 8.75 percent effective July 1, 2010) of the teacher's salary, until the fund reaches 90% funded ratio on an actuarial basis.

The following schedule presents, by retirement system, annual required contributions and the percentage contributed:

Schedule of Employer Contributions

	Annual Required Contribution	Percentage Contributed
PERS		
2008	$ 35,875,117	70.0%
2009	40,327,067	69.0%
2010	54,157,866	56.0%
TFFR		
2008	$ 44,114,585	76.4%
2009	41,986,174	89.3%
2010	52,053,217	76.5%

For NDHPRS and JSND, sole employer plans, the following schedule represents the annual pension costs and net pension obligations for the year ended June 30, 2010:

	NDHPRS	JSND
Annual required contributions	$ 1,312,591	$ -
Interest on net pension obligations	(66,328)	(123,180)
Adjustment to annual required contributions	57,864	129,361
Annual pension costs	1,304,127	6,181
Contributions made	1,196,562	-
Increase in net pension obligations	107,565	6,181
Net pension obligations, beginning of year	(829,104)	(1,642,398)
(Assets in excess of) net pension obligations, end of year	$ (721,539)	$ (1,636,217)

The following schedule presents the annual pension costs, the percentages contributed, and the net pension obligations:

	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligations
NDHPRS			
2008	$ 905,591	117%	$ (724,722)
2009	1,025,737	109%	(829,104)
2010	1,312,591	91%	(721,539)
JSND			
2008	$ 6,229	0%	$ (1,648,603)
2009	6,205	0%	(1,642,398)
2010	6,181	0%	(1,636,217)

E. DEFINED CONTRIBUTION PLAN

The North Dakota Defined Contribution Retirement Plan was established on January 1, 2000, and is administered in accordance with chapter 54-52.6 of the North Dakota Century Code. The Defined Contribution Plan covers state employees who are in positions not classified by the central personnel division of the State. Employees of the judicial branch or the Board of Higher Education and state institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Defined Contribution Plan. The Defined Contribution Plan had 293 participants as of June 30, 2010.

Upon the death of a participating employee or former participating employee, the vested account balance of that deceased participant is available to the participant's designated beneficiary(ies). An employee who becomes totally and permanently disabled while employed by the State is eligible to receive a distribution of the vested account balance. To qualify under this section, the employee must meet the criteria established by the System for being totally disabled.

Employees are entitled to their vested account balance. A participating employee is immediately 100% vested in the employee's contributions. A participating employee vests in the employer contributions made on the employee's behalf as follows:

Upon completion of two years of service	50%
Upon completion of three years of service	75%
Upon completion of four years of service	100%

Employees may elect to receive their account balance in a lump sum, lump sum direct rollover, or periodic distribution.

Contributions are set by state statute and are a percentage of salaries and wages. Employee contributions are established at 4%, and employer contributions are established at 4.12% of regular compensation. Employer and employee contributions totaled $638,120 and $619,544 respectively, for the fiscal year ended June 30, 2010.

The Board, or vendors contracted by the Board, has exclusive authority to invest and manage the assets of the Defined Contribution Retirement Plan. State statute allows each participating employee to direct the investment of the individual's employer and employee contributions and earnings to one or more investment options within the available categories of investment as established by the Board.

F. TEACHERS' INSURANCE ANNUITY ASSOCIATION

The Teachers' Insurance and Annuity Association (TIAA-CREF), a privately-administered defined contribution retirement plan, provides individual retirement fund contracts for eligible employees as defined by the Board of Higher Education in its approved TIAA-CREF retirement resolution. All benefits vest immediately to the participant. Further information can be obtained by writing to TIAA-CREF, Denver Regional Office, 1700 Broadway, Suite 770, Denver, Colorado 80290 or by calling 800-842-2009.

Employees are eligible for retirement benefits after attaining the age of 65, which is payable periodically for life. All benefits vest immediately to the participant. The plan requires employee and employer contributions be based on a classification system and years of service based on the schedule shown below.

Employment Class	Years Of Service	By The Participant	By The Institution	Total
I and III	0 thru 10	1.50%	9.50%	11.00%
	over 10	2.00%	10.00%	12.00%
II	0 thru 2	0.50%	4.50%	5.00%
	3 thru 10	1.50%	9.50%	11.00%
	over 10	2.00%	10.00%	12.00%
IV	0	1.00%	9.00%	10.00%
President/ Chancellor (additional employer contribution)	0 thru 12	0.00%	8.33%*	8.33%*
	or			
	less than 3	0.00%	0.00%	0.00%
	3 to less than 6	0.00%	4.00%	4.00%
	6 yrs and over	0.00%	8.00%	8.00%

*A final contribution is made in the year the president terminates employment equal to the difference between total contributions made and the president's final annual salary in year of termination of employment.

Plan contributions are made on a tax-deferred basis in accordance with section 414(h)(2) of the Internal Revenue Code. All contributions are applied as premiums to retirement annuity contracts owned by the participant. The State has no further liability once annual contributions are made. The State contributed $26,512,291 to TIAA-CREF during the fiscal year ending June 30, 2010.

NOTE 6 - POST-RETIREMENT BENEFITS

The Retiree Health Insurance Credit Fund, a cost-sharing multiple-employer plan, is administered by the North Dakota Retirement Board (the Board) to provide members receiving retirement benefits from the Public Employees Retirement System (which includes judges retired under NDCC 27-17), and the Highway Patrolmen's Retirement System a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

The employer contribution for the Public Employees Retirement System, the Highway Patrolmen's

Retirement System, and the Defined Contribution Retirement Plan is set by state statute on an actuarially determined basis at 1.14 percent of covered compensation. The employer contribution for non-teaching employees of the Office of the Superintendent of Public Instruction is 3.24 percent of covered compensation beginning in the month following the transfer under chapter 54-52-02.13 of the North Dakota Century Code and continuing thereafter for a period of eight years. The employer contribution for employees of the State Board of Career and Technical Education is 2.99 percent of covered compensation beginning in the month following the transfer under NDCC 54-52-02.14 and continuing thereafter for a period of eight years. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14 percent of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund.

Retiree health benefits are set by state statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the Public Employees Retirement System (which includes judges retired under NDCC 27-17), the Highway Patrolmen's Retirement System, or the Defined Contribution Retirement Plan, are eligible to receive credit toward their monthly health insurance premium under the state health plan. The benefits are equal to $5.00 for each of the employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health benefit is also available for early retirement with reduced benefits.

Death and disability benefits are set by state statute. An employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit, are eligible to receive a credit toward their monthly health insurance premium under the state health plan. The benefits are equal to $5.00 for each of the employee's or deceased employee's years of credited service, not to exceed the premium in effect for selected coverage.

Actuarial valuations of the Fund were done as of June 30, 2010. The actuarial cost method used is the Projected Unit Actuarial Credit Cost Method. The significant actuarial assumptions used to determine funding requirements are (a) a rate of return on the investment of present and future assets of 8.0 percent, (b) inflation at 3.50 percent per annum, (c) pre- and post-mortality life expectancies of participants based upon RP-2000 Combined Healthy Mortality, (d) rates of withdrawal from active service before retirement for reasons other than death, rates of disability, and expected retirement ages developed on the basis of actual plan experience, and (e) administrative expenses of $97,000 per year. Plan assets are valued, for actuarial purposes, using a five-year smoothed market method.

The following are the changes in actuarial assumptions, asset method and plan experience and the effect on the employee's contribution rates expressed as a percent of covered payroll, and the dollar effect on the actuarial accrued liability:

	As a Percentage of Covered Payroll	Dollar Effect
Net effect of changes in actuarial assumptions	(0.06)%	$ (476,180)
Changes in plan experience during the year	(0.05)%	(396,817)
	(0.11)%	$ (872,997)

Employer contributions totaling $8,392,847 were made for the year ended June 30, 2010. The actuarially required employer contribution of $7,199,033 for the year ended June 30, 2010, is 0.90 percent of the covered payroll and reflects the fact that the statutory rate of one percent is sufficient to cover future costs of the Fund. At June 30, 2010, the cost of benefits incurred for the fund was $5,563,631.

According to the Projected Unit Credit Cost Method, the actuarial accrued liability and the unfunded actuarial accrued liability of the Retiree Health Insurance Credit Fund are as follows:

Schedule Of Funding Progress
(Dollars In Millions)

Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liabilities AAL-Entry Age	Unfunded Value of Assets (UAA)	Ratio of Assets to AAL	Covered Payroll	UAA As A Percentage Of Covered Payroll
June 30, 2008	$ 42.5	$ 87.6	$ 45.1	48.5%	$ 660.9	6.8%
June 30, 2009	44.8	102.2	57.4	43.9%	719.8	8.0%
June 30, 2010	48.7	102.8	54.1	47.4%	793.6	6.8%

Employee membership is as follows:

Retirees receiving benefit	4,105
Active participants	21,047
Total Membership	25,152

The fair value of the net assets available for benefits at June 30, 2010, is $45,778,797.

Another component of the Retiree Health Insurance Credit Fund provides health care coverage to eligible retires who are not eligible for Medicare. The premiums for this coverage are set under NDCC 54-52.1-02 as a percent of the active member single and family plan rates and are paid by the retiree. The premiums for this coverage are not age-rated. Currently, the premiums for their group do not cover the costs of the coverage; therefore, the costs of this group are being subsidized through the active group rates. This subsidy is not funded in advance and there is no guarantee that the subsidy for the 2009-11 biennium will continue in the future. In the event the legislature does not fund the subsidy beyond the current biennium, the coverage would discontinue and the unfunded actuarial accrued liability displayed in the table below for the retiree health implicit subsidy would be reduced to zero.

A member must be receiving a retirement from NDPERS to be eligible for the retiree health care coverage. In addition, a member receiving a retirement allowance from NDTFFR or TIAA-CREF is also eligible for the retiree health care coverage.

The premiums for this plan are reported as employee contributions on the statement of changes in Plan Assets as they are fully paid by the retirees. The full amount of the premiums collected are expended each year and are reported as health premiums paid on the statement of changes in Plan Assets.

Significant actuarial assumption for the implicit subsidy unfunded plan include; using the 1983 Group Annuity Maturity Table, applied on a gender-specific basis; health care cost trends of 10% for select and 6% for ultimate with select trends reduced 0.5% each year until reaching the ultimate trend; and retirement and termination probabilities have been developed from the assumptions for the NDPERS pension plans. The funded status of the plan as of the most recent actuarial valuation dates is as follows:

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value Of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
2009	$ -	$ 53.7	$ 53.7	0.0%

JOB SERVICE NORTH DAKOTA

Job Service North Dakota engaged an actuary to determine the Agency's liability for post-employment benefits other than pensions as of June 30, 2010. The actuary determined the obligation the agency has to record as of June 30, 2010 is the difference between the Annual Required Contribution (ARC), defined as the normal cost plus an amortization for prior years unfunded liability, and the amount paid during the year.

Former employees receiving retirement benefits under the Retirement Plan for Employees of Job Service North Dakota are eligible to participate in the Retiree Health Benefits Fund, a cost-sharing multiple-employer plan, as administered by the Public Employees Retirement Board. The retired employee is provided a credit toward their monthly health insurance premium under the state health plan based upon their years of credited service. In accordance with NDCC 54-52.1-03.2, Job Service North Dakota reimburses the Retiree Health Benefits Fund monthly for credit received by members of the retirement plan established by Job Service North Dakota. This benefit is equal to $5.00 for each of the employee's, or decreased employee's years of credited service not to exceed the premium in effect for selected coverage.

Job Service North Dakota employees who had a Met Life Insurance policy in effect on December 1, 1999, when the Met Life Insurance benefit plan was discontinued for new employees, receive the following benefits: Job Service North Dakota pays 33% of the monthly Basic Met Life Insurance premium of current employees with a Met Life Insurance policy and upon retirement the employees Basic Met Life Insurance premiums are covered 100% by Job Service North Dakota. The Basic Life Insurance Benefits are equal to the employees annual salary up to a maximum of $45,000 and are decreased at a rate of 2% per month at age 65 until the benefit is 25% of the original amount. Job Service has authority to change the funding and benefit policy of this plan.

Membership of the Other Post Retirement Benefit plans consisted of the following at July 1, 2010, the date of the latest actuarial valuation:

	Retiree Health Benefits Fund	Met Life Insurance Benefit
Retirees and beneficiaries currently receiving benefits	209	177
Terminated employees entitled to benefits but not yet receiving them	4	-
Current vested employees	32	56
Total	245	233

The funding policy of the plans thru June 30, 2010 is pay-as-you go plan, contributing annually the amount necessary to pay benefits of retirees. Below is listed the actuarial methods and assumptions which were used in the actuary report and study conducted by the Segal Company.

Valuation Date	June 30, 2010
Actuarial Cost Method	Projected Unit Credit
Amortization Method	30-Year Amortization Open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	4.5%
Includes Inflation at	5%

Annual OPEB Cost and Net OPEB Obligation – The Agency's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The following table shows the components of the Agency's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Agency's net OPEB obligation:

	Retiree Health Benefits Fund	Insurance Benefit	Total
Annual required contributions	$ 251,756	$ 104,761	$ 356,517
Interest on OPEB obligation	6,810	2,837	9,647
Adjustment to annual required contributions	(8,780)	(4,118)	(12,898)
Annual OPEB costs	249,786	103,480	353,266
Contributions made	232,784	50,725	283,509
Increase in net OPEB obligation	17,002	52,755	69,757
Net OPEB obligations, beginning of year	129,947	84,439	214,386
Net OPEB obligations, end of year	$ 146,949	$ 137,194	$ 284,143

The following schedule presents the annual OPEB cost contributed, the net pension obligations, and the percentage contributed:

June 30	Annual Retiree Health Benefits OPEB Costs	Annual Met Life Insurance OPEB Costs	Annual Retiree Health Benefit Cost Contributed	Annual Met Life Insurance Cost Contributed	OPEB Obligation	Annual OPEB Cost Contributed
2008	$ 282,723	$ 93,786	$ 222,801	$ 52,078	$ 101,630	73.0%
2009	282,723	93,786	212,698	51,055	112,756	70.1%
2010	249,460	103,806	232,784	50,725	69,757	80.3%

Funded Status and Funding Progress – As of June 30, 2010 the most recent actuarial valuation date, the plans were unfunded. The actuarial liability for benefits was $5,482,756, and the actuarial value of assets was $0.00 resulting in an unfunded actuarial accrued liability (UAAL) of $5,482,756. The covered payroll (annual payroll of active employees covered by the plans) was $3,199,800 and the ratio of the UAAL to the covered payroll was 171.34 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer as made about the future.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing the benefit of costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE 7 - DEFERRED COMPENSATION PLAN

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits them to defer a portion of their current salary until future years. Participation in the plan is optional. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

All compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are held in trust for the exclusive use of the employee or their beneficiary.

The related assets of the plan, held in trust, are reported at fair value as follows (expressed in thousands):

Plan Participation By:	
State of North Dakota	$ 24,212
Other Jurisdictions	3,730
Total Value	$ 27,942

NOTE 8 - PERS UNIFORM GROUP INSURANCE PROGRAM

The PERS Uniform Group Insurance Program, an enterprise fund, contracts with Blue Cross Blue Shield of North Dakota (BCBS) to provide health care insurance to the employees of the State of North Dakota, or any of its political subdivisions, institutions, departments or agencies. The contract provides for an accounting of premiums paid and claims incurred during the biennium. In accordance with the contract for the 2005-2007 biennium, the system deposited a total of $14,227,761 with BCBS. These surplus funds are to be used to pay any claims in excess of the premiums collected. At the end of the contract period, the system receives the remaining surplus funds plus interest of $3,966,104. The system has entered into a similar contract with BCBS for the 2007-2009 biennium. The accumulated surplus and other invested funds in the amount of $6,043,500 are shown as cash on the State’s financial statements. These funds are being held by BCBS.

NOTE 9 - SEGMENT INFORMATION

North Dakota Housing Finance Agency maintains two separate funds which account for general agency operations and provide loans to finance construction of rental residential housing and single-family ownership. The two funds are accounted for in a single fund, but investors in home ownership bonds rely solely on the revenue generated by the mortgage loans and assets acquired for repayment. Segment information for the year ended June 30, 2010, was as follows (expressed in thousands):

		Home-Ownership Bond Funds
Condensed Statement of Net Assets		
Current assets – other	$	273,187
Noncurrent assets – other		938,450
Total Assets		1,211,637
Current liabilities – other		142,203
Noncurrent liabilities – other		969,497
Total Liabilities		1,111,700
Net assets – restricted		99,937
Total Net Assets	$	99,937
Condensed Statement of Revenues, Expenses and Change in Fund Net Assets		
Operating revenues	$	50,284
Operating expenses		43,202
Operating income		7,082
Non-operating revenue		139
Change in net assets		
Total net assets, beginning of year		89,748
Equity transfer in		2,968
Total net assets, end of year	$	99,937
Condensed Statement of Cash Flows		
Net cash used for operating activities	$	(54,118)
Net cash from noncapital financing activities		180,139
Net change in cash and cash equivalents		126,021
Cash and cash equivalents, beginning of year		124,585
Cash and cash equivalents, end of year		250,606

NOTE 10 - MAJOR COMPONENT UNIT TRANSACTIONS

NORTH DAKOTA DEVELOPMENT FUND

In 2010, the State appropriated funds to the North Dakota Development Fund to develop a child care loan program for the purpose of providing loans to new and expanding child care facilities within the State of North Dakota. The program has a sunset date of June 30, 2011. On that date, the appropriation amount is set to be returned to the State. As of June 30, 2010, $1,299,700 is due back to the State.

BISMARCK STATE COLLEGE AND BISMARCK STATE COLLEGE FOUNDATION

On January 25, 2007, BSC and BSC Foundation entered into a 15-year lease agreement to facilitate the construction of a Mechanical Maintenance building. Under the agreement, BSC is responsible for the payment of all rent, maintenance, and repair of the facility, maintenance of all insurance required under the lease, and restrictions of use of the facility as set forth in the lease. The amount of the rent is tied to the debt service retirement. Upon payment of all the bonds, BSC will have the option to purchase the premises for $100.

On October 19, 2007, BSC and BSC Foundation entered into a 25-year lease agreement to facilitate the construction of the National Energy Center of Excellence building. Under the agreement, BSC is responsible for payment of all rent, maintenance, and repair of the facility, maintenance of all insurance required under the lease, and restrictions of use of the facility as set forth in the lease. The amount of the rent is tied to the $5.0 million debt service retirement. Upon payment of all the bonds, BSC will have the option to purchase the premises for $100.

DICKINSON STATE UNIVERSITY AND DICKINSON STATE UNIVERSITY FOUNDATION

DSU provides personnel and other services to the foundation at no charge as in-kind reimbursement for services provided by the foundation, including one-half salary and fringe benefits of foundation employees, payroll preparation services, postage, utilities and building and grounds services. For the year ended June 30, 2010, DSU has valued these services at approximately $157,000.

The Dickinson State University Foundation issued two series of revenue bonds of $9,200,000 on June 4, 2009, to finance the Badland Activities Center project. The bonds will be paid off with private donations raised by the Foundation and are summarized as follows:

$5,000,000 bond at a fixed rate of 5.89%. The bond is amortized over 15 years with semi-annual payments due each January and July 20th. The payments in 2010 will be interest only, with the first principal payment due in January of 2011.

$4,200,000 bond with a variable rate of interest, currently 1.65%. The bond is repriced every six months and has payments each January and July. The 2010 payments will be interest only, with the first principal payment due in January 2011. There are neither time limits nor prepayment penalties on this issue.

NORTH DAKOTA STATE UNIVERSITY AND NDSU RESEARCH AND TECHNOLOGY PARK, INC.

On December 30, 1999, North Dakota State University, through the State of North Dakota and North Dakota State Board of Higher Education, entered into a ground lease, whereby the NDSU Research and Technology Park, Inc. (component unit) leases 40 acres of land for $1 per year for the next seventy-five years.

On November 1, 2000, NDSU Research and Technology Park, Inc. (RTP) entered into a $6.5 million lease agreement with the City of Fargo to finance the construction of laboratory and research facilities and all equipment and furnishings located on property owned by the city. The agreement assigned to NDSU all of RTP's obligations under the lease, including but not limited to the payment of all rent, maintenance, and repair of the facility, maintenance of all insurance required under the lease, and restrictions of use of the facility set forth in the lease. Upon payment of all the bonds, title to the facility will revert to RTP. On August 1, 2002, essentially the same legal and financial structure used to construct Research Building #1 was used to construct a second Research Building. The second lease agreement was for $20,450,000.

The audited financial statements of RTP for fiscal year 2010 report these transactions as an operating lease and report the related capital assets and related debt as assets and debt of RTP. Since RTP is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and debt for Research Buildings 1 and 2, a reclassification entry was made to ending balances in the component unit consolidation financial statements to show the appropriate due from primary institution.

NDSU and RTP have entered into an operating agreement, whereby NDSU leases Research Building #1 for an annual rent of $628,943 and Research Building #2 for $1,525,963 through July 2013, plus utilities and insurance. Total payments under these agreements in fiscal year 2010 were approximately $2.3 million. These agreements are subject to funding and legislative appropriations. The agreement automatically extends for one-year periods unless cancelled by either party to the agreement.

NORTH DAKOTA STATE UNIVERSITY AND NDSU DEVELOPMENT FOUNDATION

NDSU EQUINE SCIENCE CENTER

Effective January 1, 2003, NDSU and the NDSU Development Foundation entered into a ten-year lease agreement with an option for an additional ten-year term to facilitate the construction of an Equine Science Center. Under the agreement, NDSU will pay rent to NDSU Development Foundation for use of the premises. The amount of the rent is tied to the debt service retirement plus necessary insurance and taxes incurred by the Development Foundation. NDSU paid the Development Foundation $331,935 in fiscal year 2010 under this agreement.

The facility is included in long-term investments and the debt is included in long-term liabilities on the financial reports of the NDSU Development Foundation. NDSU has also recorded a capital asset and a capital lease payable of $3,415,000 as of June 30, 2010. Since the Development Foundation is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and debt for the Equine Center, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

FARGODOME LEASE AND IMPROVEMENTS

In fiscal year 2006, the NDSU Development Foundation financed the construction and equipping of office space, locker rooms, meeting rooms, and related facilities in the Fargodome for use by NDSU through the sale of revenue bonds issued by Cass County. The Foundation has leased the space in the Fargodome from the City of Fargo and subleased the space, furniture, fixtures and equipment to NDSU. Under the agreement, NDSU will pay rent to the NDSU Development Foundation for use of the premises. The amount of the rent is tied to the $3.5 million debt service retirement plus the Fargodome annual space rent and all costs incurred by the Development Foundation incident to the lease, less any contributions received by the Foundation for the project. NDSU paid the Development Foundation $338,240 in fiscal year 2010 under this agreement.

The facility is included in long-term investments and the debt is included in long-term liabilities on the financial reports of the NDSU Development Foundation. NDSU has also recorded a capital asset and a capital lease payable of $2,701,216 as of June 30, 2010. Since the Development Foundation is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and debt for the Fargodome improvements, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

NDSU DOWNTOWN CAMPUS

The former Northern School Supply building was donated to the NDSU Development Foundation by NDSU alum in December 2001. During fiscal years 2003 and 2004, the NDSU Development Foundation renovated the building with the intent to lease the facility to NDSU beginning fall 2004. NDSU entered into an agreement with 650 NP Avenue, LLC and Kilbourne Design Group, LLC to lease the property for $49,583 per month through August 12, 2011, with an option to renew for two five-year periods. During fiscal year 2005, the Foundation transferred nearly the entire ownership in 650 NP Avenue, LLC and Kilbourne Design, LLC; therefore, they are no longer consolidated in the financial statements of the foundation. When the sublease with NDSU expires, the intent is to transfer the property back to the Foundation, and a new lease between the Foundation and NDSU will be negotiated.

In fiscal years 2003 and 2004, the facility was reported on the financial statements of the NDSU Development Foundation as construction in progress and a short-term liability (for the construction loan). No asset or liability is reported in fiscal year 2005 or 2006 due to the transfer of ownership. The tax credits along with the deduction for donations bring the net cost to $5.6 million, which is shown as a capital asset and capital lease liability on the books and financial statements of NDSU. The lease payments are recorded as interest only by NDSU until fiscal 2011, when the property is transferred back to the Development Foundation and lease revenue bonds will be issued to finance the acquisition.

AIRCRAFT

Effective June 28, 2007, NDSU and the NDSU Development Foundation entered into a $2,348,000, ten-year, lease agreement for the purchase of an aircraft. Under the agreement, NDSU will pay rent to the NDSU Development Foundation for use of the aircraft. The amount of the rent is equal to the amount of the principal and interest payments on the loan, for the life of the loan. During fiscal year 2010, NDSU made $322,919 of debt service to the NDSU Development Foundation on the aircraft lease. The University is responsible for all costs incurred in operation and maintenance of the aircraft. Upon completion of the loan payments, ownership of the aircraft will be transferred to NDSU. Since the Development Foundation is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and debt for the leased aircraft, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

BARRY HALL BUSINESS BUILDING AND KLAI HALL ARCHITECTURE BUILDING

Effective November 28, 2007, NDSU and the NDSU Development Foundation entered into a lease agreements for two buildings in downtown Fargo, formerly known as the “Pioneer Mutual Building” and “Lincoln Mutual Building”. The Foundation financed the construction of the Barry Hall business building and Klai Hall architecture building projects through the sale of $18.52 million of 20-year University Facilities Revenue Bonds issue by the City of Fargo, North Dakota. The City has loaned the bond proceeds to the Foundation for payments equal to the sum of the semi-annual interest payments and installments of varying principal amounts on the variable rate bonds and the semi-annual principal and interest payment on the fixed-rate bonds. The principal payments on the variable rate bonds will be funded from payments on donor pledges restricted for the project. Under the terms of the loan, the Foundation is responsible for the real estate taxes, insurance, repairs and maintenance, and other costs incident to ownership of the property. The property is included with property in the financial statements and the bonds have been recorded as a direct obligation of the Foundation. Ownership of the property will transfer to NDSU when the bonds are repaid in full. The bonds are guaranteed by the Foundation. This property is leased to NDSU for rental equal to the sum of the semi-annual interest only payments on the variable term bonds plus the semi-annual principal and interest payments on the fixed-rate bonds for the term of the bonds, plus all the costs incurred by the Foundation incident to ownership of the property. During fiscal year 2010, NDSU paid $853,379 to the NDSU Development Foundation for under the leases for debt service, property taxes and insurance on Barry Hall and Klai Hall. NDSU has an option to acquire the property upon full payment of the bonds. The bonds payable have a balance of $13,651,323 at June 30, 2010.

PRESIDENT’S RESIDENCE

On September 15, 2008, the NDSU Development Foundation financed the construction of a new residence for the NDSU President through the sale of $900,000 of 30 year University Facilities Bonds. The interest rate is a fixed rate of 4.20% with semi-annual principal and interest payments. The repayment source is private donations and pledges. The bonds payable have a balance of $871,651 at June 30, 2010. The NDSU Development Foundation incurred a total $1,498,998 of costs related to the construction of the President’s House during fiscal years 2009 and 2010. NDSU incurred a total of $703,837 during fiscal years 2009 and 2010. In addition, donated services of $403,147 were contributed to the construction of the President’s residence through June 30, 2010. The President’s House was capitalized on NDSU’s books for the sum of the foundation and NDSU costs, plus the donated services ($2,605,983). In addition, during the construction period there were transition costs (i.e., rent, utilities) for the NDSU president paid by the NDSU Development Foundation ($32,694) and NDSU

($67,157). These costs were considered operating expenses, along with some minor completion costs of $2,090 incurred in June 2010.

OTHER TRANSACTIONS

NDSU also has agreements in place with the Foundation for maintenance of the University's alumni records, for use and insurance on certain land and buildings and for lease of a vehicle. Amounts paid under these agreements in fiscal year 2010 were $695,657. In addition, the Development Foundation may contract with NDSU for materials and personnel in the service and utility areas and will reimburse NDSU based on separate agreements.

UNIVERSITY OF NORTH DAKOTA AND UND AEROSPACE FOUNDATION

The Aerospace Foundation reimbursed UND for salaries, building rent, aircraft rental, and goods and services under an operating agreement aggregating approximately $15.0 million in fiscal year 2010. This operating agreement has no specific term and is intended to memorialize various operating agreements, rate structures, duties, and obligations each party has to the other. UND reimbursed the foundation for air service and hangar, CRJ, 360-degree tower, and aircraft rental of $1.2 million. These expense reimbursements represent actual costs incurred.

In addition, the Aerospace Foundation may contract with UND for materials and personnel in the service and utility areas and will reimburse UND based on separate arrangements. As of June 30, 2010, the Foundation has recorded accounts payable to UND of $190,334 for reimbursable costs and services under these arrangements.

The Aerospace Foundation entered into a sublease with UND to lease the aircraft storage hangar/ground support equipment facility. The lease term is for 20 years, commencing on July 7, 2003, until July 6, 2023. For the first 15 years of the sublease, UND will pay the Foundation monthly minimum payments of $12,672 beginning on October 1, 2003, subject to actual cost adjustments. At the end of the 15 years of the sublease, rent will be adjusted based upon an interest rate adjustment or a refinancing of the debt incurred by the Foundation in the construction of the hangar. The audited financial statements of the Foundation report the capital assets and related debt for this lease. Since the Foundation is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and debt for this transaction, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

UNIVERSITY OF NORTH DAKOTA AND RE ARENA, INC.

RE Arena, Inc. manages, operates and maintains an arena know as the Ralph Englestad Arena, which was constructed in 2001 for the benefit of UND athletics. UND and RE Arena, Inc. enter into an annual operating agreement from July 1 to June 30. The operating agreement sets forth the facility usage, fees and services, ticket administration and revenue allocation, sponsorship sales administration and revenue allocation, and net income disposition. In accordance with this agreement: (i) RE Arena, Inc. collects all ticket revenue from ticketed UND athletic events (men's and women's hockey, football, men's and women's basketball, and volleyball), RE Arena, Inc. retains 52% of such ticket revenue and remits 48% to UND, and (ii) RE Arena, Inc. collects all sponsorship sales revenue from UND Athletic events, RE Arena, Inc. retains 64% of such sponsorship revenue, net of direct costs and remits 36% to UND. In addition, UND and RE Arena Inc. jointly utilize UND and RE Arena, Inc. marketing staff to market and promote UND athletic events.

Revenue and expenses from all other UND events held at the arena will be negotiated on an event-by-event basis. Per this agreement, RE Arena, Inc. retained approximately $1,887,365 in fiscal year 2010 in ticket revenue and $621,798 in sponsorship revenue from UND athletic events. Additionally, under the agreement, RE Arena, Inc. makes annual deposits to a reserve for extraordinary repairs, maintenance, and building improvements. The amount reserved in fiscal year 2010 was $500,000. On an annual basis, RE Arena, Inc. will remit to UND its net income after adding back depreciation and amortization, the funded reserve, equity retention and capital expenditures for the fiscal year. RE Arena, Inc. paid UND $350,000 under this agreement in fiscal year 2010.

In addition, RE Arena, Inc. may contract with UND for materials and personnel in the service and utility areas and will reimburse UND based on separate agreements. As of June 30, 2010, RE Arena, Inc. has a payable to UND of $147,825 for these expenditures.

UNIVERSITY OF NORTH DAKOTA AND UNIVERSITY OF NORTH DAKOTA FOUNDATION

The University of North Dakota Foundation issued through Wells Fargo Brokerage Services, LLC, tax-exempt lease revenue bonds on October 24, 2003, of $4,400,000 to finance the land purchase and construction of the Minot Family Practice Center. The center is a component of the School of Medicine & Health Sciences at UND. Interest only is due on a semi-annual basis at a variable rate of interest with a maturity date of December 15, 2018. The interest rate is 4.15 percent at June 30, 2010. The foundation may pay down principal in increments of $100,000 on interest payment dates without penalty. Principal balance outstanding at June 30, 2010, is $3,356,606. A receivable from UND and the bond payable is included on the financial reports of the foundation, and UND has recorded a capital asset and a capital lease payable as of June 30, 2010.

On July 24, 2002, UND Foundation issued lease revenue bonds of $8,595,000 on behalf of UND to i) finance the construction of an office building for EERC, ii) renovate the current EERC building, iii) finance capitalized interest, and iv) pay cost of issuance of the bonds. UND and UND Foundation also entered into a lease agreement on July 1, 2002, whereby the foundation leases certain property to UND and UND will pay the foundation basic rents which will be sufficient to cover principal and interest on the lease revenue bonds when due. The bonds bear an interest rate of 2.5 to 5.0 percent and mature in 2027. The lease revenue bond has a balance of $6,880,000 at June 30, 2010. The foundation's financial statements include this transaction as a receivable from UND and a long-term liability. UND's financial statements include the capitalized asset and a long-term liability due to UND Foundation.

On April 16, 2008, the UND Foundation issued bonds of $2,200,000 to build a University Presidents Home and an addition to the Jodsaas Center Engineering building. Series B for the President's residence was $900,000 and Series A for the Jodsaas Center Engineering Building was $1,300,000. Semi-annual payments are required on Series A. Series B requires semi-annual payments with principal paid annually. The interest rate is fixed at 4.15%. Payments on both series are due through 2038. The bonds have a balance of $2,039,159 at June 30, 2010. The UND Foundation incurred $919,571 in costs related to the President's residence and also incurred $424,080 in costs related to infrastructure and land improvements related to the President's residence.

On December 22, 2008, the UND Foundation issued bonds of $1,200,000 to fund construction of the North Dakota Center for Human Safety. Annual payments of principal along with semi-annual payments of interest are required at a fixed interest rate of 3.5%. Payments are due through 2013. The bonds have a balance of $976,221 at June 30, 2010.

UND leases office space to the UND Foundation at a cost of $1 per year and provides some administrative services, computer services, utilities and maintenance at no cost as a partial in-kind reimbursement for services rendered by the Foundation. Lease on the office, dated November 1, 1979, has a remaining term of one year. At June 30, 2010, due to timing of receipts and payments, the UND Foundation recorded a payable of $22,601 to UND.

NOTE 11 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

BANK OF NORTH DAKOTA

The State, through the Bank of North Dakota, is a party to financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments include commitments to extend credit and financial standby letters of credit. Those instruments involve varying degrees of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the State has in particular classes of off-balance-sheet financial instruments.

The State's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and financial standby letters of credit is represented by the contractual amount of those instruments. The State uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

	Contract Amount (in thousands)	
Commitments to extend credit	$	585,960
Financial standby letters of credit		396,951
	$	982,911

Commitments to extend credit are agreements to lend as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The State evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained by the State upon extension of credit is based on management's credit evaluation of the customer. Collateral held may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Financial standby letters of credit are conditional commitments issued by the State to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The likelihood of funding any of these letters of credit is considered to be remote.

COMMUNITY WATER FACILITY LOAN FUND

In the normal course of business, the Loan Fund makes various commitments that are not reflected in the financial statements. These commitments include commitments to extend credit of $738,000 at December 31, 2009.

NORTH DAKOTA HOUSING FINANCE AGENCY

In the normal course of business, the Agency makes various commitments that are not reflected in the financial statements. These include commitments to extend credit and the debt reduction required when related loan acquisition funds are not drawn down within prescribed time frames set by the specific bond resolution.

Commitments to extend credit are agreements to fund loans as long as there is no violation of any condition established in the contracts. Commitments require the payment of a reservation fee and generally have a fixed expiration date. Commitments to extend credit total $40,479,000 at June 30, 2010. The Agency does not anticipate any material losses as a result of these commitments.

The bond resolutions require that the funds in the loan acquisition accounts be expended within 42 months of the related bond delivery date. Any remaining funds must be used for debt reduction. The loan acquisition funds totaled $19,097,000 at June 30, 2010.

PUBLIC FINANCE AUTHORITY

In the normal course of business, the Finance Authority (a component unit) makes various commitments that are not reflected in the financial statements. These commitments include commitments to extend credit of $116,947,000 at December 31, 2009.

NOTE 12 - INTEREST RATE SWAP

NORTH DAKOTA HOUSING FINANCE AGENCY

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance, the Agency entered into several cash flow hedges or swaps in connection with various variable-rate housing bond series. The Agency cash flow hedges are pay-fixed. The intention of these swaps was to effectively change the Agency's interest rate on the bonds to a fixed rate.

The bonds and the related swap agreements have a stated issuance and maturity date. Some of the swaps have optional termination dates. Under the swaps, the authority pays the counterparty a fixed payment and receives a variable payment computed as a percent of the London Interbank Offered Rate (LIBOR) plus a fixed percentage on the swap notional amount. On the other hand, the bond's variable-rate coupons are determined by the remarketing agent. If for any reason the remarketing agent fails to act, the rate shall be the lesser of (i) the TBMA Index plus 0.25% or (ii) the Maximum Rate as defined within the applicable series resolution. The Agency had optionally terminated two swaps with an aggregate notional amount of $20,095,000 at par and entered into an additional swap with a $50,530,000 notional amount.

As of June 30, 2010, the Agency is exposed to credit risk on the swaps that have a positive fair value, which total $5,039,000. Of the swaps with negative fair value, the Agency is not exposed to credit risk. However, the swap exposes the Agency to basis risk should the relationship between LIBOR and TBMA converge, changing the synthetic rate on bonds. The swap counterparty has guaranteed all payments and is rated AA+/AA-/AA by Moody's Investor Services, Standard & Poor's, and Fitch, respectively. To mitigate potential credit risk, the counterparty has entered into a Credit Support Agreement with Citigroup Global Marketing as a credit enhancement.

The Agency has entered into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements netting provisions permit each party to net the transactions' fair values so that a single sum will be owed by, or owed to, the other party. At June 30, 2010, the Agency owed the swap providers a fixed rate on the notional amount of the swaps of $3,907,000 and the swap providers owed the Agency a variable rate on the notional amounts of $453,000 making the net payment that the Agency owed the swap providers $3,454,000.

Due to the difference in the variable rate indices, the swaps had a net negative fair value of $19,751,000 as of June 30, 2010. Accordingly, the financial derivative instrument is reported as a liability and the accumulated changes in fair value of the swaps are reported as a deferred outflow at June 30, 2010. The coupon on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. All valuations are as of the valuation date indicated. Mid-Market or indicative unwind valuations may be derived from broker quotations or from proprietary models that take into consideration estimates about relevant present and future market conditions as well as the size and liquidity of the position and any related actual or potential hedging transactions. Valuations based on other models or different assumptions may yield different results.

The swap exposes the Agency to basis risk should the relationship between LIBOR and the actual variable rates converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate and the synthetic rate as of June 30, 2010. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized.

The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated if counterparty's credit quality rating falls below "A3" as issued by Moody's Investors Service or "A-" as issued by Fitch Ratings or Standard & Poor's. The swap may be terminated at any time by the Agency or the counterparty with 30 days written notice up to limits specified in the swap agreement. If the swap or swaps were terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of terminations the swap has a negative fair value, the Agency would be liable to the counterparty for payment equal to the swap's fair value, but in the event the fair value is positive, the counterparty would be liable to the Agency.

The Agency is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to maturity of the hedged debt. When these hedging derivative instruments terminate, or in the case of a termination option, if the counterparty exercises its option, the Agency will be re-exposed to the risks being hedged by the hedging derivative instrument. The Agency also is exposed to rollover risk on the swaps that mature and the Agency does not call the related variable rate debt.

1.	Bond Series	2002 B	2003 A
2.	Issuance Date	8/28/2002	5/14/2003
3	Maturity Date	7/1/2011	1/1/2012
4.	Notional Amount	$ 900,000	$ 2,060,000
5.	Variable-rate Bonds	$ 900,000	$ 2,060,000
6.	Fixed Rate	2.940%	2.463%
7.	LIBOR Percentage	70.60%	62.50%
8.	Additional Percentage	0.00%	0.44%
9.	Bonds Variable-rate	0.26000%	0.29000%
10.	Fair Value	$ (20,000)	$ (44,000)
11.	Percentage of LIBOR	0.22401%	0.65602%
12.	Synthetic Rate	2.95590%	2.09698%
13.	Actual Synthetic Rate	3.17828%	2.36406%
14.	Change in Fair Value	$ 35,000	$ 30,000
15.	Optional Termination Date	-	-

1.	Bond Series	2003 B	2003 B	2004 B	2004 B
2.	Issuance Date	8/27/2003	8/27/2003	4/1/2004	4/1/2004
3	Maturity Date	1/1/2012	7/1/2034	1/1/2013	7/1/2035
4.	Notional Amount	$ 2,170,000	$14,205,000	$ 4,025,000	$12,990,000
5.	Variable-rate Bonds	$ 2,170,000	$14,205,000	$ 4,025,000	$12,990,000
6.	Fixed Rate	3.155%	4.530%	2.620%	3.980%
7.	LIBOR Percentage	64.00%	64.00%	63.00%	63.00%
8.	Additional Percentage	0.37%	0.37%	0.34%	0.34%
9.	Bonds Variable-rate	0.29000%	0.29000%	0.29000%	0.29000%
10.	Fair Value	$ (64,000)	$ (738,000)	$ (117,000)	$ (1,046,000)
11.	Percentage of LIBOR	0.58620%	0.58620%	0.55775%	0.55775%
12.	Synthetic Rate	2.85880%	4.23380%	2.35225%	3.71225%
13.	Actual Synthetic Rate	3.08398%	4.44579%	2.60419%	3.95005%
14.	Change in Fair Value	$ 57,000	$ 37,000	$ 52,000	$ (333,000)
15.	Optional Termination Date	-	7/1/2011	-	7/1/2013

1.	Bond Series	2004 C	2005 A	2005 C	2006 A
2.	Issuance Date	6/10/2004	4/13/2005	9/21/2005	5/4/2006
3.	Maturity Date	1/1/2035	7/1/2024	1/1/2036	7/1/2016
4.	Notional Amount	$21,885,000	$23,100,000	$12,000,000	$30,210,000
5.	Variable-rate Bonds	$21,885,000	$23,100,000	$12,000,000	$30,210,000
6.	Fixed Rate	4.095%	3.870%	3.889%	3.955%
7.	LIBOR Percentage	63.00%	62.90%	63.00%	63.00%
8.	Additional Percentage	0.34%	0.32%	0.31%	0.31%
9.	Bonds Variable-rate	0.26000%	0.27000%	0.27000%	0.27000%
10.	Fair Value	$ (1,306,000)	$ (1,667,000)	$(1,207,000)	$(4,341,000)
11.	Percentage of LIBOR	0.55775%	0.53740%	0.52775%	0.52775%
12.	Synthetic Rate	3.79725%	3.60260%	3.63125%	3.69725%
13.	Actual Synthetic Rate	4.06602%	3.84242%	3.86474%	3.92823%
14.	Change in Fair Value	$ 143,000	$ (286,000)	$ (417,000)	$ (880,000)
15.	Optional Termination Date	7/1/2011	7/1/2012	1/1/2016	7/1/2016

1.	Bond Series	2008 A	2008 B	2008 D	2009 B
2.	Issuance Date	2/26/2008	2/26/2008	8/5/2008	7/30/2009
3.	Maturity Date	1/1/2017	7/1/2038	7/1/2039	1/1/2025
4.	Notional Amount	$13,700,000	$14,310,000	$21,850,000	$50,005,000
5.	Variable-rate Bonds	$13,700,000	$14,310,000	$21,850,000	$50,005,000
6.	Fixed Rate	3.198%	4.725%	3.919%	3.108%
7.	LIBOR Percentage	63.00%	100.00%	63.70%	64.70%
8.	Additional Percentage	0.32%	0.00%	0.20%	0.23%
9.	Bonds Variable-rate	0.27000%	0.32000%	0.21000%	0.26000%
10.	Fair Value	$ (1,338,000)	$ (1,764,000)	$ (2,750,000)	$ (3,349,000)
11.	Percentage of LIBOR	0.53775%	0.34563%	0.42017%	0.45362%
12.	Synthetic Rate	2.93025%	4.69937%	3.70883%	2.91438%
13.	Actual Synthetic Rate	3.15313%	5.49327%	3.85625%	2.99969%
14.	Change in Fair Value	$ (498,000)	$ (482,000)	$ (816,000)	$ (3,349,000)
15.	Optional Termination Date	1/1/2017	1/1/2020	7/1/2018	7/1/2016

Using rates as of June 30, 2010, debt service requirements of the variable-rate debt and new swap payments are as follows. Interest calculations were based on rates as of June 30, 2010. As rates vary, variable-rate bond interest payments and net swap payments will vary. (Expressed in thousands.)

	Variable-Rate Bond			
Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swap, Net	Total
2011	$ 9,755	$ 576	$ 7,057	$ 17,388
2012	9,725	549	6,781	17,055
2013	7,660	526	6,532	14,718
2014	6,230	508	6,327	13,065
2015	5,415	493	6,147	12,055
2016-2020	76,055	1,760	22,301	100,116
2021-2025	40,910	1,100	14,663	56,673
2026-2030	17,865	747	10,428	29,040
2031-2035	28,640	419	6,193	35,252
2036-2040	20,975	94	1,540	22,609
	$ 223,230	$ 6,772	$ 87,969	$ 317,971

NOTE 13 – SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Most of the State's business is with customers within the state. Concentrations of credit are present in the construction and operation of community water facilities, developmentally disabled facilities, loans to students for post-secondary education, single-family and multifamily mortgage loans, and the agricultural industry. Due to the pervasive nature of agriculture in the economy of the state, all loans, regardless of type, are impacted by agriculture.

NOTE 14 – RISK MANAGEMENT

Several funds accumulate assets to cover risks that the State may incur. Specifically, the State assumes a portion or substantially all risks associated with the following:

THE STATE FIRE AND TORNADO FUND

The State Fire and Tornado Fund, an Enterprise Fund, is financed by premiums charged to the participating funds of the State. All monies collected must be paid into the fund for use only for the purpose outlined in NDCC 26.1-22.02.

All losses occasioned by the hazards provided for in the North Dakota Century Code must be paid out of the fund, with the fund being reimbursed by a third-party insurance carrier for all losses in excess of $1,000,000 per occurrence. The limit of liability of such reinsurance contract is no less than $1,000,000 during each twelve month period.

STATE BONDING FUND

The State Bonding Fund, an Enterprise Fund, is financed by premiums charged to each State agency for the bonding of public employees and public officials.

FLEET SERVICES

Fleet Services, an Internal Service Fund, represents the State's fleet of automobiles and is administered by the Department of Transportation. The State is self-insured for substantially all automobile insurance (e.g., comprehensive, collision), with the exception of liability, which is provided by the State's Risk Management Fund (RMF). State agencies are charged premiums to cover Fleet Service's RMF assessment and to pay for those losses that are not covered by RMF. These premium charges are factored into the fees agencies are charged when renting the cars.

WORKFORCE SAFETY & INSURANCE

Workforce Safety & Insurance (WSI), an Enterprise Fund, is a State insurance fund and a "no fault" insurance system, covering the State's employers and employees. WSI is financed by premiums assessed to employers. The rate of such premiums is periodically adjusted to assure the solvency of WSI. The premiums are available primarily for the payment of claims to employees injured in the course of employment. During fiscal year 2010, a total of $117,606,375 in claims was recognized. Incurred but not reported claims of $772,095,000 have been accrued as a liability based primarily upon actuarial estimates.

RISK MANAGEMENT FUND

Due to the loss of sovereign immunity, the 1995 Legislature established the Risk Management Fund (RMF) to pay money damages for tort claims for which the State is liable. The statutory liability of the State is limited to a total of $250,000 per person and $1,000,000 per occurrence. The State purchases commercial insurance for claims in excess of coverage provided by the Fund and continues to transfer liabilities for medical malpractice and aviation to private insurance carriers. Settlements have not exceeded insurance coverage in any of the past three fiscal years.

Revenues to the RMF are generated from contributions required from state agencies, boards and commissions, and the University System. The need for and amount of funding is determined using a projected cost allocation approach. The premise of this plan is that the agencies with greater expected loss costs should contribute more to the funding of the RMF than those agencies with lessor costs. The underlying logic is that contributions should roughly equal loss costs plus the expenses of administering the program over the long term.

The RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Unpaid claim liabilities are based on an actuarial study of the outstanding loss reserve need for the fund and a forecast of ultimate loss and loss expense. These liabilities were determined on an undiscounted expected level of ultimate loss. Because actual claims liabilities are affected by complex factors including inflation, changes in legal doctrines, and unanticipated damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts. Claims liabilities will be re-evaluated periodically to take in consideration settled claims, the frequency of claims, and other economic and social factors.

The following table presents the changes in claims liabilities balance for the fiscal years ending June 30, 2009, and June 30, 2010:

Fiscal Year		Beginning Balance		Current Year Claims and Changes In Estimates		Claims Payments		Ending Balance
2009	$	2,067,030	$	377,736	$	478,058	$	1,966,078
2010		1,966,078		728,583		858,680		1,835,981

The Risk Management Workers Compensation Program (WCP) was established to consolidate all state entities under one workers compensation account, allowing for transitional duty between entities. The statutory liability of the fund is limited to $100,000 per claim with Workforce Safety & Insurance, providing excess insurance for claims that exceed the $100,000 cap. WCP pays separately for this coverage. Since the inception of WCP on July 1, 2001, thirteen claims exceeded coverage by $1,462,394.

Revenues to WCP are generated from contributions required from state agencies, boards, commissions, and the University System. The amount contributed from each agency is actuarially determined by Workforce Safety & Insurance and based upon the number of employees, the type of work done, and claims history of each entity. Each entity also pays a deductible of $250 per claim.

The WCP liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities are affected by complex factors including inflation, changes in legal doctrine, and unanticipated damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts. Claims liabilities will be re-evaluated periodically to take into consideration settled claims, the frequency of claims, and other economic and social factors. An actual study was performed for Workforce Safety & Insurance. The liability estimates are based on that study.

The following table presents the changes in claims liabilities balance for the fiscal year ending June 30, 2010:

Fiscal Year		Beginning Balance		Current Year Claims and Changes in Estimates		Claims Payments		Ending Balance
2009	$	3,849,552	$	3,000,740	$	2,745,908	$	4,104,384
2010		4,104,384		3,330,692		4,189,013		3,246,063

NOTE 15 – PUBLIC ENTITY RISK POOLS

A. GENERAL

FIRE AND TORNADO AND BONDING FUND

The Fire and Tornado Fund provides property insurance to state agencies, political subdivisions, the International Peace Garden and the winter show. The Fire and Tornado Fund has issued 1,088 policies to participating entities for a total building and content coverage of $9.5 billion. The Bonding Fund is used to provide fidelity bonding of public employees and officials. The Fund has issued 2,971 policies to participating entities. The total coverage for the Bonding Fund is $600.0 million. If the assets of these funds were exhausted, fund participants would not be responsible for the funds' liabilities.

The Fire and Tornado and Bonding Fund are accounted for on the accrual basis. The Fire and Tornado Fund establishes claim liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims incurred but not reported. The Bonding Fund establishes claim liabilities based on actual judgments obtained against the fund but not paid prior to fiscal year end. Liabilities for incurred but not reported losses have not been established as they are not expected to be material amounts. Neither fund incurred any acquisition costs that should have been capitalized, nor were any liabilities recognized that were discounted. Investment income was not considered in determining the existence of premium deficiencies.

The Fire and Tornado Fund uses reinsurance agreements to reduce its exposure to large losses (excess of $1.0 million) on all types of its insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the risks that are reinsured. The Fire and Tornado Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

WORKFORCE SAFETY & INSURANCE

Workforce Safety & Insurance (WSI), an Enterprise Fund, is a state insurance fund and a "no fault" insurance system covering the State's employers and employees. At June 30, 2010, coverage extended to the following employers:

Annual Premium	
$250 - $5,000	15,629
$5,001 - $50,000	4,168
$50,001 - $100,000	345
Over $100,000	286
Total Employers	20,428

WSI is financed by premiums assessed to the employers of North Dakota. The premiums are available primarily for the payment of claims to employees injured in the course of employment.

The operations of WSI are accounted for on the accrual basis. Liability for incurred but not reported and incomplete claims and claims expense is estimated by WSI's actuary. The estimate is developed by WSI's actuary, taking into consideration past experience of WSI in paying claims, and general conditions of the environment in which WSI operates. The liability includes estimates of costs to settle individual claims that have been reported, plus a provision for losses incurred but not yet reported and includes the effects of inflation and other societal and economic factors. WSI records the liability at a discounted amount.

As adjustments to this estimated liability become necessary, such adjustments are reflected in current operations. Management believes the estimated liability for losses and loss adjustment expense is sufficient to cover the ultimate net cost of incurred claims, but such reserves are necessarily based on estimates and the ultimate liability may be greater or less than the amounts estimated.

For the year ended June 30, 2010, the actuary presented an estimate in the form of a range to emphasize the uncertainty for a "long-tailed" liability insurer such as workers' compensation. These ranges are as follows (expressed in thousands):

	Low	Expected Value	High
Full Value Basis (undiscounted)	$1,206,339	$ 1,313,946	$ 1,450,670
Present Value Basis (discounted at 5% rate)	$ 708,430	$ 772,095	$ 851,902

WSI has adjusted the estimated liability for unpaid loss and loss adjustment expense to the actuary's five percent discounted expected value of $772,095,000 at June 30, 2010.

While management has recorded amounts that fall within the ranges of estimated liabilities as computed under actuarial assumptions, the high level of uncertainty indicates that actual losses and expenses could be materially higher than the recorded estimated liability.

WSI did not incur any acquisition costs that should have been capitalized at June 30, 2010.

B. RECONCILIATION OF CLAIMS LIABILITIES

The following is a reconciliation of total claims liabilities, including an analysis of changes in aggregate liabilities for claims and claim adjustment expenses for the current fiscal year and the prior year (expressed in thousands):

	Fire And Tornado		Bonding		Workforce Safety & Ins	
	2010	2009	2010	2009	2010	2009
Unpaid claims and claims adjustment expenses at the beginning of the year	$ 755	$ 1,114	$ 189	$ 149	$ 771,900	$ 740,600
Incurred claims and claims adjustment expenses:						
Provision for current fiscal year	3,075	1,744	49	128	160,265	168,964
Change in provision for prior fiscal year	-	-	-	-	(26,657)	9,427
Payments and claims and adjustment expenses attributable to:						
Current fiscal year insured events	(1,676)	(989)	148	61	(30,861)	(32,054)
Prior fiscal years' insured events	(755)	(1,114)	(189)	(149)	(82,601)	(81,137)
Total Payments	(2,431)	(2,103)	(41)	(88)	(113,462)	(113,191)
Change in provision for discount	-	-	-	-	(19,951)	(33,900)
Total unpaid claims and claims adjustment expenses at the end of the year	$ 1,399	$ 755	$ 197	$ 189	$ 772,095	$ 771,900

NOTE 16 – SCHOOL PERMANENT TRUST FUND

On June 30, 2009, the Attorney General certified to the Secretary of State that recent amendments to two federal statutes, the 1889 Enabling Act and the 1862 Morrill Act, removed any inconsistencies between these two federal laws and sections 1 and 2 of Article IX of the North Dakota State Constitution. With that certification, the historic changes that were approved by North Dakota voters as Constitutional Measure No. 1 during the November 7, 2006, general election became effective on July 1, 2009. Effective July 1, 2009, biennial distributions from the perpetual trust funds will be ten percent of the five-year value of trust assets, excluding the value of lands and minerals. The average value of trust assets is determined by using the assets' ending value for the fiscal year that ends one year before the beginning of the biennium and the assets' ending value for the four preceding fiscal years. Equal amounts must be distributed during each year of the biennium.

NOTE 17 – BANK OF NORTH DAKOTA

GASB Statement No. 34 requires assets and liabilities of enterprise funds be presented in a classified format to distinguish between current and long-term assets and liabilities. The Bank of North Dakota is the only government-owned bank in the United States. Banks do not present a classified 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. Therefore, the balance sheet of the Bank of North Dakota presents assets and liabilities in order of their relative liquidity, rather than in a classified format.

NOTE 18 - COMMITMENTS AND CONTINGENCIES

A. LONG-TERM COMMITMENTS

BANK OF NORTH DAKOTA

S.B. 2332, Sections 8 and 9 – The Health Information Technology Office Director may request the Bank of North Dakota to transfer up to $8,000,000 to the Health Information Technology Loan Fund to meet any required match for federal funds or to the Electronic Health Information Exchange Fund to meet any required match for federal funds or as directed, a portion to both funds to meet any required match for federal funds. The Health Information Technology Office Director shall request fund transfers from the Bank only as necessary to comply with federal requirements and to meet cash flow needs of the funds. The Health Information Technology Office Director may request the Bank of North Dakota to transfer up to $5,000,000 to the Health Information Technology Planning Loan Fund. The Health Information Technology Office Director shall request transfers from the Bank only as necessary to meet cash flow needs of the fund.

Under chapter 61-02.1-04 of North Dakota Century Code, principal and interest on State Water Commission bonds issued are payable from transfers to be made and appropriated by the legislative assembly from the water development trust fund as provided in section 61-02.1-05, then from transfers to be made and appropriated by the legislative assembly from revenues in the resources trust fund other than revenues from state taxes, then from appropriations of other available revenues in the then current biennium, and then from any other revenues the State Water Commission makes available during the then current biennium for that purpose, including any federal moneys received by the state for the construction of flood control or reduction projects to pay bonds issued for that project. If sufficient funds from these sources are not available, then from transfers to be made and appropriated by the legislative assembly from the first available current biennial earnings of the Bank of North Dakota not to exceed $6,500,000 per biennium prorated with any other bonds payable from transfers to be made and appropriated by the legislative assembly from the available current biennial earnings of the Bank of North Dakota, to be credited by the trustee to the fund established for paying principal and interest on the bonds under a trust indenture. If the bank has to provide a transfer to the State Water Commission to make principal and interest payments on these bonds, the State Water Commission would then have to request from the next legislative assembly funding to repay the transfer made by the bank.

Chapter 6-09.7-09 provides that the Bank of North Dakota may guarantee the loan of money by banks, credit unions, lending institutions that are part of the farm credit system, and savings and loan associations in this state to eligible persons for the purchase of agricultural real estate or the restructuring of agricultural real estate loans, provided the transactions do not exceed a loan to value ratio of 80% and further provided that no single loan exceeds $400,000. The Bank may have no more than $8,000,000 in outstanding loan guarantees under this program. The Bank may guarantee up to 75% of the amount of principal due the lender. The guarantee term may not exceed 5 years. As of December 31, 2009, the Bank has guarantees outstanding totaling $1,342,000. The Bank had no guarantee commitments outstanding as of December 31, 2009.

Chapter 6-09.15 provides that the Bank of North Dakota provide a Beginning Entrepreneur Loan Guarantee Program. The program includes an agreement with a lender that in the event of default by a beginning entrepreneur under a note and mortgage or other loan or financing agreement, the Bank shall pay the lender the amount agreed upon up to 85 percent of the amount of principal due the lender on a loan at the time the claim is approved. The total outstanding loans that the Bank may guarantee cannot exceed 5% of the Bank's tier one capital as define by the Department of Financial Institutions. A lender may apply to the Bank for a loan guarantee for a loan of up to $100,000. The term of the guarantee may not exceed five years. As of December 31, 2009, the Bank has guarantees outstanding totaling $4,223,000 and had guarantee commitments outstanding of $202,000 included in commitments to extend credit.

Chapter 6-09-41 of the North Dakota Century Code provides that the Bank of North Dakota establish and administer a loan guarantee program that is designed to expand livestock feeding and dairy farming in this state. This program was effective through June 30, 2009. The Bank may guarantee loans made by the bank, credit union, a savings and loan association, or any other lending institution in this state to the owner of a commercial livestock feeding operation or to the owner of a new or expanding dairy operation. In the event of a default, the Bank shall pay to the lender the amount agreed upon, provided that the amount may not exceed 85% of the principal due the lender at the time the claim is approved. As of December 31, 2009, the Bank has guarantees outstanding totaling $1,466,000.

PUBLIC EMPLOYEE RETIREMENT SYSTEM

The system has entered into agreements with Sagitec Solutions, LLC and L.R. Wechsler, Ltd for the development of its new integrated benefits administration system. The contract with Sagitec is $7.7 million and the contract with L.R. Wechsler is $1 million, and the total appropriation for this project is approximately $9.6 million, which is anticipated to be fully completed by September 2011. As of June 30, 2010, the system has paid $7.0 million towards these contracts. The remaining $2.6 million will be paid as the project is completed. It is anticipated that final payments to Sagitec, which are due upon completion of the warranty period, may be carried over to the 2011-2013 biennium.

RETIREMENT AND INVESTMENT OFFICE (RIO)

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

MANDAN REMEDIATION TRUST

As of November 23, 2004, the North Dakota Department of Health entered into a quick start contract with Leggette, Brashears & Graham, Inc. (LBG) for the performance of remediation services. The amount of the contract was $149,262. A master services agreement was signed on January 18, 2005, between LBG and the North Dakota Department of Health for the performance of remediation services. Mandan Remediation Trust agrees to pay LBG for services rendered under the quick start contract and the master services agreement pursuant to the Mandan Remediation Trust Agreement. The master services agreement provides a fee schedule for consulting services and equipment use. LBG was reimbursed $264,861 during 2009 for services rendered under the contract.

INDUSTRIAL COMMISSION

Under the Lignite Vision 21 Program, the Commission has entered into an amended contract for the amount of $10,000,000 with American Lignite Energy. The purpose of the amended contract is for conducting the FEED process for a coal-to-liquids plant in McLean County. The balance outstanding at June 30, 2010, is $8,649,998. In addition, the Commission has entered into a contract for conducting pre-FEED and FEED studies with Great Northern Power Development. The balance outstanding at June 30, 2010, is $4,251,717.

The Commission also has various significant commitments at June 30, 2010, for the purchase of various types of research, services and other goods totaling $9,258,120.

MILL AND ELEVATOR

As of June 30, 2010, the Mill had commitments to purchase 3,789,908 bushels of spring wheat and 105,917 bushels of durum.

STATE FAIR

The State Fair entered into agreements with contractors for the construction of the new grandstand and the demolition of the old grandstand. Commitments remaining on the demolition and subsequent construction total $408,221.

BUILDING AUTHORITY

The Authority has committed funds to complete various construction and modernization programs at June 30, 2010, totaling $1,414,000. In addition, the 2009 Legislature authorized the Authority to bond up to $2,575,000 during the 2009-2011 biennium for the Veteran's Home construction project.

PUBLIC FINANCE AUTHORITY

On April 1, 1997, a Standby Bond Purchase Agreement was executed with the Central Dakota Irrigation District, a political subdivision. Should the District experience financial difficulties, the Finance Authority will purchase Central Dakota Irrigation District's Refunding Improvement Bonds (warrants) in an aggregate principal amount not less than the outstanding principal amount of the warrants plus accrued interest on the warrants. The original amount of the warrants issued April 1, 1997, was $3,270,000.

The Finance Authority purchased letters of credit from the Bank of North Dakota in order to fund the reserves for the Capital Financing Program Bonds. As of December 31, 2009, $4,271,000 of credit was available through these letters of credit and no funds have been advanced.

JOB SERVICE NORTH DAKOTA

As of June 30, 2010, Job Service has commitments to pay $124,235 for purchase orders and contracts awarded for goods, services, software licenses, software support, and software server hosting to be provided in future periods.

DEPARTMENT OF HUMAN SERVICES

As of June 30, 2010, the Department of Human Services had significant commitments for the purchase of various types of services totaling $83,393,413.

STATE JUDICIARY

As of June 30, 2010, State Judiciary had significant commitments of $1,028,534. The majority consists of contracts to provide various types of judicial services.

AERONAUTICS COMMISSION

As of June 30, 2010, the Aeronautics Commission had significant commitments of $3,800,000. This amount consists of grants to political subdivisions for maintenance and improvements of their airports.

DAIRY PRODUCTS PROMOTION COMMISSION

As of June 30, 2010, the Dairy Products Commission had significant commitments of $170,000. This amount consists of a contract with Midwest Dairy Association to implement and administer programs intended to contribute to the betterment of North Dakota dairy farmers and the State's dairy industry. The contract also provides the Commission with administrative, financial, and reporting services.

NORTH DAKOTA SOYBEAN COUNCIL

As of June 30, 2010, the North Dakota Soybean Council had significant commitments of $1,357,864. This amount mainly consists of grants for the research and development of soybeans.

STATE WATER COMMISSION

As of June 30, 2010, the State Water Commission had long-term commitments of $153,608,858 for various water projects.

NORTH DAKOTA DEPARTMENT OF TRANSPORTATION

At June 30, 2010, the North Dakota Department of Transportation (Special Revenue Fund) had non-construction contract commitments of approximately $23.58 million of which $19.76 million represents federal programs which are cost reimbursable.

Construction commitments at June 30, 2010, totaled approximately $273.87 million, of which $207.0 million represents federal programs which are cost reimbursable. These commitments will be funded with future appropriations as work is performed.

UNIVERSITY SYSTEMS

Contracts for the construction of various projects on behalf of the University System have been let as follows (expressed in thousands):

	Original Issue	Paid To Date	Amount To Be Paid
BSC	$ 2,450	$ 368	$ 2,082
DCB	979	113	866
DSU	15,199	14,281	918
MASU	8,807	2,284	6,523
MiSU	11,870	9,327	2,543
NDSCS	5,642	4,791	851
NDSU	63,542	33,291	30,251
UND	16,994	6,683	10,311
VCSU	1,191	673	518
WSC	12,231	2,060	10,171

NORTH DAKOTA DEVELOPMENT FUND

The board of directors has approved equity investments, loans, grants, and guaranty of collections at June 30, 2010, for which funds have not been disbursed or written agreements entered into in the amount of $1,843,313.

OTHER CONSTRUCTION COMMITMENTS

Legislative Assembly	$ 2,456
Human Services	1,435
Adjutant General	8,960
State Historical Society	1,273
Department of Corrections	61,613
Transportation	115,574
Veterans Home	11,198
State Courts	1,960
Seed Department	367

B. LITIGATION

The estimated loss in all of the litigation against the State in which a loss to the State is probable is estimated at zero. Litigation that is reasonably possible to result in an unfavorable outcome is also estimated at zero.

The estimated gain in all the litigation brought by the State in which a gain is probable is estimated at zero.

In November 1998, the North Dakota Attorney General joined forty-five other states and five territories in a settlement agreement against the nation's largest tobacco manufacturer. The Master Settlement Agreement includes base payments to states totaling $220.6 billion for the next 25 years, and continues in perpetuity. North Dakota's share of the settlement is expected to be $866 million over the next 25 years. The amount of the annual payment is subject to a number of modifications, including adjustments for inflation and usage volumes. Some of the adjustments may result in increases in the payments (inflation, for example), or other adjustments will likely cause decreases in the payments (e.g., volume adjustments). The net effect of these adjustments on future payments is unclear.

The State had not settled any cases before June 30, 2010, in which the settlement had not been paid as of June 30, 2010.

C. QUESTIONED COSTS

The State receives federal financial assistance which is subject to review and audit by the Office of the State Auditor and the federal government. This assistance is generally conditioned upon compliance with certain laws and regulations. Disallowed and questioned costs relating to federal assistance could become a liability to the State. The State estimates that the ultimate disallowances pertaining to federal assistance, if any, will be immaterial to its overall financial condition.

The single audit of the State of North Dakota for the two-year period ending June 30, 2008, was completed and issued in March of 2009. As a result of this audit, approximately $1,634,000 of identifiable questioned costs was noted. Also, there were several findings which had potentially significant, unknown, questioned costs. The State is cooperating with the federal government to resolve the findings and is optimistic these findings will not have a material impact on the State.

The 2009-2010 single audit will be issued sometime in March 2011. It is anticipated there will be potential questioned costs against the State as a result of their audit. The State does not believe the results will have a material impact.

NOTE 19 - SUBSEQUENT EVENTS

In February 2009, the State 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 State was an investor along with numerous other public and private pensions 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 equaled to 60% of the investors' account values. The State, through the State Investment Board, 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 for WG Trading and were frozen by the courts and remain frozen as of the balance sheet date. The market value reported on the balance sheet reflects a reduction of 40% of the last known fair value, based on the receiver's initial report.

Subsequent to 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.

MANDAN REMEDIATION TRUST

Subsequent contracts with Leggette, Brashears and Graham, Inc. for various remediation efforts have been signed totaling $245,753.

JOB SERVICE NORTH DAKOTA

Subsequent to June 30, 2010, Job Service entered into a lease agreement with Key Government Finance, Inc. to replace the Unemployment Insurance mainframe system. The lease term is from October 1, 2010 thru September 30, 2015. Total lease amount is $1,407,289 with quarterly payments of $77,718.

VALLEY CITY STATE UNIVERSITY

Subsequent to June 30, 2010, VCSU issued $3.4 million in revenue bonds for the renovation of the Snoeyenbos Residence Hall. Revenues from rental charges and other income from the operation of Snoeyenbos Hall are pledges to the bond issue. The bonds mature on July 1, 2040, with principal and interest payments due beginning July 1, 2012. The Recovery Zone Economic Development Bonds carry a 45% federal subsidy to offset the interest expense.

WILLISTON STATE COLLEGE

Subsequent to June 30, 2010, WSC issued $9.375 million in revenue bonds for the construction of a new residence hall. Revenues from the new residence hall are pledged to the bond issue. The bonds mature on June 30, 2041, with interest due January 1, 2011 and principal and interest payments due beginning June 30, 2011.

HOUSING FINANCE

Subsequent to June 30, 2010, the agency issued the 2010 Series C and D Homeownership Revenue Bonds totaling $40.0 million and the 2010 Series E and F Housing Finance Program Bonds totaling $81.2 million.

NOTE 20 – NEW PRONOUNCEMENTS

The State implemented the following new pronouncement for fiscal year 2010:

GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets," was issued in June 2007. This statement establishes criteria that governments will use to establish accounting and financial reporting requirements for intangible assets. The provisions of this statement are effective for periods beginning after June 15, 2009.

GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments" was issued in June 2008. This statement requires that the fair value of financial arrangements called "derivatives" or "derivative instruments" be reported in the financial statements of state and local governments. Additional information about derivatives is disclosed in the notes to the financial statements, including identification of the risks to which hedging derivative instruments themselves expose the State. The provisions of this statement are effective for periods beginning after June 15, 2009.

GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankrupticies," was issued in December 2009. This statement establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009.

The State will implement the following new pronouncements for fiscal years ending after 2010:

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", was issued in March 2009. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The provisions of this statement are effective for periods beginning after June 15, 2010.

GASB Statement No. 59, "Financial Instruments Omnibus", was issued in June 2010. The statement's objective is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of this statement are effective for periods beginning after June 15, 2010.