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NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

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, 2011, 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, 2010, 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, 2010, 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, 2011, and their report has been previously issued under a separate cover.

University System Foundation (Proprietary Fund Type) – The foundation is a legally separate, tax-exempt organization providing support and recognition to the respective colleges and universities through a variety of programs and activities. The foundation is normally managed by a board of directors made up primarily of alumni, friends or leading members of the communities. The component unit financial statements are presented under Financial Accounting Standards Board (FASB) standards. As such, certain disclosures are not reflected for University System Foundation in the major component unit disclosures. A complete set of financial statements can be obtained at the North Dakota University System office at 600 E. Boulevard Avenue, Dept. 215, Bismarck, ND 58505-0230.

Complete financial statements for each of the other 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

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.

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

The State Special Revenue Fund accounts for activities from state sources, which are restricted legally or administratively for the particular costs of an agency or program.

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

General Fund accounts for all governmental financial resources, except for those required to be accounted for in other funds.

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude those types of capital related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

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 2009-2011 biennium, there were general, federal and other funds supplemental appropriations totaling $661,474,458.

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, 2011.

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 contracted with a third party securities lending agent (Agent) to lend the State's securities portfolio. This relationship was terminated by the State May 20, 2011. The Agent was requested to call back all securities on loan and liquidate the collateral in a timely yet orderly fashion. All but one loan was recalled and collateral liquidated as of June 30, 2011.

The Agent lends securities of the type on loan at June 30, 2011, 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, 2011, 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, 2011, was one day. The Average Weighted Maturity of collateral investments as of June 30, 2011, was one day. (Land Department was 60 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 21 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

<u>INTERFUND ACTIVITY</u>

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.

<u>INTERFUND BALANCES</u>

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 sub-classified 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 sub classified 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.

CLASSIFICATIONS

Fund balance classifications for governmental funds are reported in two general classifications, nonspendable and spendable. Nonspendable represents the portion of fund balance that is not in spendable form such as inventories and prepaids. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by the State constitution and external parties, such as the federal government, or through enabling legislation.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, the state's legislature, through legislation, that is not considered as enabling legislation, passed into law.

Assigned fund balance classifications are used when the amounts are to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. The assignment of fund balance is generally initiated by the executive branch and later appropriated by the Legislature for a specific purpose. In governmental funds other than the general fund, assigned fund balance also represents the remaining amount that is not restricted or committed.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification would only be used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The State generally segregates restricted, committed, and assigned resources by individual funds within the governmental funds. When resources meeting more than one of these classifications are comingled within an individual fund, the assumed order of spending is restricted first, committed second, assigned third, and finally, unassigned.

MINIMUM FUND BALANCE

The State does not have a minimum fund balance policy but does maintain a stabilization fund. North Dakota Century Code (NDCC) section 54-27.2-02 requires any amount in the state general fund in excess of sixty-five million dollars at the end of any biennium to be deposited in the Budget Stabilization Fund. Any interest or earnings of the fund must be deposited in the fund per NDCC section 54-27.2-01. However, any amounts provided by law for deposit in the fund and any interest or earning of the fund which would bring the balance in the fund to an amount greater than nine and half percent of the current biennial state general fund budget, as finally approved by the most recently adjourned special or regular session of the legislative assembly, may not be deposited or retained in the fund but must be deposited instead in the state general fund.

NDCC section 54-27.2-03 states that if general fund revenue projections for the biennium will be at least two and one-half percent less than estimated by the most recently adjourned special or regular session of the legislative assembly, and if the governor orders a transfer, which must be reported to the budget section of the legislative management, the state treasurer shall transfer the appropriate funds from the budget stabilization fund to the state general fund to offset the decrease in general fund revenues. The amount transferred upon order of the governor may not exceed the difference between an amount two and on-half percent below the general fund revenue projections for the biennium.

The Budget Stabilization Fund, fund balance at June 30, 2011 was $325,727,297.

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):

	Government-wide Business Activities	General Fund	Federal Special Revenue Fund	State Special Revenue Fund
June 30, 2010, fund balance/net assets, as previously reported	$ 1,838,976	$ 839,011	$ 4,586	$ -
Prior period adjustment:				
Change in accounting policy due to GASB 54	-	65,426	-	1,480,163
Law change	-	-	-	1,296,982
Correction of errors	1,920	-	(808)	808
June 30, 2010, fund balance/net assets, as restated	$ 1,840,896	$ 904,437	$ 3,778	$ 2,777,953

	School Permanent Trust Fund	Nonmajor Governmental Funds	University System
June 30, 2010, fund balance/net assets, as previously reported	$ 1,296,982	$ 1,632,542	$ 824,924
Prior period adjustment:			
Change in accounting policy due to GASB 54	-	(1,545,589)	-
Law change	(1,296,982)	-	-
Correction of errors	-	-	1,920
June 30, 2010, fund balance/net assets, as restated	$ -	$ 86,953	$ 826,844

CORRECTION OF ERRORS

The beginning net assets of the Government-wide Business Activities $1,919,478 and University System were restated for various corrections of errors. Federal and State Special Revenue funds beginning fund balances were restated by $808,638, due to the Health Department reporting vaccine inventory in the wrong funds.

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, 2011, the bank balance of the primary government's deposits was $661,436,115. Of the bank amount, $554,695,024 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, 2011. Their uninsured and uncollateralized deposits totaled $547.9 million and $4.1 million, and their bank deposits totaled $548.7 million and $6.9 million, respectively.

At June 30, 2011, the bank balance of the major component units' deposits was $38,165,908. The major component units' had no uninsured and uncollateralized deposits at June 30, 2011.

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 employees' 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 or replicate portfolio risk, but not to speculate or to leverage the portfolio.

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. The investment policies of the Board allow the use of derivative securities to hedge or replicate underlying exposures but not for speculation.

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. Such proceeds must be invested in the Bank of North Dakota, in a separate fund in the State Treasury or in a duly authorized depository for the state funds that is a member of the FDIC. NDUS may invest such funds in direct obligation of, or in obligations where the United States of America guarantees the principal and interest, or obligations of the State of North Dakota or any municipality as defined in NDCC Section 21-03-01.

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, 2011, 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	$ 36,421	$ 4,089	$ 5,243	$ 3,667	$ 23,422
Commercial Mortgage-Backed	39,449	3,654	702	-	35,093
Corporate Bonds	1,066,147	180,292	507,384	198,270	180,201
Corporate Convertible Bonds	185,163	1,836	162,931	4,166	16,230
Government Agencies	251,535	24,600	196,877	18,225	11,833
Government Bonds	706,369	324,703	237,957	65,582	78,127
Government Mortgage-Backed	452,251	554	288,838	16,954	145,905
Index-Linked Government Bonds	124,966	2,563	118,994	-	3,409
Municipal/Provincial Bonds	35,754	2,147	13,147	629	19,831
Non-Government-Backed CMOs	67,598	17,862	-	11,875	37,861
Short Term Bills and Notes	23,781	23,781	-	-	-
Short Term Investment Funds	16,244	16,244	-	-	-
Pooled Investments	669,361	14,324	223,634	431,403	-
Total Debt Securities	$ 3,675,039	$ 616,649	$ 1,755,707	$ 750,771	$ 551,912

The fair 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	$ 368	$ 15	$ 105	$ 57	$ 191
Money Market Funds	1,134	1,134	-	-	-
Corporate Bonds	2,249	78	848	486	837
Mutual Bond Funds	47,078	-	32,445	-	14,633
Total Debt Securities	$ 50,829	$ 1,227	$ 33,398	$ 543	$ 15,661

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, 2011, 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	$ 36,421	$ 13,281	$ 5,347	$ 2,923	$ 5,118
Commercial Mortgage-Backed	39,083	27,881	3,764	4,647	1,651
Corporate Bonds	1,042,814	27,263	45,741	200,058	359,725
Corporate Convertible Bonds	185,165	4,928	7,270	30,767	38,458
Government Agencies	242,009	225,094	4,870	8,416	3,457
Government Bonds	244,121	155,316	3,389	33,637	12,287
Government Mortgage Backed	245,944	245,944	-	-	-
Index Linked Government Bonds	124,966	2,223	-	-	-
Municipal/Provincial Bonds	26,885	7,853	6,419	9,531	1,002
Non-Government Backed CMOs	66,888	31,107	3,980	3,903	3,246
Pooled Investments	685,603	212,500	330,311	1,872	105,338
Total Credit Risk Debt Securities	2,939,899	$ 953,390	$ 411,091	$ 295,754	$ 530,282
US Gov't & Agencies	735,140				
Total Debt Securities	$ 3,675,039				

*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
$ 333	$ 3,872	$ 2,991	$ 184	$ -	$ 174	$ 2,198
69	-	-	-	-	-	1,071
151,448	114,828	17,628	2,237	210	3,215	120,461
42,199	28,993	11,764	-	-	-	20,786
-	172	-	-	-	-	-
6,068	326	83	-	-	-	33,015
-	-	-	-	-	-	-
1,187	-	-	-	-	-	121,556
2,072	-	-	-	-	-	8
3,433	3,004	11,770	1,535	1	1,727	3,182
6,474	12,414	-	-	-	-	16,694
$ 213,283	$ 163,609	$ 44,236	$ 3,956	$ 211	$ 5,116	$ 318,971

Component Units

S & P Credit Rating*	Total Market Value	Money Market Funds	Corporate Bonds	Mutual Bond Funds
AAA	$ 83	$ -	$ 83	$ -
AA	33,409	-	964	32,445
A	1,136	-	1,136	-
BBB	845	-	-	845
BB	-	-	-	-
B	60	-	60	-
C	-	-	-	-
NR	14,927	1,134	5	13,788
Total Credit Risk Debt Securities	50,460	$ 1,134	$ 2,248	$ 47,078
US Treasuries	369			
Total Debt Securities	$ 50,829			

*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, 2011 (expressed in thousands):

	Amount	Percent
Federal Agency		
Federal Home Loan Bank	$ 134,096	24.9%
Mortgage-backed		
Fannie Mae	113,889	21.2%
Freddie Mac	87,326	16.3%
Ginnie Mae	29,326	5.5%

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, 2011, 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	$ (9,878)	$ 11,100	$ 30,531	$ 31,753
Brazilian real	(3,802)	6,877	62	3,137
British pound sterling	10,553	8,645	103,659	122,857
Canadian dollar	(1,525)	7,521	5,252	11,248
Chinese yuan renminbi	4,033	-	-	4,033
Czech koruna	381	63	1,019	1,463
Danish krone	47	(74)	5,077	5,050
Euro	1,608	1,038	157,759	160,405
Hong Kong dollar	6	-	12,772	12,778
Hungarian forint	527	2,626	-	3,153
Iceland krona	33	-	-	33
Indian rupee	-	745	-	745
Indonesian rupiah	-	8,915	-	8,915
Israeli shekel	6	-	1,997	2,003
Japanese yen	(1,703)	-	87,874	86,171
Malaysian ringgit	-	4,718	57	4,775
Mexican peso	194	7,638	-	7,832
New Zealand dollar	(2,930)	3,754	199	1,023
Norwegian krone	639	4,158	10,455	15,252
Philippine peso	-	2,101	-	2,101
Polish zloty	234	6,297	137	6,668
Singapore dollar	2,969	-	5,328	8,297
South African rand	282	3,140	1,019	4,441
South Korean won	-	7,369	966	8,335
Swedish krona	587	(53)	11,012	11,546
Swiss franc	385	-	29,659	30,044
Turkish lira	3,681	423	-	4,104
International commingled funds (various currencies)	-	-	182,464	182,464
Total international investment securities	$ 6,327	$ 87,001	$ 647,298	$ 740,626

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, 2011, 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' counterparty risk. The net change in the futures contracts' value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included in net change in fair value of investments in the Statement of Changes in Net Assets and totaled $156.5 million. At June 30, 2011, the State investment portfolio had the notional futures shown below (expressed in thousands).

Futures	Notional Value
Cash and cash equivalent derivative futures	
Long	$140,245
Short	(130,777)
Equity derivative futures	
Long	529,063
Short	-
Fixed income derivative futures	
Long	13,821
Short	(94,484)
Total futures	$457,868

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' counterparty 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 $(1.8) million. At June 30, 2011, the State investment portfolio had no outstanding option balances.

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. 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 $(201) thousand. The maximum loss that would be recognized at June 30, 2011, if all counterparties failed to perform as contracted is $1.25 million. Swap fair values are determined by a third party pricing source. At June 30, 2011, the States' investment portfolio had the swap fair value balances as shown below (expressed in thousands).

Credit Default Swaps

Counterparty/Moody's Rating	Notional Amount	Expiration Date	Fair Value
Deutsche Bank AG New York/Aa3	$ 45	3-20-2014	$ (8)
Deutsche Bank AG New York/Aa3	120	9-20-2013	1
Deutsche Bank AG New York/Aa3	75	3-20-2012	(2)
Barclays Capital Securities London/Aa3	105	6-20-2011	-
Total credit default swaps	$ 345		$ (9)

Interest Rate Swaps

Counterparty	Notional Amount	Rate Range	Counterparty Rate	Expiration Date Range	Counterparty Rating (Moody's)	Fair Value
Barclays Bank PLC London	$ 1,376	4.25%	Various overnight bank rates depending on currency	4/27/2013	Aa3	$ -
Barclays Bank PLC London	(3,348)	0.283% to 7.130%		12/2011 - 01/2021	Aa3	(19)
Barclays Capital Securities London	(1,229)	0.329% to 5.065%		01/2012 - 08/2020	Aa3	(5)
Citibank N.A. New York	(2,193)	0.430% to 3.763%		01/2012 - 02/2021	A1	(138)
Morgan Stanley Capital Services	504	2.510% to 5.110%		02/2012 - 06/2021	A2	(115)
Total Interest Rate Swaps	$ (4,890)					$ (277)

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 $(12.9) million. At June 30, 2011, the States' investment portfolio included the currency forwards balances shown below (expressed in thousands).

Currency	Cost	Purchases	Sales	Fair Value
Australian dollar	$ (18,162)	$ 417	$ (18,713)	$ (18,644)
Brazilian real	(3,667)	-	(3,667)	(3,802)
British pound sterling	5,658	10,272	(4,603)	5,573
Canadian dollar	(5,812)	608	(6,480)	(5,851)
Chinese yuan renminbi	4,052	4,052	-	4,033
Czech koruna	(1,941)	478	(2,489)	(2,009)
Danish krone	(6,004)	-	(6,129)	(6,129)
Euro	(46,199)	1,397	(48,344)	(46,952)
Hungarian forint	(1,800)	528	(2,397)	(1,857)
Japanese yen	(494)	217	(711)	(492)
Mexican peso	(2,422)	192	(2,604)	(2,409)
New Zealand dollar	(6,857)	552	(7,525)	(7,012)
Norwegian krone	(3,019)	723	(3,804)	(3,063)
Polish zloty	(1,929)	470	(2,410)	(1,943)
Singapore dollar	2,504	2,504	-	2,519
South African rand	(1,170)	278	(1,479)	(1,197)
Swedish krona	(3,416)	488	(3,959)	(3,465)
Swiss franc	83	482	(399)	83
Turkish lira	3,854	4,278	(424)	3,681
United States dollar	86,740	114,658	(27,918)	86,740
Total forwards subject to currency risk				$ (2,196)

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, 2011, 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	$ (212,302)	$ (123,551)	$ (88,751)	$ -	$ -	$ -

	Total Fair Value	3 Months or Less	3 to 6 Months	6 to 12 Months	1-5 Years	Greater Than 5 Years
Swaps-interest rate contracts	$ (277)	$ -	$ (7)	$ (14)	$ (11)	$ (245)

Mill and Elevator Derivative Financial Instruments – The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2011, and the changes in fair value of such derivative instruments for the year then ended as reported in the State's financial statements are $(702,058), classified as derivative-grain futures contract (one contract equals 5,000 bushels) and $(702,058), classified as deferred outflow 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 2011	ADM Investor Services	10	$ 8.4530	$ 7.9500	June 2011
Sept 2011	MF Global	79	8.1430	7.9500	June 2011
Dec 2011	ADM Investor Services	37	8.4050	7.9225	June 2011
Dec 2011	MF Global	92	8.4430	7.9225	June 2011
March 2012	ADM Investor Services	13	8.9230	8.0020	March, June 2011
March 2012	MF Global	37	8.7560	8.0025	June 2011
May 2012	ADM Investor Services	10	8.6000	8.0000	June 2011
May 2012	MF Global	6	9.0450	8.0000	June 2011
July 2012	ADM Investor Services	5	8.4460	7.9900	June 2011

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, 2011, the table below shows the hedge ratio by futures month going forward:

Period	Hedge Ratio
Sept 2011	0.9
Dec 2011	0.9
Mar 2012	0.9
May 2012	1.0
July 2012	1.1
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 Debt - 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 or Russell 2000 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, 2011 (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	$ 6,028	$ -	$ 6,156
US government securities	9,270	-	9,486
US corporate fixed income securities	96,649	-	98,562
Global government fixed income securities	5,373	-	5,534
US equities	47,646	-	48,510
Lent for non-cash collateral:			
US agency securities	-	-	-
US government securities	-	-	-
US corporate fixed income securities	805	822	-
US equities	-	-	-
Total	$ 165,771	$ 822	$ 168,248

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. 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, 2011:

		Reflected in net assets as:
Mayville State University	$ 802	Expendable scholarships & fellowships
Minot State University	53,638	Expendable scholarships & fellowships
University of North Dakota	465,000	Non –expendable scholarships & fellowships
Williston State College	2,885	Cash in bank
Total NDUS	$ 522,325	

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, 2011 are $74.1 million and $1.65 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, 2011, the State had no reverse repurchase agreements outstanding. The highest month end balance for the previous year was $8,127,000, with an average daily balance of $5,829,000. The weighted average interest rate as of year-end was 0.25 percent. The weighted average interest rate paid during the year was 0.25 percent.

F. RECEIVABLES

Receivables at June 30, 2011, consist of the following (expressed in thousands):

	General	Federal	State	Other Governmental Funds	Bank of North Dakota	Housing Finance	Mill & Elevator	University System
Receivables:								
Accounts	$ 9,275	$ 8,892	$ 73,042	$ -	$ -	$ 525	$ 48,007	$ 20,261
Less Allowance	(4,235)	-	(13,338)	-	-	-	(2,269)	(3,307)
Taxes	327,597	-	96,745	231	-	-	-	-
Less Allowance	(23,466)	-	(1,262)	-	-	-	-	-
Interest	1,105	-	14,282	263	39,142	4,033	-	-
Less Allowance	-	-	(1,145)	-	-	-	-	-
Current Loans and Notes	226	196	69,749	30,823	390,463	18,652	966	9,674
Less Allowance	(26)	-	(3,438)	-	-	-	-	(1,425)
Noncurrent Loans and Notes	-	-	-	-	2,401,786	901,522	-	37,969
Less Allowance	-	-	-	-	(46,613)	-	-	(5,690)
Net Receivables	$ 310,476	$ 9,088	$ 234,635	$ 31,317	$ 2,784,778	$ 924,732	$ 46,704	$ 57,482

	Workforce Safety & Insurance	Other Enterprise Funds	Internal Service Funds	Fiduciary Funds	Major Component Units	Total
Receivables:						
Accounts	$ 34,471	$ 32,508	$ 358	$ 8,861	$ 3	$ 236,203
Less Allowance	(4,500)	(5,949)	-	-	-	(33,598)
Taxes	-	-	-	23,868	-	448,441
Less Allowance	-	-	-	(2,420)	-	(27,148)
Interest	7,142	1,868	55	10,510	4,309	82,709
Less Allowance	-	-	-	-	-	(1,145)
Current Loans and Notes	-	9,241	-	-	2,603	532,593
Less Allowance	-	-	-	-	-	(4,889)
Noncurrent Loans and Notes	-	65,650	-	-	12,850	3,419,777
Less Allowance	-	(1,099)	-	-	(5,008)	(58,410)
Net Receivables	$ 37,113	$ 102,219	$ 413	$ 40,819	$ 14,757	$ 4,594,533

G. INTERFUND ACCOUNTS AND TRANSFERS

DUE FROM OTHER FUNDS/DUE TO OTHER FUNDS

Interfund balances at June 30, 2011, consist of the following (expressed in thousands):

Due To General Fund From:	
Federal Fund	$ 85,665
State Fund	33,365
Bank of North Dakota	1,727
Mill and Elevator	7,642
Nonmajor Enterprise Funds	5,308
All Others	146
Total Due To General Fund	$ 133,853

Due To Federal Fund From:	
General Fund	$ 4,393
State Fund	19,263
All Others	264
Total Due To Federal Fund	$ 23,920

Due To State Fund From:	
General Fund	$ 2,605
Federal Fund	8,851
Nonmajor Governmental Funds	737
Internal Service Funds	3,026
Nonmajor Enterprise Funds	1,303
Mill and Elevator	804
All Others	307
Total Due To Internal Service Funds	$ 17,633

Included in the Nonmajor Enterprise Funds is an advance from the Developmentally Disabled Fund for $505,825. This is not expected to be repaid within one year.

Due To Internal Service Funds From:	
General Fund	$ 3,609
Federal Fund	705
State Fund	794
University System	753
All Others	499
Total Due To School Permanent Trust Fund	$ 6,360

Due To Bank of North Dakota From:	
Housing Finance	$ 1,802
Mill and Elevator	20,100
Nonmajor Enterprise Funds	833
All Others	207
Total Due To Bank of North Dakota	$ 22,942

Included in the Nonmajor Enterprise Funds amount is a loan to Roughrider Industries for $359,610. Of this, $263,610 is not expected to be repaid within one year.

Due To University System From:	
General Fund	$ 18,045
Federal Fund	3,378
All Others	860
Total Due To University System	$ 22,283

Due To All Other Funds From:	
All Other	$ 2,676

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, 2011.

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

Due From's		$ 229,667
Differences:		
General Fund/Bank of ND	(1,727)	
Bank of ND/Housing Finance	34,423	
Bank of ND/Mill & Elevator	12,400	
Bank of ND/University System	2,526	
Bank of ND/Student Loan Trust	(25)	
Common School Trust Fund/ Developmentally Disabled Loan Fund	(617)	
Bank of ND/Guaranteed Student Loan	1,557	
Governmental Agencies/Bank of ND	1,267	
Bank of ND/Enterprise Funds	(117)	
Total Differences		49,687
Due To's		$ 279,354

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, 2011, follows (expressed in thousands):

	Transfers In							
	General	Special Revenue Federal	Special Revenue State	Non-major Governmental	Housing Finance	University System	Non-major Enterprise	Total
Transfers Out								
General	$ -	$ 41	$ 17,869	$ -	$ 25	$ 347,835	$ 3,735	$ 369,505
Special Revenue - Federal	12,461	-	6,356	-	2,649	7,767	-	29,233
Special Revenue - State	491,764	540	-	9,801	40	24,519	78	526,742
Non-major Governmental	1,000	-	4,786	-	-	203	-	5,989
Bank of North Dakota	-	-	-	-	-	-	5,088	5,088
Mill & Elevator	7,641	-	840	-	-	-	-	8,481
Housing Finance	-	-	30	-	-	-	-	30
University System	-	-	-	6,539	-	-	183	6,722
Non-major Enterprise	5,300	-	623	-	-	-	-	5,923
Total	$ 518,166	$ 581	$ 30,504	$ 16,340	$ 2,714	$ 380,324	$ 9,084	$ 957,713

(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, 2011, legislatively-mandated transfers were made to the general fund of $140.0 million and $5.3 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		$ 968,947
Differences:		
Special Rev - State/Bank of ND	(500)	
Special Rev - State/Bank of ND	(82)	
Bank of ND/HIT Loan Fund	88	
State Fair/Bank of ND	(10,748)	
Bank of ND/Federal	8	
Total Differences		(11,234)
Transfers Out		$ 957,713

The above timing differences of $11,234,000 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, 2010	Increases	Decreases	Balance June 30, 2011
Governmental Activities:				
Capital Assets Not Being Depreciated				
Land	$ 69,370	$ 2,096	$ (49)	$ 71,417
Construction in Progress	458,348	171,963	(134,017)	496,294
Total Capital Assets Not Being Depreciated	527,718	174,059	(134,066)	567,711
Capital Assets Being Depreciated:				
Buildings and Improvements	445,631	76,474	(2,520)	519,585
Equipment	236,046	24,721	(15,301)	245,466
Intangibles				
Software	67,207	10,490	-	77,697
Other	5,794	1,992	-	7,786
Infrastructure	3,256,720	94,364	(153)	3,350,931
Total Capital Assets Being Depreciated	4,011,398	208,041	(17,974)	4,201,465
Less Accumulated Depreciation for:				
Buildings and Improvements	(195,432)	(10,959)	810	(205,581)
Equipment	(108,654)	(19,139)	12,301	(115,492)
Intangibles				
Software	(36,690)	(6,449)	-	(43,139)
Other	(862)	(345)	-	(1,207)
Infrastructure	(2,550,345)	(43,880)	58	(2,594,167)
Total Accumulated Deprecation	(2,891,983)	(80,772)	13,169	(2,959,586)
Total Capital Assets Being Depreciated, Net	1,119,415	127,269	(4,805)	1,241,879
Governmental Activities Capital Assets, Net	$ 1,647,133	$ 301,328	$ (138,871)	$ 1,809,590

Infrastructure assets of the State Water Commission, with a carrying value of $30,516,290 are considered temporarily impaired at June 30, 2011.

Description	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Business-Type Activities:				
Capital Assets Not Being Depreciated				
Land	$ 18,764	$ 26	$ -	$ 18,790
Construction in Progress	76,960	64,169	(40,281)	100,848
Total Capital Assets Not Being Depreciated	95,724	64,195	(40,281)	119,638
Capital Assets Being Depreciated:				
Buildings and Improvements	973,033	54,848	(1,846)	1,026,035
Equipment	417,130	29,065	(14,401)	431,794
Intangibles				
Software	31,964	4,825	(1,491)	35,298
Other	450	17	(54)	413
Infrastructure	166,077	11,644	-	177,721
Total Capital Assets Being Depreciated	1,588,654	100,399	(17,792)	1,671,261
Less Accumulated Depreciation for:				
Buildings and Improvements	(416,178)	(23,869)	1,782	(438,265)
Equipment	(252,838)	(27,835)	12,489	(268,184)
Intangibles				
Software	(18,111)	(2,638)	1,491	(19,258)
Other	(50)	(39)	-	(89)
Infrastructure	(74,675)	(4,520)	-	(79,195)
Total Accumulated Deprecation	(761,852)	(58,901)	15,762	(804,991)
Total Capital Assets Being Depreciated, Net	826,802	41,498	(2,030)	866,270
Business-Type Activities Capital Assets, Net	$ 922,526	$ 105,693	$ (42,311)	$ 985,908

Description	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Major Component Units:				
Capital Assets Not Being Depreciated				
Land	$ 3,464	$ 61	$ -	$ 3,525
Construction in Progress	306	2,265	(1,860)	711
Total Capital Assets Not Being Depreciated	3,770	2,326	(1,860)	4,236
Capital Assets Being Depreciated:				
Buildings and Improvements	157,593	4,117	-	161,710
Equipment	37,183	4,690	(1,485)	40,388
Infrastructure	1,248	-	-	1,248
Total Capital Assets Being Depreciated	221,134	8,807	(1,485)	203,346
Less Accumulated Depreciation for:				
Buildings and Improvements	(42,202)	(5,778)	-	(47,980)
Equipment	(12,819)	(3,576)	318	(16,077)
Infrastructure	(445)	(54)	-	(499)
Total Accumulated Deprecation	(55,466)	(9,408)	318	(64,556)
Total Capital Assets Being Depreciated, Net	165,668	(601)	(1,167)	138,790
Major Component Unit Capital Assets, Net	$ 169,438	$ 1,725	$ (3,027)	$ 143,026

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	$	18,784
Education		357
Health and Human Services		4,394
Regulatory		275
Public Safety & Corrections		9,004
Agriculture and Commerce		155
Natural Resources		7,932
Transportation		39,871
Total Governmental Activities Depreciation Expense	$	80,772

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

Project Description:

Governmental Activities		Amount Authorized		Amount Expended Through June 30, 2011		Balance Authorized
Office of Management and Budget	$	3,447	$	1,561	$	1,886
State Courts		1,948		1,713		235
Legislative Assembly		155		155		-
School for the Deaf		193		74		119
State Historical Society		51,700		5,327		46,373
Secretary of State		1,682		1,682		-
Department of Human Services		324		264		60
Adjutant General		20,567		2,933		17,634
Department of Corrections		64,707		17,541		47,166
Job Service North Dakota		5,606		300		5,306
Department of Transportation		757,226		464,505		292,721
Seed Department		375		239		136
Total Governmental Activities	$	907,930	$	496,294	$	411,636

Business-Type Activities		Amount Authorized		Amount Expended Through June 30, 2011		Balance Authorized
Workforce Safety and Insurance	$	17,700	$	13,927	$	3,773
Mill and Elevator		4,095		969		3,126
PERS Group Insurance		57		57		-
University System		188,409		85,895		102,514
Total Business-Type Activities	$	210,261	$	100,848	$	109,413

Major Component Units		Amount Authorized		Amount Expended Through June 30, 2011		Balance Authorized
University System Foundation	$	12,000	$	711	$	11,289

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, 2011, amounted to $13,910,301 for governmental activities and $11,399,531 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
2012	$ 7,409	$ 8,686
2013	5,100	6,083
2014	1,653	4,810
2015	1,339	3,948
2016	960	2,924
2017-2021	2,681	6,681
2022-2026	270	-
Total Minimum Lease Payments	$ 19,412	$ 33,132

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
2012	$ 1,269	$ 8,805	$ 255
2013	1,200	9,122	250
2014	345	8,425	206
2015	265	7,935	176
2016	82	7,392	155
2017-2021	-	30,481	632
2022-2026	-	18,355	632
2027-2031	-	9,786	632
2032-2036	-	6,059	316
2037-2041	-	1,604	-
Total Minimum Lease Payments	3,161	107,964	3,254
Less: Amount Representing Interest	(197)	(32,315)	(1,150)
Present Value of Future Minimum Lease Payments	$ 2,964	$ 75,649	$ 2,104

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, 2011, is as follows (expressed in thousands):

	Governmental Activities	Business-Type Activities	Major Component Units
Infrastructure	$ -	$ 560	$ -
Buildings	-	70,095	2,223
Equipment	9,886	34,349	574
Less: Accumulated Depreciation	(5,596)	(36,851)	(824)
Total	$ 4,290	$ 68,153	$ 1,973

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, 2011, 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 2002 Series A and D Bonds, the 2003 Series B and C Bonds, the 2005 Series A Bonds, the 2006 Series A and B Bonds, and the 2010 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 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 and are Federally Taxable 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. 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 $966,008,000 maturing at various times from July 1, 2011, 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 were $249,523,000 and $142,177,000, 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 6/30/11
Primary Government			
Governmental:			
Building Authority	2012-2031	2.00-5.25	$ 81,128
Water Commission	2012-2049	2.50-5.00	96,541 [1]
Department of Transportation	2012-2020	3.00-5.00	39,311
Information Technology Department	2012-2014	4.00-5.25	2,241
Proprietary:			
State Fair	2012-2012	3.50-4.60	595
Student Loan Trust	2012-2029	0.89-5.85	5,200 [2]
Housing Finance:			
Homeownership	2012-2042	0.00-5.80	966,008 [2]
University System:			
VCSU—Valley City	2012-2033	2.80-7.25	6,405
Williston State College	2012-2019	3.00-6.90	9,461
Lake Region State College	2012-2017	3.00-5.125	605
UND—Grand Forks	2012-2036	1.00-5.00	67,137
NDSU—Fargo	2012-2037	1.5-6.50	107,670
NDSCS—Wahpeton	2012-2016	4.0-5.50	520
MiSU–Minot	2012-2030	0-6.60	14,892
Dakota College of Bottineau	2012-2012	4.00-5.50	29
MaSU—Mayville	2012-2018	1.55-6.63	5,635
DSU—Dickinson	2012-2020	3.75-5.00	525
BSC—Bismarck	2012-2030	3.4-5.35	3,805
NDUS – Univ. Sys. State Office	2012-2014	4.28	5,329
Total Revenue Bonds Payable— Primary Government			$ 1,413,037
Major Component Units			
Proprietary:			
Public Finance Authority	2012-2034	2.00-10.00	$ 152,701
University System Foundation	2012-2039	1.00-6.50	95,244
Total Revenue Bonds Payable— Major Component Units			$ 247,945

[1] Approximately $57 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
2012	$ 16,874	$ 9,395
2013	16,891	8,732
2014	17,794	8,031
2015	17,458	7,301
2016	17,221	6,574
2017-2021	74,732	21,309
2022-2026	43,773	7,444
2027-2031	5,799	1,904
2032-2036	1,923	848
2037-2041	1,252	596
2042-2046	1,541	320
2047-2051	591	49
Bond Premium	3,372	(3,372)
Total	$ 219,221	$ 69,131

Business-type Activities

Fiscal Year	Principal	Interest
2012	$ 92,550	$ 49,325
2013	32,209	48,772
2014	35,702	47,606
2015	30,863	46,329
2016	32,335	45,126
2017-2021	166,617	204,772
2022-2026	180,793	166,511
2027-2031	213,914	121,988
2032-2036	251,615	67,138
2037-2041	143,650	16,118
2042-2046	6,395	127
Bond Premium	7,173	(7,173)
Total	$ 1,193,816	$ 806,639

Major Component Units

Fiscal Year	Principal	Interest
2012	$ 32,708	$ 10,239
2013	15,244	9,580
2014	15,628	8,928
2015	15,740	8,232
2016	14,252	7,508
2017-2021	76,632	27,231
2022-2026	45,370	13,367
2027-2031	25,939	3,782
2032-2036	4,579	473
2037-2041	477	29
Bond Premium	1,376	(1,376)
Total	$ 247,945	$ 87,993

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 6/30/11
Primary Government			
Governmental:			
Department of Corrections	2012-2015	4.59	$ 319
Department of Human Services	2012-2015	4.24	2,139
Department of Transportation	2012-2022	4.18	2,069
Office of Management and Budget	2012-2022	4.18	3,818
School for the Deaf	2012-2021	4.8408	218
Proprietary:			
Bank of North Dakota	2012-2025	3.01-7.35	396,199
University System	2012-2025	4.22-9.90	7,310
Major Component Units			
University System Foundation	2012-2019	0.00-7.00	21,576

(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
2012	$ 1,134	$ 346
2013	1,215	295
2014	1,241	240
2015	563	201
2016	520	180
2017–2021	3,265	525
2022–2026	626	18
Total	$ 8,564	$ 1,805

Business-type Activities

Fiscal Year	Principal	Interest
2012	$ 16,854	$ 18,437
2013	3,737	17,507
2014	65,494	15,788
2015	18,590	14,044
2016	13,692	13,627
2017–2021	246,224	37,009
2022–2026	38,918	3,515
Total	$ 403,509	$ 119,927

Major Component Units

Fiscal Year	Principal	Interest
2012	$ 7,906	$ 829
2013	1,902	463
2014	3,163	300
2015	1,469	235
2016	1,936	183
2017–2021	5,200	359
Total	$ 21,576	$ 2,369

Changes in General Long-Term Liabilities

Changes in Long-Term Liabilities for the year ended June 30, 2011, are summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Notes Payable	$ 19,493	$ -	$ (10,930)	$ 8,563	$ 1,135
Bonds Payable	232,101	7,977	(20,857)	219,221	17,008
Capital Leases Payable	2,842	1,373	(1,251)	2,964	1,157
Intergovernmental Payable	144	27	(57)	114	114
Compensated Absences	39,268	26,573	(25,127)	40,714	2,141
Claims/Judgments Payable	6,575	6,859	(5,349)	8,085	2,686
Total Long-Term Liabilities	$ 300,423	$ 42,809	$ (63,571)	$ 279,661	$ 24,241
Business-Type Activities:					
Short-Term Notes Payable	$ -	$ -	$ -	$ -	$ -
Notes Payable	412,095	15,000	(23,586)	403,509	16,854
Bonds Payable	1,301,368	125,399	(232,951)	1,193,816	92,942 *
Capital Leases Payable	72,461	17,933	(14,745)	75,649	5,429 *
Intergovernmental Payable	9,286	16,272	(13,342)	12,216	1,226
Compensated Absences	31,580	4,039	(2,252)	33,367	3,560
Dividends Payable	76,500	108,006	(82,506)	102,000	102,000
Claims/Judgments Payable	773,691	177,456	(133,787)	817,360	103,911
Total Long-Term Liabilities	$ 2,676,981	$ 464,105	$ (503,169)	$ 2,637,917	$ 325,922
Major Component Units:					
Notes Payable	$ 17,818	$ 7,163	$ (3,405)	$ 21,576	$ 7,906
Bonds Payable	245,197	30,030	(27,282)	247,945	30,911
Capital Leases Payable	2,020	133	(49)	2,104	153
Intergovernmental Payable	943	120	(98)	965	223
Total Long-Term Liabilities	$ 265,978	$ 37,446	$ (30,834)	$ 272,590	$ 39,193

*Bonds Payable and Capital Leases Payable includes $22,882,977 and $36,918,809 respectively, classified as Due to Component Units in the Statement of Net Assets for the University System. Of the above amounts, $951,500 and $1,589,243 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, $1,821,779 of internal service fund compensated absences and $6,602,121 of claims and judgments are included in the above amounts. Other governmental activities compensated absences generally have been liquidated by the General Fund (51%), 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 December 28, 2010, the Authority issued $4,910,000 Facilities Improvement Bonds, 2010B. Part of the proceeds of the issue was for an advance refunding of a portion of the 2002 Series A. Proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. The reacquisition price exceeded the net carrying amount of the old debt by $300,000. 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 twelve years by $509,000 and resulted in an economic gain of $317,000. As of June 30, 2011, there were bonds of $4,195,000 outstanding.

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, 2011, of the original bonds refunded by the advance refunding total $125,000.

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, 2011, of the original bonds refunded is $90,000.

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, 2010, $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 $1,695,000 at June 30, 2011. 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 $2,470,400,337 of restricted net assets, of which $427,926,438 is restricted by enabling legislation.

NOTE 5 – Major Purpose Presentation

Fund Balances Classifications and Special Revenue by Purpose – The Governmental Accounting Standards Board, in Statement No. 54, requires presentation of governmental fund balances and special revenue fund revenues by specific purpose. In the basic financial statements, the fund balance classifications are presented in the aggregate. The tables presented below further display the fund balances by major purpose.

Federal Special Revenue Fund by Source

	General Government	Education	Health & Human Services	Regulatory
Intergovernmental	$ 24,271,059	$ 164,090,837	$ 848,788,551	$ 3,558,404
Sales and Services	-	7,180	967,552	-
Royalties and Rents	-	-	(324)	-
Interest and Investment Income	48,391	-	127	-
Miscellaneous	-	77,706	579,530	470
Transfers In	-	-	27,396	-
Total State Special Revenue	$ 24,319,450	$ 164,175,723	$ 850,362,832	$ 3,558,874

State Special Revenue Fund by Source

	General Government	Education	Health & Human Services	Regulatory
Individual and Corporate Income Taxes	$ 10,200,891	$ -	$ -	$ -
Sales and Use Taxes	146,492,699	-	-	-
Oil, Gas, and Coal Taxes	910,203,107	49,391,903	-	-
Business and Other Taxes	20,407,215	-	-	3,819,101
Licenses, Permits and Fees	(44,886,599)	4,099,594	2,490,100	7,976,150
Intergovernmental	5,846,924	2,000	4,714,958	9,274
Sales and Services	3,298,522	2,315,191	27,706,311	3,661,404
Royalties and Rents	135,300,225	172,948,883	332,180	-
Fines and Forfeits	3,603,433	8,744,878	60,000	169,730
Interest and Investment Income	3,034,838	242,753,247	742,281	695,478
Tobacco Settlement	-	8,821,831	12,809,983	-
Commodity Assessments	-	-	-	-
Miscellaneous	563,890	376,292	1,103,837	65,037
Transfers In	817,195	-	18,668,829	223,027
Total State Special Revenue	$ 1,194,882,340	$ 489,453,819	$ 68,628,479	$ 16,619,201

Public Safety & Corrections	Agriculture & Commerce	Natural Resources	Transportation	Total
$ 104,549,247	$ 45,361,513	$ 27,883,683	$ 369,733,659	$ 1,588,236,953
45,104	-	-	-	1,019,836
5,618	-	-	-	5,294
33	-	-	1,333	49,884
804,803	5,597	14,918	-	1,483,024
8,771	171,481	2,841,574	(2,476,194)	573,028
$ 105,413,576	$ 45,538,591	$ 30,740,175	$ 367,258,798	$ 1,591,368,019

Public Safety & Corrections	Agriculture & Commerce	Natural Resources	Transportation	Total
$ -	$ -	$ -	$ -	$ 10,200,891
1,169,684	2,132,498	3,317	128,740,845	278,539,043
-	1,621,526	-	-	961,216,536
-	678,312	-	-	24,904,628
12,071,091	2,304,403	15,553,640	138,776,915	138,385,294
903,275	15,000	3,023,739	1,271,751	15,786,921
714,041	3,095,599	3,192,587	1,065,596	45,049,251
175,051	7,500	62,079	106,112	308,932,030
175,709	1,045	25,196	-	12,779,991
103,606	612,154	342,810	639,601	248,924,015
-	-	8,821,829	-	30,453,643
-	23,111,279	-	-	23,111,279
74,359	1,155,981	290,219	667,788	4,297,403
4,034,684	3,313,899	2,452,266	1,575,396	31,085,296
$ 19,421,500	$ 38,049,196	$ 33,767,682	$ 272,844,004	$ 2,133,666,221

Governmental Fund Balance By Function

	General	Special Revenue Federal	Special Revenue State	Nonmajor Governmental Funds	Total
Fund Balances:					
Nonspendable					
Inventory	$ 2,832,109	$ 8,593,736	$ 7,281,925	$ -	$ 18,707,770
Long – Term Receivables	199,913	-	-	-	199,913
Prepaid Expenditures	1,596,018	1,147,148	1,510,665	-	4,253,831
Permanent Trust Fund	-	-	-	63,224,476	63,224,476
Total Nonspendable	4,628,040	9,740,884	8,792,590	63,224,476	86,385,990
Restricted					
General Government	-	-	(339,215,140)	-	(339,215,140)
Education	-	-	1,725,113,816	-	1,725,113,816
Health & Human Services	-	-	(57,651,378)	-	(57,651,378)
Regulatory	-	-	(17,771,393)	13,205,000	(4,566,393)
Public Safety & Corrections	-	-	(65,461,680)	-	(65,461,680)
Agriculture & Commerce	-	-	26,686,812	-	26,686,812
Natural Resources	-	-	40,691,706	10,755,715	51,447,421
Transportation	-	-	1,035,425,170	38,502	1,035,463,672
Total Restricted	-	-	2,347,817,913	23,999,217	2,371,817,130
Committed					
General Government	624,961,621	-	812,276,004	225,091	1,437,462,716
Education	(3,731,559)	-	6,438,515	-	2,706,956
Health & Human Services	-	-	(9,743,953)	-	(9,743,953)
Regulatory	3,355,358	-	6,261,495	-	9,616,853
Public Safety & Corrections	34,714,567	-	44,024,241	-	78,738,808
Agriculture & Commerce	23,368,315	-	41,814,185	-	65,182,500
Natural Resources	28,585	-	38,633,834	-	38,662,419
Transportation	-	-	115,082,961	-	115,082,961
Total Committed	682,696,887	-	1,054,787,282	225,091	1,737,709,260
Assigned					
General Government	-	-	82,876,713	-	82,876,713
Education	-	-	1,389,040	-	1,389,040
Health & Human Services	-	-	31,845,933	-	31,845,933
Regulatory	-	-	1,394,109	-	1,394,109
Public Safety & Corrections	-	-	5,015,596	-	5,015,596
Agriculture & Commerce	-	-	853,717	-	853,717
Natural Resources	-	-	676,991	-	676,991
Total Assigned	-	-	124,052,099	-	124,052,099
Unassigned	712,046,495	(3,205,875)	-	-	708,840,620
Total Fund Balances	$ 1,399,371,422	$ 6,535,009	$ 3,535,449,884	$ 87,448,784	$ 5,028,805,099

NOTE 6 – 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, 2011, the number of participating local political subdivisions in PERS was:

Cities and Park Districts	81
Counties	49
School Districts	114
Other	70
Total Participating Local Political Subdivisions	314

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 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.

<u>NORTH DAKOTA HIGHWAY PATROLMEN'S RETIREMENT SYSTEM (NDHPRS)</u>

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 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, 2011, the number of participating employer units in TFFR was:

Type	Number
Special Education Units	21
Vocational Education Units	5
Public School Districts	181
County Superintendents	9
Other	10
Total	226

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). (Note: Legislation approved in 2011 will modify pension eligibility requirements for certain non-grandfathered Tier 1 member and Tier 2 members effective July 1, 2013.)

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. (Note: Legislation approved in 2011 will modify disability eligibility requirements and benefit calculations effective July 1, 2013.)

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 8.75% of the teacher's salary. Member contributions will increase to 9.75% on July 1, 2012 and 11.75% on July 1, 2014. Employer contributions will increase to 10.75% on July 1, 201 and 12.75% on July 1, 2014. Member and employer contributions will be reduced to 7.75% each when 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 70½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

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

	PERS	NDHPRS	JSND	TFFR
Retirees and Beneficiaries Currently Receiving Benefits:	7,821	115	213	6,933
Special Prior Service Retirees:	14	-	-	-
Terminated Employees:				
Vested	3,558	5	4	1,463
Nonvested	3,138	4	-	407
Total Terminated Employees	6,696	9	4	1,870
Active Employees:				
Vested	15,478	65	23	8,013
Nonvested	5,217	68	-	1,991
Total Active Employees	20,695	133	23	10,004
Date of Annual Valuation	July 1, 2011	July 1, 2011	July 1, 2011	July 1, 2011

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, 2011	July 1, 2011	July 1, 2011
Actuarial Cost Method	Entry Age Normal	Aggregate Cost**	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 adjustment	None	5.0%	None

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

** As of July 1, 2011, the actuarial value of assets exceeds the present value of projected benefits; therefore, the unfunded actuarial accrued liability is currently zero. The aggregate cost method does not identify or separately amortize unfunded liabilities, therefore, information about funded status and funding progress is presented using the entry age actuarial cost method and information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

*** The ARC is defined as the contribution rate required to pay the employer normal cost and to amortize the unfunded actuarial accrued liability over a 30-year period as a level percentage of payroll, but not less than the statutory contribution rate.

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, 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%
July 1, 2011	1,650.4	2,339.8	689.4	70.5%	804.2	85.7%
NDHPRS						
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%
July 1, 2011	49.5	67.1	17.6	73.7%	8.0	220.0%
JSND						
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%
July 1, 2011	74.1	67.4	(6.7)	110.0%	1.2	0.0%
TFFR						
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	1,824.0	2,637.2	795.2	69.8%	465.0	171.0%
July 1, 2011	1,822.6	2,749.8	927.2	66.3%	488.8	189.7%

*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 aggregate cost method.

In 2011, the Legislative Assembly passed an increase in the employee and employer contribution rates for the PERS, Judges, Law Enforcement, Highway Patrol and Defined Contribution plans. Effective January 2012, the employee contribution rate will be increased by 1% and the employer contribution rate will be increased by 1%. Effective January 2013, both the employee and employer contribution rates will be increased by an additional 1%.

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 8.75 percent of the teacher's salary, until the fund reaches 90% funded ratio on an actuarial basis. Employer and member contributions will be reset to 7.75% once the Fund reaches a 90% funded ratio, measured using the actuarial value of assets.

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

Schedule of Employer Contributions

	Annual Required Contribution	Percentage Contributed
PERS		
2009	$ 40,327,067	69.0%
2010	54,157,866	56.0%
2011	82,909,840	39.0%
TFFR		
2009	$ 41,986,174	89.3%
2010	52,053,217	76.5%
2011	65,112,696	68.4%

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, 2011:

	NDHPRS	JSND
Annual required contributions	$ 1,744,270	$ -
Interest on net pension obligations	(57,723)	(122,716)
Adjustment to annual required contributions	50,357	128,875
Annual pension costs	1,736,904	6,159
Contributions made	1,285,699	-
Increase in net pension obligations	451,205	6,159
Net pension obligations, beginning of year	(721,539)	(1,636,217)
(Assets in excess of) net pension obligations, end of year	$ (270,334)	$ (1,630,058)

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			
2009	$ 1,025,737	109%	$ (829,104)
2010	1,312,591	91%	(721,539)
2011	1,744,270	74%	(270,334)
JSND			
2009	$ 6,205	0%	$ (1,642,398)
2010	6,181	0%	(1,636,217)
2011	6,159	0%	(1,630,058)

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 287 participants as of June 30, 2011.

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 $673,943 and $654,386 respectively, for the fiscal year ended June 30, 2011.

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 $28,862,608 to TIAA-CREF during the fiscal year ending June 30, 2011.

NOTE 7 - 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, 2011. 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	0.00%	$ -
Changes in plan experience during the year	0.01%	82,897
	0.01%	$ 82,897

Employer contributions totaling $8,929,903 were made for the year ended June 30, 2011. The actuarially required employer contribution of $7,053,215 for the year ended June 30, 2011, is 0.85 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, 2011, the cost of benefits incurred for the fund was $5,789,371.

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, 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%
June 30, 2011	53.7	108.3	54.6	49.6%	828.9	6.6%

Employee membership is as follows:

Retirees receiving benefit	4,242
Active participants	21,062
Total Membership	25,304

The fair value of the net assets available for benefits at June 30, 2011, is $58,737,636.

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 2011-13 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 9.5% 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, 2011. The actuary determined the obligation the agency has to record as of June 30, 2011 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, 2011 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 30-Year Amortization
Amortization Method	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	240,307	50,669	290,976
Increase in net OPEB obligation	9,479	52,811	62,290
Net OPEB obligations, beginning of year	146,949	137,194	284,143
Net OPEB obligations, end of year	$ 156,428	$ 190,005	$ 346,433

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
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%
2011	249,460	103,806	240,307	50,669	62,290	82.4%

Funded Status and Funding Progress – As of July 1, 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 8 - 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	$ 32,620
Other Jurisdictions	4,715
Total Value	$ 37,335

NOTE 9 - 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. The contract for the 2007-09 biennium provides for an accounting of premiums paid and claims incurred during the biennium, with a gain sharing provision, with the final accounting taking place two years after the end of the biennium. The final accounting for the 2007-09 biennium occurred on June 30, 2011. Claims exceeded premiums, therefore, there was no surplus returned to the State. The State has entered into a similar contract with BCBS for the 2009-11 biennium. The final accounting for this biennium will occur on June 30, 2013. The accumulated surplus and other invested funds in the amount of $5.9 million are shown as cash on the State's financial statements. These funds are being held by BCBS.

The federal health care reform bill provides for a pre-Medicare retiree reinsurance provision for employer plans that will reimburse employers by providing reinsurance for 80% of retiree claims between $15,000 and $90,000. This program became effective on June 1, 2010, and employer eligibility is determined from an application submitted by the employer to the Department of Health and Human Services. The program requires that the funds be used to (1) reduce the sponsor's health benefit premiums or health benefits costs, (2) reduce health benefit premium contributions, copayment, deductibles, coinsurance, or other out-of-pocket costs, or any combination of these costs, for plan participants, or (3) reduce any combination of the costs in (1) and (2). The System Board determined that any reimbursements received under this program be used to help reduce health care costs for members of the Uniform Group Insurance Program. The System submitted an application and determined to be an eligible employer. The State received a reimbursement of $1.7 million during the fiscal year which is included in Cash on the State's financial statements.

NOTE 10 - 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, 2011, was as follows (expressed in thousands):

	Home-Ownership Bond Funds
Condensed Statement of Net Assets	
Current assets – other	$ 220,648
Noncurrent assets – other	898,179
Total Assets	1,118,827
Current liabilities – other	105,733
Noncurrent liabilities – other	898,427
Total Liabilities	1,004,160
Net assets – restricted	114,667
Total Net Assets	$ 114,667
Condensed Statement of Revenues, Expenses and Change in Fund Net Assets	
Operating revenues	$ 50,757
Operating expenses	44,076
Operating income	6,681
Change in net assets	
Total net assets, beginning of year	99,937
Equity transfer in	8,049
Total net assets, end of year	$ 114,667
Condensed Statement of Cash Flows	
Net cash from operating activities	$ 83,192
Net cash used for noncapital financing activities	(136,297)
Net change in cash and cash equivalents	(53,105)
Cash and cash equivalents, beginning of year	250,606
Cash and cash equivalents, end of year	197,501

NOTE 11 - 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 was extended in the last legislative session through June 30, 2013, at which time it expires. On that date, the appropriation amount is set to be returned to the State. As of June 30, 2011, $1,250,000 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

From July 1, 2010, through December 31, 2010, DSU provided one-half of the salary of foundation employees and other services to the foundation at no charge, as in-kind reimbursement for services provided by the foundation, including postage, utilities and buildings and ground services. For the year ended June 30, 2011, DSU has valued these services at approximately $96,631.

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 2011 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 re-priced every six months and has payments each January and July. 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.

On January 25, 2007, the city of Fargo, on behalf of the NDSU Research & Technology Park, issued $4,735,000 of Series 2007A (Research 1) and $18,100,000 of Series 2007B (Research 2) Lease Revenue Refunding Bonds. These bonds are used to advance refund the callable maturities of both the Series 2000 (Research 1) and Series 2002 (Research 2) bonds and to pay the costs of issuance (including the insurance premium for the insurance policy and the reserve fund surety bond) relating to bonds for both Series A and 2B bonds. For the Series 2000 bonds, there is a principal amount of $4,365,000 of callable maturities on October 1 in years 2011 through 2021. For the Series 2002 bonds, there is a principal amount of $17,215,000 of callable maturities on October 1 in years 2013 through 2032. On the original bonds refunded, the principal amounts outstanding as of June 30, 2011, are as follows: Series 2000 bonds $4,365,000 and Series 2002 bonds $17,730,000.

The audited financial statements of RTP for fiscal year 2011 report these transactions as an operating lease and report the related capital assets and related debt as assets and debt of RTP.

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 2011 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 $4.355 million debt service retirement plus necessary insurance and taxes incurred by the Development Foundation. NDSU paid the Development Foundation $385,941 in fiscal year 2011 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 $3,245,000 as of June 30, 2011. 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 $331,996 in fiscal year 2011 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 $2,498,866 as of June 30, 2011. 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.

RENAISSANCE HALL

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. The Development Foundation transferred nearly the entire ownership of the building to 650 NP Avenue, LLC and Kilborurne Design Group, LLC, for a five-year period in order to achieve tax credits that would ultimately reduce the cost of the building to NDSU. During the five-year tax credit period, NDSU leased the building from the two LLCs, with lease payments composed of interest and fees. With the five-year tax credit period ending December 31, 2010 (as extended), and the ownership was transferred back to the Development Foundation, permanent financing was put in place on December 17, 2010, with the issuance of $5,650,000 of 20-year University Facilities Revenue bonds, Series 2010 (Renaissance Hall Project). The financing structure involving the five-year temporary ownership transfer resulted in achieving tax credits of $4.9 million which directly lowered the leasing cost to NDSU.

Under this refinanced debt issuance and lease agreement, as approved by the State Board of Higher Education on December 16, 2010, the property is leased to NDSU for rent equal to the semi-annual principal and interest on the bonds, plus all costs incurred by the Development Foundation incident to ownership of the property. Ownership of the property will transfer the NDSU when the bonds are repaid in full. As of June 30, 2011, the outstanding balance on the bonds, reflected as "Due to Component Units" by NDSU, is $5,580,000.

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 2011, 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 2011, NDSU paid $766,171 to the NDSU Development Foundation 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 $10,702,977 at June 30, 2011.

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 $855,274 at June 30, 2011. During fiscal year 2010, the President's House was capitalized on NDSU's books for the sum of the Foundation & NDSU costs, plus the donated services ($2,605,983).

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 2011 were $522,725. 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 $19.0 million in fiscal year 2011. 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 $1.1 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, 2011, the Foundation has recorded accounts payable to UND of $726,108 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 Engelstad 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. received approximately $1,953,805 in fiscal year 2011 in ticket revenue and $352,970 in sponsorship revenue from UND athletic events. Additionally, under the agreement, to the extent funds are available, RE Arena, Inc. and UND determine an amount to fund a reserve for extraordinary repairs, maintenance, and building improvements. The amount reserved in fiscal year 2011 was $700,000. On an annual basis, RE Arena, Inc. will remit to UND its net income after adding back depreciation and amortization, and deducting the funded reserve, capital expenditure, additional principal reduction on Betty Engelstad Sioux Center debt and an amount mutually agreed to be retained by RE Arena Inc. for the fiscal year. RE Arena, Inc. paid UND $500,000 under this agreement in fiscal year 2011.

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, 2011, RE Arena, Inc. has a payable to UND of $244,919 for these expenditures.

UNIVERSITY OF NORTH DAKOTA AND UNIVERSITY OF NORTH DAKOTA FOUNDATION

The University of North Dakota Foundation issued, 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. The interest rate is fixed at 4.15 percent until 2018. Principal balance outstanding at June 30, 2011, is $3,224,472. Payments of $136,000 are required semi-annually through 2018. 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, 2011.

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 5.13 percent and mature in 2027. The lease revenue bond has a balance of $6,600,000 at June 30, 2011. 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. The bonds had an original maturity date of 2038 but were repaid in fiscal year 2011 and there was no outstanding balance at June 30, 2011.

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 $744,612 at June 30, 2011.

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. At June 30, 2011, the Foundation estimated the fair rental value reflected in the audited financial statements at $129,000.

NORTH DAKOTA STATE UNIVERSITY AND NORTH DAKOTA STATE UNIVERSITY RESEARCH FOUNDATION

Revenues from research fees & royalties received from patents and other intellectual property or know-how are first used to cover expenses incurred in patenting, licensing, collection, and other expenses related to technology. After these expenses have been paid, the net research fee (royalty) income is divided so that at least 30% of the net proceeds will be paid to those responsible for the invention, and 70% is distributed by negotiation between the department, college, and the Foundation. The portion distributable to an NDSU department is credited to a liability account called Distributable Managed Funds and recognized as an expense at the Foundation. NDSU reports an offsetting revenue and receivable (Due from Component Units) in its financial statements. A summary of the fiscal 2011 activity in the Distributable Managed Funds liability account at the Foundation is as follows: Beginning balance of $1,785,957, plus royalties transferred of $788,735, less royalties distributed to NDSU Departments of $255,487 and other payments on account to NDSU Departments of $182,000, leaving an ending balance of $2,137,205.

VALLEY CITY STATE UNIVERSITY AND VALLEY CITY STATE UNIVERSITY FOUNDATION

The foundation has a Memorandum of Agreement with VCSU for administrative services. Under this agreement, the foundation paid VCSU approximately $91,081 during fiscal year 2011.

NOTE 12 - 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	$	497,044
Financial standby letters of credit		360,878
	$	857,922

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 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. The State generally holds collateral supporting those commitments it deemed necessary.

Financial standby letters of credit include letters of credit pledged for public deposits by North Dakota banks for $257,270,000 at December 31, 2010. These letters of credit are an authorized form of collateral for public deposits per NDCC 21-04-09.

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 $1,818,400 at December 31, 2010.

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 $35,225,000 at June 30, 2011. 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 $164,000 at June 30, 2011.

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 $90,389,000 at December 31, 2010.

NOTE 13 - 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 Agency also has cash flow hedges that were entered into in connection with variable-rate housing bond series that no longer have bonds outstanding as those bonds have been called. The cash flow hedges that are not connected to a specific bond series hedge the risk related to the Agency's other variable-rate housing bonds that are unhedged.

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.

As of June 30, 2011, the Agency did not have any swaps that had a positive fair value. As of June 30, 2011, 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, 2011, the Agency owed the swap providers a fixed rate on the notional amount of the swaps of $3,351,000 and the swap providers owed the Agency a variable rate on the notional amounts of $392,000 making the net payment that the Agency owed the swap providers $2,959,000.

Due to the difference in the variable rate indices, the swaps had a net negative fair value of $15,160,000 as of June 30, 2011. 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, 2011. 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, 2011. 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	Bonds Called
2.	Issuance Date	8/28/2002	5/14/2003
3	Maturity Date	7/1/2011	1/1/2012
4.	Notional Amount	$75,000	$ 1,020,000
5.	Variable-rate Bonds	$ 75,000	N/A
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	0.09000%	N/A
10.	Fair Value	$ (1,000)	$ (14,000)
11.	Percentage of LIBOR	0.13100%	0.55597%
12.	Synthetic Rate	2.89900%	1.90703%
13.	Actual Synthetic Rate	3.17681%	N/A
14.	Change in Fair Value	$ 19,000	$ 30,000
15.	Optional Termination Date	N/A	N/A

1.	Bond Series	2003 B	Bonds Called	Bonds Called
2.	Issuance Date	8/27/2003	4/1/2004	4/1/2004
3	Maturity Date	1/1/2012	1/1/2013	7/1/2035
4.	Notional Amount	$ 975,000	$ 2,405,000	$12,990,000
5.	Variable-rate Bonds	$ 975,000	N/A	N/A
6.	Fixed Rate	3.155%	2.620%	3.980%
7.	LIBOR Percentage	64.00%	63.00%	63.00%
8.	Additional Percentage	0.37%	0.34%	0.34%
9.	Bonds Variable-rate	0.11000%	N/A	N/A
10.	Fair Value	$ (18,000)	$ (52,000)	$ (840,000)
11.	Percentage of LIBOR	0.48375%	0.45690%	0.45690%
12.	Synthetic Rate	2.78125%	2.16310%	3.52310%
13.	Actual Synthetic Rate	3.07816%	N/A	N/A
14.	Change in Fair Value	$ 46,000	$ 65,000	$ 206,000
15.	Optional Termination Date	N/A	N/A	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	7/1/2014	7/1/2024	1/1/2036	7/1/2016
4.	Notional Amount	$3,145,000	$23,100,000	$12,000,000	$30,210,000
5.	Variable-rate Bonds	$3,145,000	$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	0.14000%	0.10000%	0.14000%	0.09000%
10.	Fair Value	$ (188,000)	$ (1,147,000)	$(1,006,000)	$(4,027,000)
11.	Percentage of LIBOR	0.45690%	0.43671%	0.42690%	0.42690%
12.	Synthetic Rate	3.77810%	3.53329%	3.60210%	3.61810%
13.	Actual Synthetic Rate	4.04021%	3.80394%	3.83089%	3.89177%
14.	Change in Fair Value	$ 1,118,000	$ 520,000	$ 201,000	$ 314,000
15.	Optional Termination Date	N/A	7/1/2012	1/1/2016	7/1/2016

		2008 A	2008 B	2008 D	2009 B
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	$12,735,000	$21,850,000	$47,745,000
5.	Variable-rate Bonds	$13,700,000	$12,735,000	$21,850,000	$47,745,000
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	0.11000%	0.13000%	0.06000%	0.11000%
10.	Fair Value	$ (1,278,000)	$ (1,415,000)	$ (2,269,000)	$ (2,905,000)
11.	Percentage of LIBOR	0.43690%	0.18555%	0.31820%	0.35005%
12.	Synthetic Rate	2.87110%	4.66945%	3.66080%	2.86795%
13.	Actual Synthetic Rate	3.09977%	5.28156%	3.84102%	2.93998%
14.	Change in Fair Value	$ 60,000	$ 349,000	$ 481,000	$ 444,000
15.	Optional Termination Date	1/1/2017	1/1/2020	7/1/2018	7/1/2016

Using rates as of June 30, 2011, 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, 2011. 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
2012	$ 6,765	$ 164	$ 6,014	$ 12,943
2013	5,945	156	5,776	11,877
2014	5,305	150	5,590	11,045
2014	4,305	145	5,434	9,884
2015	4,845	140	5,290	10,275
2017-2021	74,480	405	16,282	91,167
2022-2026	27,675	211	10,456	38,342
2027-2031	4,850	154	8,009	13,013
2032-2036	16,180	90	5,014	21,284
2037-2041	15,185	17	1,024	16,226
	$ 165,535	$ 1,632	$ 68,889	$ 236,056

NOTE 14 – 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 15 – 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 2011, a total of $168,548,565 in claims was recognized. Incurred but not reported claims of $814,023,000 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, 2010, and June 30, 2011:

Fiscal Year	Beginning Balance	Current Year Claims and Changes In Estimates	Claims Payments	Ending Balance
2010	$ 1,966,078	$ 728,583	$ 858,680	$ 1,835,981
2011	1,835,981	220,854	101,581	1,955,254

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, fifteen claims exceeded coverage by $3,257,059.

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, 2011:

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2010	$ 4,104,384	$ 3,330,692	$ 4,189,013	$ 3,246,063
2011	3,246,063	5,786,812	4,386,008	4,646,867

NOTE 16 – 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 1,094 policies to participating entities for a total building and content coverage of $10.2 billion. The Bonding Fund is used to provide fidelity bonding of public employees and officials. The Fund has issued 2,972 policies to participating entities. The total coverage for the Bonding Fund is $621.5 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, 2011, coverage extended to the following employers:

Annual Premium	
$250 - $5,000	16,105
$5,001 - $50,000	4,574
$50,001 - $100,000	380
Over $100,000	316
Total Employers	21,375

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, 2011, 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)	$1,299,767	$ 1,360,619	$ 1,493,369
Present Value Basis (discounted at 5% rate)	$ 776,081	$ 814,023	$ 892,190

WSI has adjusted the estimated liability for unpaid loss and loss adjustment expense to the actuary's five percent discounted expected value of $814,023,000 at June 30, 2011.

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, 2011.

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	
	2011	2010	2011	2010	2011	2010
Unpaid claims and claims adjustment expenses at the beginning of the year	$ 1,399	$ 755	$ 197	$ 189	$ 772,095	$ 771,900
Incurred claims and claims adjustment expenses:						
Provision for current fiscal year	6,178	3,075	22	49	191,795	160,265
Change in provision for prior fiscal year	-	-	-	-	(20,540)	(26,657)
Payments and claims and adjustment expenses attributable to:						
Current fiscal year insured events	(3,043)	(1,676)	180	148	(38,596)	(30,861)
Prior fiscal years' insured events	(1,399)	(755)	(197)	(189)	(85,686)	(82,601)
Total Payments	(4,442)	(2,431)	(17)	(41)	(124,282)	(113,462)
Change in provision for discount	-	-	-	-	(5,045)	(19,951)
Total unpaid claims and claims adjustment expenses at the end of the year	$ 3,135	$ 1,399	$ 202	$ 197	$ 814,023	$ 772,095

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. For the year ended December 31, 2010, the Bank had transferred $5,000,000 to this 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, 2010, the Bank has guarantees outstanding totaling $1,116,000. The Bank had no guarantee commitments outstanding as of December 31, 2010.

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, 2010, the Bank has guarantees outstanding totaling $4,045,000 and had guarantee commitments outstanding of $38,000 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, 2010, the Bank has guarantees outstanding totaling $850,000.

PUBLIC EMPLOYEE RETIREMENT SYSTEM

In 2007, the System 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 was anticipated to be fully completed by June 2011. As of June 30, 2011, the System had paid $8.5 million towards these contracts. The System delayed implementation of the member self service functionality to 2012, therefore, the final payment to Sagitec will be made during the 2011-13 biennium upon completion of the warranty period.

RETIREMENT AND INVESTMENT OFFICE (RIO)

The State Investment Board has at June 30, 2011, committed to fund certain alternative private equity partnerships for an amount of $957.5 million. Funding of $831.1 million has been provided leaving an unfunded commitment of $126.4 million.

WORKFORCE SAFTEY & INSURANCE

WSI has entered into contracts with multiple companies for a software replacement project. The estimated total cost for these contracts is $17.7 million, of which $13.9 million has been expended as of June 30, 2011. The original project budget through the biennium ending June 30, 2011, was $14 million. It was expected that another $800,000 would be spent during the 2009-11 biennium for a project total of $14.8 million. WSI planned to find these funds within the budget for the biennium.

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 $340,785 during 2010 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, 2011, 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, 2011, is $4,251,717.

The Commission also has various significant commitments at June 30, 2011, for the purchase of various types of research, services and other goods totaling $5,017,260.

MILL AND ELEVATOR

As of June 30, 2011, the Mill had commitments to purchase (3,848,090) bushels of spring wheat and 219,142 bushels of durum.

BUILDING AUTHORITY

The Authority has committed funds to complete various construction and modernization programs at June 30, 2011, totaling $1,211,000.

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, 2010, $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, 2011, Job Service has commitments to pay $953,770 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, 2011, the Department of Human Services had significant commitments for the purchase of various types of services totaling $30,908,054.

AERONAUTICS COMMISSION

As of June 30, 2011, the Aeronautics Commission had significant commitments of $1,251,645. This amount consists of grants to political subdivisions for maintenance and improvements of their airports.

DAIRY PRODUCTS PROMOTION COMMISSION

As of June 30, 2011, the Dairy Products Commission had significant commitments of $180,000. 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, 2011, the North Dakota Soybean Council had significant commitments of $1,654,275. This amount mainly consists of grants for the research and development of soybeans.

STATE WATER COMMISSION

As of June 30, 2011, the State Water Commission had long-term commitments of $107,607,650 for various water projects.

NORTH DAKOTA DEPARTMENT OF TRANSPORTATION

At June 30, 2011, the North Dakota Department of Transportation (Special Revenue Fund) had non-construction contract commitments of approximately $24.9 million of which $17.9 million represents federal programs which are cost reimbursable.

Construction commitments at June 30, 2011, totaled approximately $471.7 million, of which $322.6 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	$ 2,635	$ 2,340	$ 295
DCB	797	784	13
MASU	8,807	7,729	1,078
MiSU	16,836	3,359	13,477
NDSCS	1,179	594	585
NDSU	79,078	56,871	22,207
UND	22,352	13,269	9,083
VCSU	5,329	3,161	2,168
WSC	16,643	10,225	6,418

NORTH DAKOTA DEVELOPMENT FUND

The board of directors has approved equity investments, loans, grants, and guaranty of collections at June 30, 2011, for which funds have not been disbursed or written agreements entered into in the amount of $4,526,112.

OTHER CONSTRUCTION COMMITMENTS

Legislative Assembly	$ 373
School for the Deaf	119
Department of Human Services	60
Department of Corrections	47,166
Adjutant General	17,634
Seed Department	137
Historical Society	29,163
Transportation	271,987

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 estimated at $1,520,000.

The estimated gain in all the litigation brought by the State in which a gain is probable is estimated at $1,414,000 to $3,414,000.

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, 2011, in which the settlement had not been paid as of June 30, 2011.

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, 2010, was completed and issued in March of 2011. As a result of this audit, approximately $18,377 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.

NOTE 19 - SUBSEQUENT EVENTS

In November 2011, the State held a special session of the Legislature. As a result, additional appropriations were passed for the 2011-13 biennium totaling approximately $170 million for the general fund and $505 million for other funds.

STATE INVESTMENT BOARD

In February 2009, the State was notified of legal action being taken against one of its investment advisors. The principals of WG Trading Company (WGTC), 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 pension funds. Investors had been offered two options: invest directly in WGTC by purchasing a limited partnership interest in it; or lend money to WG Trading Inc. (WGTI). WGTC was subject to SEC regulation, capital requirements, reporting and oversight, whereas WGTI was an unregulated and unaudited entity. The State chose to invest directly in the regulated, audited WGTC.

At the time the Commodity Futures Trading Commission (CFTC) and SEC charges were filed, the court appointed a receiver to take control of any recoverable assets. The receiver recommended the court distribute the recovered assets as follows: pool the assets of WGTC and WGTI, and distribute those assets pro rata to all investors. The receiver's method did not take into consideration the terms in which each investor entered into the investment (i.e. limited partnership interest versus note holder agreement), even though the majority of the WGTC assets were intact and the fraud predominantly occurred with WGTI. The court agreed with the receiver and in April, 2011, the recovered assets were distributed to all investors in a pro rata distribution based on net investment balances. The State received a total distribution of $63.9 million, which represented approximately 85% of its remaining cost basis with WGTC. The total realized loss included in the June 30, 2011, financial statements attributable to the fraud is $11.3 million.

The State does not agree with the method used to distribute the assets, and along with the other limited partners is appealing the District Courts' ruling. It is the State's position that the District Court incorrectly determined the amount of the distribution; and that the audited limited partners are entitled to a greater share of the recovered assets than the unaudited note holders. At this time it is difficult to estimate the potential additional distribution that could be received if the appeal is successful, therefore, no amount has been included on the balance sheet as of June 30, 2011.

STATE FAIR

The State Fair was cancelled in July 2011, due to the historic flooding experienced by Minot, the site of the annual state fair. The impact estimated by the State Fair is approximately $7.0 million, which includes $2.8 million in lost revenue, $1.1 million of expenses incurred and remaining contracted expenses of $3.1 million. Financing of the expenditures is through the Bank of North Dakota with FEMA assistance pending.

DEVELOPMENTALLY DISABLED LOAN FUND

As a result of the 2011 Legislative Session, the Loan Fund was dissolved on July 27, 2011, with Bank of North Dakota purchasing the outstanding loan balance of $1,156,570 or principal and $3,120 of interest. The proceeds were then transferred to the Common Schools Trust Fund per the legislative direction.

STUDENT LOAN TRUST

Subsequent to June 30, 2011, the Trust called $1,000,000 2004 Subordinate Series bonds.

MANDAN REMEDIATION TRUST

Subsequent contracts with Morton County and Leggette, Brashears and Graham, Inc. for various remediation efforts have been signed totaling $409,404.

MINOT STATE UNIVERSITY

Subsequent to June 30, 2011, the University purchased two new housing units totaling $2 million. In addition, the flood that occurred in Minot caused significant damage to the University's infrastructure. Preliminary estimates to repair damage are in excess of $2.6 million.

WILLISTON STATE COLLEGE

The College received a promissory note from Williston State College Foundation in the amount of $500,000, for the term of eleven years, on September 1, 2011. Proceeds were used to fund geothermal heating for a dorm.

HOUSING FINANCE

Subsequent to June 30, 2011, the agency issued the Homeownership Revenue Bonds Home Mortgage Finance Program 2011 Series A and B Bonds totaling $90,000,000. In addition, the agency issued Series C and D totaling $31,835,000.

PUBLIC FINANCE AUTHORITY

Subsequent to June 30, 2011, the authority issued $3,730,000 of Capital Financing Program Bonds, Series 2011A, and $101,210,000 of State Revolving Fund Program Bonds, Series 2011A. In addition, the Industrial Commission adopted a resolution authorizing the authority to issue up to five series of bonds in the aggregate amount of up to $100,000,000 to provide moneys to lend to Political Subdivisions requesting loans to provide temporary financing for disaster relief projects.

NOTE 20 – NEW PRONOUNCEMENTS

The State implemented the following new pronouncement for fiscal year 2011:

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. The new fund balance classifications and the minimum fund balance disclosure provided in Statement 54 are discussed in detail in Note 1S. Statement 54 requires the disclosure of the purpose of every major special revenue fund in the financial statement notes. Disclosures are found in Note 5.

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.

The State will implement the following new pronouncements for fiscal years ending after 2011:

GASB Statement No. 57, "OPEB measurements by Agent Employers and Agent Multiple-Employer Plans" – the provisions related to the use and reporting of alternative measurement method was effective on issuance, December 2009. The provisions related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in financial statements of other postemployment benefit plans is effective for periods beginning after June 15, 2011. This statement addresses issues related to the use of alternative measurement method and the frequency and timing of measurements by employer that participate in agent multiple-employer other postemployment benefit plans (agent employers). This Statement amends Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", and Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans".

GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements" will be effective for financial statement periods beginning after December 15, 2011 and generally would be required to be applied retroactively for all periods presented. This statement aims to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. A SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which a) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration, and b) the operator collects and is compensated by fees from third parties.

GASB Statement No. 61, "The Financial Reporting Entity: Omnibus" will be effective for financial statement periods beginning after June 15, 2012 with earlier application encouraged. The statement will improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, "The Financial Reporting Entity", and the requirements of Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments", were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" will be effective for financial statement periods beginning after December 15, 2011 with early application encouraged. The Statement brings the authoritative accounting and financial reporting literature together in one place, with the guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial users. It will eliminate the need to financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, resulting in a more consistent application of applicable guidance in financial statements of state and local governments.

GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", is effective for periods beginning after December 15, 2011. This statement is intended to improve the financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position.

GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53", is effective for financial statements for periods beginning after June 15, 2011. The requirements of this statement enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced.