

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State of North Dakota's (the State's) Comprehensive Annual Financial Report presents a discussion and analysis of the State's financial performance, providing an overview of the activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

The assets of the State exceeded its liabilities at fiscal year end by \$8.7 billion (reported as net assets), an increase of \$1.7 billion from the previous year. The net assets of governmental activities increased by 27.6% while the net assets of the business-type activities showed an increase of 12.7%.

Fund Level:

As of the close of fiscal year 2011 the State's governmental funds reported combined ending fund balances of \$5 billion, an increase of \$1.2 billion. Of this amount, \$86 million is non-spendable, primarily for permanent fund principal. Spendable fund balance consists of \$2.4 billion restricted for specific purposes such as transportation, \$1.7 billion committed and \$124 million assigned for specific functional expenditures such as public safety and regulatory, with the unassigned fund balance making up the remaining amount of \$709 million. At the end of the fiscal year, unassigned fund balance for the General Fund was \$712 million.

The enterprise funds reported net assets at year-end of \$2 billion, an increase of \$235 million during the year.

Long-term Debt:

The State's total debt (bonds and notes payable) decreased approximately 7% during the fiscal year to \$1.8 billion, a decrease of \$140 million, which represents the net difference between new issuances and payments. During the year the State issued \$133 million in bonds and \$15 million in notes.

More detailed information regarding these activities and funds is included in Note 3K.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which consists of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Statements

The government-wide financial statements provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents all of the State's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in net assets are an indicator of whether the State's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and

expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both statements report three activities:

Governmental Activities – The activities in this section are primarily supported by taxes and intergovernmental revenue. Most of the State's basic services, such as education, health and human services and transportation, are reported under this category.

Business-type Activities – These functions are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The Bank of North Dakota, Housing Finance Agency and the University System are examples of the State's business-type activities.

Discretely Presented Component Units – These are operations for which the State has financial accountability but they have certain independent qualities as well. These entities operate similar to private-sector business and the business-type activities described above. The State has 4 discretely presented component units. Financial information for these entities is presented separately from the financial information presented for the primary government.

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for a particular purpose. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

The basic fund financial statements begin immediately after the government-wide statements and provide more detail about the major individual funds. The State's funds are divided into three categories – governmental, proprietary, and fiduciary. It is important to note that these fund categories use different accounting approaches and should be interpreted differently.

Governmental funds -- Most of the State's basic services are reported in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on the near-term inflows and outflows of spendable resources. They also focus on the balances left at year-end that are available for future spending. Such information may be useful in evaluating whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

Governmental funds include the General Fund, special revenue, capital project, debt service, and permanent funds. The State has several governmental funds, of which three (3) are considered major individual funds. These three are the General Fund, the Federal Fund, and the State Special Revenue Fund. Each of these major funds is presented in a separate column in the governmental fund balance

sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance. The remaining governmental funds are combined in a single aggregated column on the basic fund statements. Individual fund data for each of these non-major governmental funds can be found in the other supplementary information section of this report.

Proprietary funds – Services for which the State charges customers a fee are generally reported in proprietary funds. The state maintains two different types of proprietary funds, enterprise funds and internal service funds. Enterprise funds report activities that provide supplies and services to the general public. Internal service funds report activities that provide supplies and services for the State's other programs and activities. Like the government-wide statements, proprietary funds use the accrual basis of accounting. Although the basis of accounting is the same for the government-wide and proprietary fund statements, reconciliation between these statements is presented because of the allocation of internal service funds' net income.

The State has five (5) major enterprise funds: The Bank of North Dakota, Housing Finance, Mill and Elevator, University System, and Workforce Safety and Insurance. These five funds are each presented in separate columns on the basic proprietary fund financial statements. The remaining enterprise funds are combined in a single total column on these statements. Individual fund data for each of the non-major enterprise funds can be found in the other supplementary information section of this report.

The State's internal service funds are reported as governmental activities on the government-wide statements, because the services they provide predominantly benefit governmental activities. The State's four (4) internal service funds are reported on the basic proprietary fund financial statements in a single combined column. Individual fund data for the internal service funds is provided in the form of combining statements found elsewhere in this report.

Fiduciary funds -- The State acts as a trustee, or fiduciary, for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These funds, which include pension (and other employee benefit) trust, investment trust, private-purpose trust, and agency funds, are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because the State cannot use these assets to finance its operations.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following component units' financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes reconciliation between the statutory fund balances for budgetary purposes and the fund balances for the General Fund, the State Special Revenue Fund and the Federal Fund as presented in the governmental fund financial statements.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, non-major enterprise, internal service, and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

As noted previously, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (governmental and business-type activities) totaled \$8.7 billion at the end of fiscal year 2011. Net assets increased 23.7% from the prior fiscal year.

State of North Dakota's Net Assets (Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2011	2010	2011	2010	2011
Current and Other Assets	\$4,425,230	\$5,794,393	\$6,810,240	\$6,877,600	\$9,516,877	\$10,594,148
Capital Assets	1,646,653	1,809,590	919,401	985,908	2,566,054	2,795,498
Total Assets	6,071,883	7,603,983	7,729,641	7,983,508	12,082,931	\$13,389,646
Long-Term Liabilities						
Outstanding	300,423	279,661	2,620,631	2,578,116	2,921,055	2,857,777
Other Liabilities	564,344	676,778	3,270,034	3,329,862	2,115,784	1,808,794
Total Liabilities	864,767	956,439	5,890,665	5,907,978	5,036,839	4,666,571
Net Assets						
Invested in Capital Assets, Net of Related Debt	1,450,350	1,640,081	644,109	706,460	2,094,459	2,346,541
Restricted	1,984,324	2,470,400	445,609	452,311	2,429,933	2,922,711
Unrestricted	1,772,442	2,537,063	749,258	916,759	2,521,700	3,453,822
Total Net Assets	\$5,207,116	\$6,647,544	\$1,838,976	\$2,075,530	\$7,046,092	\$8,723,074

NOTE: The Governmental Activities amounts and Business-Type Activities amounts do not cross foot to the total Primary Government column because internal balances are reported separately as internal receivables and internal payables. A total internal balance remains due to certain Business-Type Activities having different fiscal year ends than the Governmental Activities.

The largest component (40%) of the State's net assets is unrestricted net assets. Unrestricted net assets may be used at the State's discretion, but often have limitations on use based on State statutes. Restricted net assets make up thirty-three percent (33%) of the state's net assets. These restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used.

Twenty-seven percent (27%) of the State's net assets reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (roads, bridges and other immovable assets) less any related debt outstanding that was needed to acquire or construct the assets. The State uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The condensed financial information on the following page was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

State of North Dakota's Changes in Net Assets
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2011	2010	2011	2010	2011
Revenues:						
Program Revenues:						
Charges for Services	\$ 245,410	\$257,650	\$1,110,240	\$1,220,485	\$1,355,650	\$1,478,135
Operating Grants & Contributions	2,025,395	2,015,950	412,398	449,393	2,437,793	2,465,343
Capital Grants & Contributions	63,035	12,768	19,762	14,258	82,797	27,026
General Revenues:						
Income Taxes	379,938	605,527	-	-	379,938	605,527
Sales Taxes	885,446	1,121,730	-	-	885,446	1,121,730
Other Taxes	695,521	1,129,201	-	-	695,521	1,129,201
Investment Earnings	33,926	21,331	-	-	33,926	21,331
Tobacco Settlement	23,559	30,454	-	-	23,559	30,454
Other	150,819	158,447	-	-	150,819	158,447
Total Revenues	<u>4,503,049</u>	<u>5,353,058</u>	<u>1,542,400</u>	<u>1,684,136</u>	<u>6,045,449</u>	<u>7,037,194</u>
Expenses						
General Government	393,432	507,513	-	-	393,432	507,513
Education	849,337	830,649	-	-	849,337	830,649
Health and Human Services	1,149,202	1,244,163	-	-	1,149,202	1,244,163
Regulatory	26,187	28,420	-	-	26,187	28,420
Public Safety and Corrections	284,846	242,521	-	-	284,846	242,521
Agriculture and Commerce	85,328	98,038	-	-	85,328	98,038
Natural Resources	81,304	117,863	-	-	81,304	117,863
Transportation	463,846	468,696	-	-	463,846	468,696
Interest on Long Term Debt	11,774	10,462	-	-	11,774	10,462
Bank of North Dakota	-	-	80,132	77,557	80,132	77,557
Housing Finance	-	-	62,932	69,824	62,932	69,824
Loan Programs	-	-	6,316	6,898	6,316	6,898
Mill and Elevator	-	-	170,076	212,280	170,076	212,280
State Lottery	-	-	18,178	17,069	18,178	17,069
Unemployment Compensation	-	-	137,474	108,482	137,474	108,482
University System	-	-	963,820	1,008,540	963,820	1,008,540
Workforce Safety and Insurance	-	-	218,186	300,297	218,186	300,297
Other	-	-	18,331	25,093	18,331	25,093
Total Expenses	<u>3,345,256</u>	<u>3,548,325</u>	<u>1,675,446</u>	<u>1,826,040</u>	<u>5,020,701</u>	<u>5,374,365</u>
Increase (decrease) in Net Assets Before Contributions & Transfers	1,157,793	1,804,733	(133,045)	(141,904)	1,024,748	1,662,829
Contributions to Permanent Fund Principal	11,203	999	-	-	11,203	999
Transfers	(350,497)	(365,304)	324,786	376,539	(25,711)	11,235
Increase in Net Assets	818,499	1,440,428	191,741	234,635	1,010,240	1,675,063
Net Assets - Beginning -As Restated	<u>4,388,617</u>	<u>5,207,116</u>	<u>1,647,235</u>	<u>1,840,895</u>	<u>6,035,852</u>	<u>7,048,011</u>
Net Assets- Ending	<u>\$5,207,116</u>	<u>\$6,647,544</u>	<u>\$1,838,976</u>	<u>\$2,075,530</u>	<u>\$7,046,092</u>	<u>\$8,723,074</u>

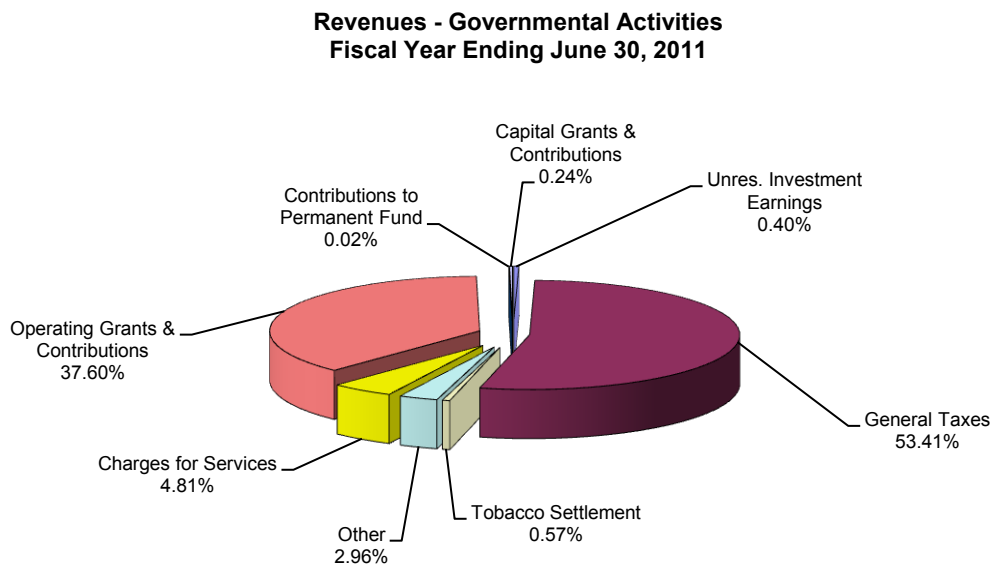
Governmental Activities

Governmental Activities increased the State's net assets by \$1.4 billion. Revenues rose 20%, with the largest dollar increase in the State's revenues for fiscal year 2011 coming from oil, gas and coal tax revenues, an increase of \$426 million. This increase is due to the increased level of oil and gas production in the state and higher world oil prices. Sales tax revenues and income tax revenues each increased over a quarter of a million dollars due to a growth in taxable sales and purchases as a result of strong oil and agricultural sectors, a growing retail trade base, and strong income growth in the state.

Expenses for governmental activities increased only by 7%. General government expenses had the largest percentage increase, 29%, primarily because of an additional \$35 million appropriated by the 2011 Legislative Session for transportation funding to counties, cities, and townships and because of the increased tax revenues that are distributed to political subdivisions. Health and Human Services expenses increased due to the legislature providing a rate increase to all medical providers and an increase in the utilization of Medicaid Services.

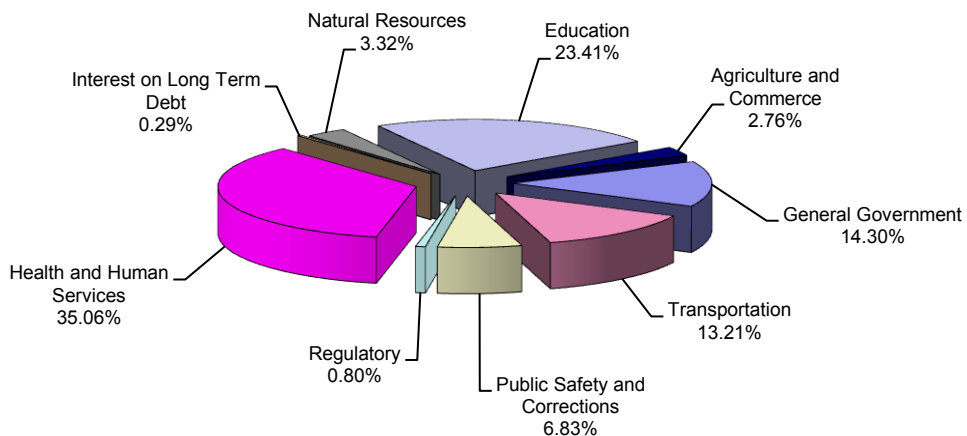
Transportation had a slight increase in spending for the construction and repair of state roads and also for county and city roads through grants and direct expenses. In addition, truck usage and diesel fuels costs increased attributable to the need for greater use of the Department of Transportation trucks during the 2011 winter storms and flooding. Public Safety and Corrections expenses decreased about 15% because of decreased disaster payments.

The following chart depicts revenues of the governmental activities for the fiscal year:



The chart on the following page depicts expenses of the governmental activities for the fiscal year:

**Expenditures - Governmental Activities
Fiscal Year Ending June 30, 2011**



Business-type Activities

Net assets of the business-type activities increased by \$235 million during the fiscal year.

Workforce Safety and Insurance's (WSI) net assets increased \$57 million. New and increased business activity resulted in an increase of earned premium. WSI's investment portfolio continued to show a comeback from the recession suffered globally in 2007-08. Incurred losses for fiscal year 2011 increased significantly also since active employer accounts have risen due to the oil industry activity and the state's overall strong economic standing.

The Bank of North Dakota net income of \$55.6 million is higher than its net income in the prior fiscal year because of a decrease in transfers. Operating income decreased slightly due to a decrease in the fair value of securities.

The University System's net assets increased \$75 million. Operating revenues increased about 4% as a result of increases in tuition, room and board, and grants and contracts revenues. Operating expenses increased about 4% also. In addition, state appropriations and investment income increased by 6% and 5% so the University System's net income was slightly higher than the prior year.

Housing Finance net asset increase of \$8 million was similar to the prior year's net asset change as revenues and expenses remained fairly consistent.

The Mill and Elevator's net assets were up \$7.6 million. Gross sales and operating costs were both higher than the prior year, but sales increases exceeded the increase in costs. High sales can be attributed to high wheat prices.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

Governmental Funds

As the State completed the year, its governmental funds reported combined fund balances of \$5 billion, an increase of \$1.2 billion from the prior fiscal year. Of the \$5 billion in net assets, \$86 million is non-

spendable, \$2.4 billion is restricted, \$1.7 billion is committed, \$124 million is assigned and \$709 million is unassigned. These fund balance categories are new as a result of implementation of GASB Statement 54. Note 1S provides definitions for these new categories. The following analysis of funds provides the explanation for the overall change in net assets for governmental funds.

The General Fund is the chief operating fund of the State. At the end of current fiscal year, unassigned fund balance of the General Fund was \$712 million, non-spendable was \$4.6 million and \$683 million was committed for expenditure by various governmental functions.

Total fund balance increased during the fiscal year by \$495 million. Revenues increased approximately 36%, due primarily to increases in income tax revenues and sales use tax revenues of over \$200 each, plus increased oil, gas, and tax revenues of more than \$25 million. Explanations for these increases were explained with the increase in net assets for governmental activities.

General fund expenditures increased by 11.5%. General government expenditures increased because of the legislative appropriation of \$35 million in payments to political subdivisions, previously explained, and Education expenditures were higher than the previous fiscal year due to higher Foundation Aid payments to school districts.

The State Special Revenue ending fund balance grew by \$756 million to \$3.5 billion. Revenues increased 28% and expenditures increased 27%. Sales and use taxes and oil, gas, and coal taxes were the primary cause of the revenue increase as explained for the increased in governmental activities. In addition, investment income nearly doubled as the result of continued recovery experienced in the financial markets during the fiscal year. Health and Human Services, Intergovernmental (payments to political subdivisions) and Transportation expenditures saw the highest increases. Reasons for these increases were previously explained.

The June 30 Federal Fund balance of \$6.5 million consists of non-spendable items such as prepaids and inventory and deferred revenue for those revenues to be received later than the time period used for revenue recognition.

Proprietary Funds

The State's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The increases in the net assets of the proprietary funds are discussed under "Business-type Activities" above.

General Fund Budgetary Highlights:

The State has a biennial appropriated budget. The fiscal year ending June 30, 2011, was the second year of the 2009-11 budget cycle. The original budget increased \$106.3 million.

At the beginning of the 2009-11 budget cycle, there was an increase in the original budget of \$65.7 million due to the authorized carryover of general fund appropriation authority from the 2007-09 biennium, a \$6.8 million increase for capital construction carryover, and reductions of \$9.8 million.

The reductions were for appropriations that were authorized to start a few months prior to the beginning of the 2009-11 biennium but to continue through the 2009-11 biennium. The beginning appropriations needed to be reduced for the expenditures made prior to the start of the biennium.

The increases to the beginning appropriated budget are from authorized carryover of general fund appropriation authority and the larger ones are noted below.

Several state agencies were authorized by appropriation laws to carryover a portion or all of their general fund appropriation for various purposes, including the Adjutant General, \$3.1 million, Office of Management and Budget, \$38.5 million, the University System, \$18.9 million, Legislative Council, \$2.2 million and Legislative Assembly, \$1.6 million. \$37 million of the \$38.5 million for the Office of Management and Budget was for a transfer to the Adjutant General for flood and snow disaster relief.

Of the \$6.1 million in capital construction carryover dollars, \$1.2 million was for the Office of Management and Budget; \$2.4 million was for the Department of Human Services and various smaller amounts for several other state agencies.

An additional general fund budget appropriation of \$5 million was given to the Department of Public Instruction in March of 2011 as the 2009 Legislature approved this additional amount contingent on the general fund anticipated fund balance exceeding \$30 million at that time.

The 2011 Legislature authorized various general fund adjustments for the 2009-11 budget. In a deficiency bill, \$2.1 million in additional general fund appropriation authority was given to various agencies, including \$1.8 to the Office of the Tax Commissioner for operating costs. In another bill, an additional general fund budget appropriation of \$35 million was given to the State Treasurer for the purpose of providing transportation funding distributions.

There were no expenditures in excess of general fund authority.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At the end of the fiscal year 2011, the State had invested \$2.3 billion, net of accumulated depreciation, in a broad range of capital assets. Depreciation charges for this fiscal year totaled \$139 million.

(Net of Depreciation, Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2011	2010	2011	2010	2011
Land and Land Improvements	\$ 69,338	\$71,417	\$ 18,764	\$18,790	\$ 88,102	\$90,207
Building & Building Improvements	250,199	314,004	553,664	587,770	803,863	901,774
Equipment	127,392	129,974	164,292	163,610	291,684	293,584
Intangibles						
Software	30,517	34,558	13,853	16,040	44,370	50,598
Other	4,484	6,579	466	324	4,950	6,903
Infrastructure	706,375	756,764	91,402	98,526	797,777	855,290
Construction in Progress	458,348	496,294	76,960	100,848	535,308	597,142
Total	\$1,646,653	\$1,809,590	\$ 919,401	\$985,908	\$2,566,054	\$2,795,498

The total increase in the State's investments in capital assets for the current fiscal year was 9% in terms of net book value. However, actual expenditures to purchase or construct capital assets were approximately \$547 million for the year. A major portion of this amount was used to construct or reconstruct assets at the University Systems and for highway construction. More detailed information on the State's capital assets can be found in Note 3H to the financial statements.

Long-term Debt: Article X, Section 13 of 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: secured by first mortgage upon property and no further indebtedness may be incurred by the state unless evidenced by a bond issue; authorized by law, for a certain purpose; provisioned to pay the interest semiannually, and pay the principal within 30 years. The law authorized the bond issue must specifically appropriate the provisions to the payment of the principal and interest of the bond. The State has no general obligation bonds outstanding at June 30, 2011.

The State does have a number of revenue bonds outstanding at June 30, 2011. Current state statutes empower certain state agencies and the Building Authority, a component unit of the State, 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 revenue bonds issued by state agencies is payable from designated revenue sources. The Building Authority's bonds generate revenue to finance the construction and improvements of State buildings. Revenues derived from leases on the buildings fund the debt service requirements.

The Bank of North Dakota has advances from the Federal Home Loan Bank in the amounts of \$396 million. The advances have a fixed rate of interest, ranging from 3.01 percent to 7.35 percent.

More detailed information regarding the State's long-term obligations is presented in Note 3K to the financial statements.

State of North Dakota's Outstanding Debt
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2011	2010	2011	2010	2011
Revenue Bonds	\$ 232,101	\$219,221	\$1,301,368	\$1,193,816	\$1,533,469	\$1,413,037
Notes Payable	19,493	8,563	412,095	403,509	431,588	412,072
Total	<u>\$ 251,594</u>	<u>\$227,784</u>	<u>\$1,713,463</u>	<u>\$1,597,325</u>	<u>\$1,965,057</u>	<u>\$1,825,109</u>

The State's total debt decreased approximately 7% during the current fiscal year.

ECONOMIC CONDITION AND OUTLOOK

While many states struggle to recover from the national recession, North Dakota's economy continues to thrive. Moody's Analytics recently completed an analysis of the North Dakota economy for its *Précis U.S. State* October 2011 publication. The report depicts a strong, growing economy, leading the nation in several areas. North Dakota's state gross domestic product (GDP), the value of goods and services produced in the state, has grown by nearly 19 percent from 2007 through 2010. In sharp contrast, GDP nationally has declined by 1 percent during that time. Moody's notes that "North Dakota's economy continues to set the bar in terms of U.S. economic growth and is one of only two states to have transitioned from recovery to expansion."

Moody's predicts that North Dakota's GDP will continue to outpace the nation through 2012 and is expected to grow at double the national average during the current year. The state's unemployment rate, 3.5 percent in October 2011, is only about one-third the U.S. rate of 9.0 percent. The state's unemployment rate is expected to remain well below the national rate, staying below 4 percent in the short-term and potentially falling below 3 percent in the long-term forecast.

The high level of economic activity, combined with the extremely low unemployment rate, has been a source of growth for the state, encouraging migration from states with much weaker labor markets. From 2007 through 2010, employment in North Dakota grew by 4.7 percent; nationally, it has declined by 5.7 percent during that time. According to Moody's "nonfarm payrolls [in North Dakota] have been expanding at more than 4.5 times the national average, a trend that has continued to strengthen in recent months."

Median household income and per capita income for North Dakota have both surpassed the national average. For 2009, median household income in North Dakota was \$51,380 compared to \$49,445 for the U.S. Per capita income was \$42,764 for North Dakota, based on 2010 Census Bureau data, but only \$39,945 for the U.S.

Moody's concludes that with a booming energy sector and strong agricultural commodity prices, "The North Dakota economy will significantly outpace its U.S. counterpart over the near term."

CONTACTING THE STATE'S OFFICE OF FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Questions about this report or additional financial information should be addressed to the State of North Dakota, Office of Management and Budget, 600 E. Boulevard, Dept. 110, Bismarck, ND 58505.