INDEPENDENT AUDITOR'S REPORT

The Honorable Jack Dalrymple, Governor of the State of North Dakota

Members of the Legislative Assembly of the State of North Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Dakota as of and for the year ended June 30, 2012, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of North Dakota's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following state entities and discretely presented component units:

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

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Percent of Assets</th>
<th>Percent of Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government-Wide Financial Statements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governmental Activities</td>
<td>29%</td>
<td>12%</td>
</tr>
<tr>
<td>Business-Type Activities</td>
<td>84%</td>
<td>41%</td>
</tr>
<tr>
<td>Aggregate Discretely Presented Component Units</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Fund Financial Statements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Major Governmental Funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Fund</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>State Special Revenue Fund</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td>Major Enterprise Funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of North Dakota</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Housing Finance Agency</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Workforce Safety and Insurance</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Aggregate Remaining Fund Statements</td>
<td>95%</td>
<td>43%</td>
</tr>
</tbody>
</table>
Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

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

The actuary for the North Dakota Public Employees Retirement System has determined that the Fund's unfunded actuarial accrued liability is approximately $873 and $689 million at June 30, 2012 and 2011, respectively. Also, the actuary for the Highway Patrolmen's Retirement System has determined that the Fund's unfunded actuarial accrued liability is approximately $20 and $17 million at June 30, 2012 and 2011. The funding for the actuarial accrued liabilities is predicated on employer and employee funding rates mandated by North Dakota statutes. The actuary has determined that the current statutory contribution rates are insufficient to meet the actuarially determined requirement. If unchanged, this difference will further increase the actuarial contribution requirement in future valuations.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Dakota, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with Government Auditing Standards, we have also issued under separate cover, our report dated December 14, 2012 on our consideration of the State of North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Budgetary Comparison Schedules and related reconciliations and notes on pages 19–29 and 128–134 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of North Dakota's financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules listed in the table of contents are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of North Dakota's basic financial statements. The introductory and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Robert R. Peterson  
State Auditor  

December 14, 2012  

Edwin J. Nagel, Jr., CPA  
Director