

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, 2012. 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 \$11 billion (reported as net assets), an increase of \$2.2 billion from the previous year. The net assets of governmental activities increased by 30.5% while the net assets of the business-type activities showed an increase of 9.9%.

Fund Level:

As of the close of fiscal year 2012 the State's governmental funds reported combined ending fund balances of \$6.7 billion, an increase of \$1.7 billion. Of this amount, \$582 million is non-spendable, primarily for permanent fund principal. Spendable fund balance consists of \$3 billion restricted for specific purposes such as transportation, \$1.7 billion committed and \$66 million assigned for specific functional expenditures such as public safety and regulatory, with the unassigned fund balance making up the remaining amount of \$1.4 billion. At the end of the fiscal year, unassigned fund balance for the General Fund was \$1.4 billion.

The enterprise funds reported net assets at year-end of \$2.3 billion, an increase of \$194 million during the year.

Long-term Debt:

The State's total debt (bonds and notes payable) decreased approximately 3.5% during the fiscal year to \$1.75 billion, a decrease of \$70 million, which represents the net difference between new issuances and payments. During the year the State issued \$164 million in bonds and \$95 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 four (4) major enterprise funds: The Bank of North Dakota, Housing Finance, University System, and Workforce Safety and Insurance. These four 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 \$11 billion at the end of fiscal year 2012. Net assets increased 25.6% from the prior fiscal year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2012	2011	2012	2011	2012
Current and Other Assets	\$5,794,393	\$7,540,411	\$6,877,600	\$8,341,916	\$10,594,148	\$13,038,483
Capital Assets	<u>1,809,590</u>	<u>2,092,289</u>	<u>985,908</u>	<u>1,034,415</u>	<u>2,795,498</u>	<u>3,126,703</u>
Total Assets	<u>7,603,983</u>	<u>9,632,700</u>	<u>7,983,508</u>	<u>9,376,331</u>	<u>13,389,646</u>	<u>16,165,186</u>
Long-Term Liabilities						
Outstanding	279,661	256,882	2,578,116	2,619,299	2,857,777	2,876,181
Other Liabilities	<u>676,778</u>	<u>703,020</u>	<u>3,329,862</u>	<u>4,476,888</u>	<u>1,808,794</u>	<u>2,336,064</u>
Total Liabilities	<u>956,439</u>	<u>959,902</u>	<u>5,907,978</u>	<u>7,096,187</u>	<u>4,666,571</u>	<u>5,212,245</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	1,640,081	1,943,227	706,460	752,357	2,346,541	2,695,584
Restricted	2,470,400	3,094,031	452,311	569,991	2,922,711	3,664,023
Unrestricted	<u>2,537,063</u>	<u>3,635,539</u>	<u>916,759</u>	<u>957,796</u>	<u>3,453,822</u>	<u>4,593,335</u>
Total Net Assets	<u>\$6,647,544</u>	<u>\$8,672,797</u>	<u>\$2,075,530</u>	<u>\$2,280,144</u>	<u>\$8,723,074</u>	<u>\$10,952,942</u>

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 (42%) 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-five percent (25%) 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)

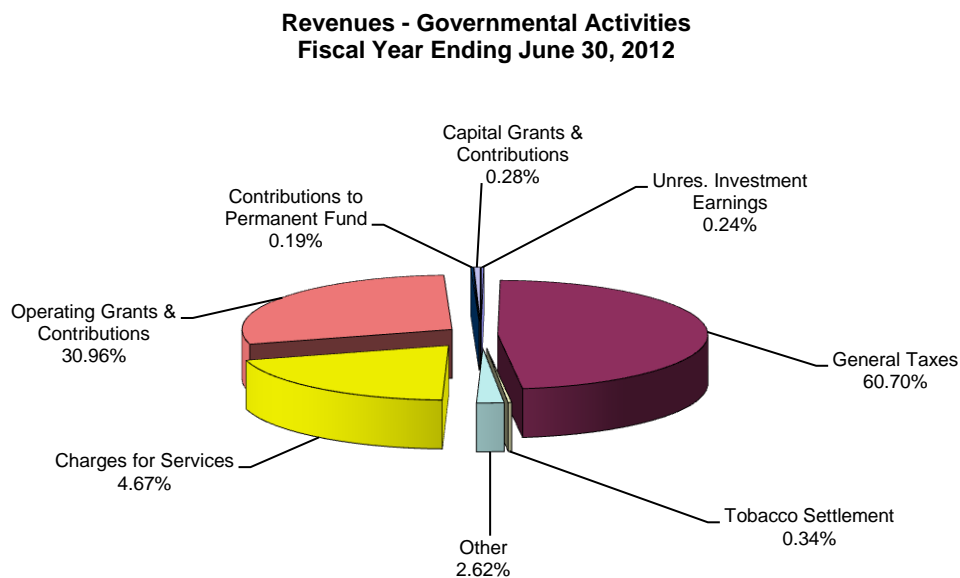
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2012	2011	2012	2011	2012
Revenues:						
Program Revenues:						
Charges for Services	\$257,650	\$303,617	\$1,220,485	\$1,354,231	\$1,478,135	\$1,657,848
Operating Grants & Contributions	2,015,950	2,012,322	449,393	353,505	2,465,343	2,365,827
Capital Grants & Contributions	12,768	18,099	14,258	20,975	27,026	39,074
General Revenues:						
Income Taxes	605,527	658,905	-	-	605,527	658,905
Sales Taxes	1,121,730	1,543,141	-	-	1,121,730	1,543,141
Other Taxes	1,129,201	1,742,034	-	-	1,129,201	1,742,034
Investment Earnings	21,331	15,501	-	-	21,331	15,501
Tobacco Settlement	30,454	22,265	-	-	30,454	22,265
Other	158,447	170,545	-	1,940	158,447	172,485
Total Revenues	<u>5,353,058</u>	<u>6,486,429</u>	<u>1,684,136</u>	<u>1,730,651</u>	<u>7,037,194</u>	<u>8,217,080</u>
Expenses						
General Government	507,513	617,152	-	-	507,513	617,152
Education	830,649	843,780	-	-	830,649	843,780
Health and Human Services	1,244,163	1,271,697	-	-	1,244,163	1,271,697
Regulatory	28,420	33,988	-	-	28,420	33,988
Public Safety and Corrections	242,521	303,603	-	-	242,521	303,603
Agriculture and Commerce	98,038	91,653	-	-	98,038	91,653
Natural Resources	117,863	132,679	-	-	117,863	132,679
Transportation	468,696	796,123	-	-	468,696	796,123
Interest on Long Term Debt	10,462	9,064	-	-	10,462	9,064
Bank of North Dakota	-	-	77,557	71,997	77,557	71,997
Housing Finance	-	-	69,824	56,047	69,824	56,047
Loan Programs	-	-	6,898	8,093	6,898	8,093
Mill and Elevator	-	-	212,280	-	212,280	-
State Lottery	-	-	17,069	18,877	17,069	18,877
Unemployment Compensation	-	-	108,482	89,237	108,482	89,237
University System	-	-	1,008,540	1,047,950	1,008,540	1,047,950
Workforce Safety and Insurance	-	-	300,297	359,216	300,297	359,216
Other	-	-	25,093	274,974	25,093	274,974
Total Expenses	<u>3,548,325</u>	<u>4,099,739</u>	<u>1,826,040</u>	<u>1,926,391</u>	<u>5,374,365</u>	<u>6,026,130</u>
Increase (decrease) in Net Assets Before Contributions & Transfers	1,804,733	2,386,817	(141,904)	(195,739)	1,662,829	2,191,078
Contributions to Permanent Fund Principal	999	12,470	-	-	999	12,470
Transfers	(365,304)	(368,077)	376,539	390,215	11,235	22,138
Increase in Net Assets	1,440,428	2,031,210	234,635	194,476	1,675,063	2,225,686
Net Assets - Beginning -As Restated	5,207,116	6,641,714	1,840,895	2,085,669	7,048,011	8,727,383
Net Assets- Ending	<u>\$6,647,544</u>	<u>\$8,672,797</u>	<u>\$2,075,530</u>	<u>\$2,280,145</u>	<u>\$8,723,074</u>	<u>\$10,952,941</u>

Governmental Activities

Governmental Activities increased the State's net assets by \$2.0 billion. Revenues rose 23%, with the largest dollar increase in the State's revenues for fiscal year 2012 coming from oil, gas and coal tax revenues, an increase of \$611 million. This increase is due to the increased level of oil and gas production in the state and relatively high oil prices. Sales tax revenue increased \$421 million due to a growth in taxable sales and purchases as a result of increased oil production, a strong agricultural sectors and a growing population. Individual income tax increased 53 million due to strong income growth and expanding employment.

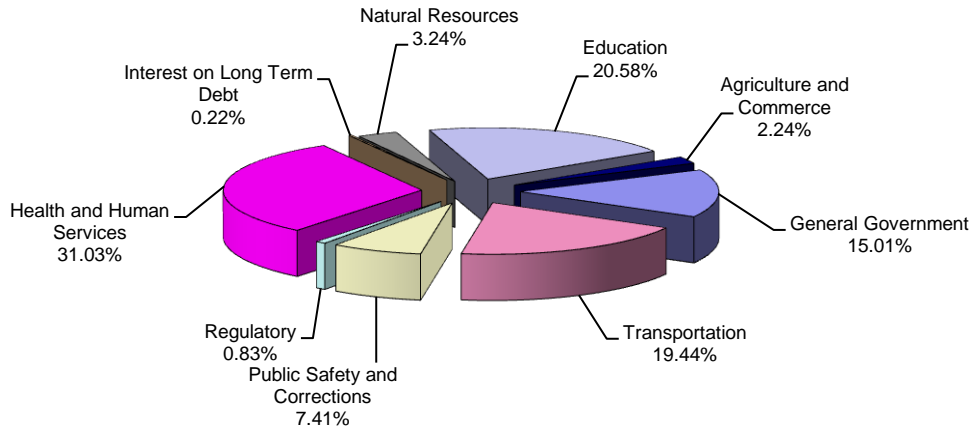
Expenses for governmental activities increased only by 16%. Transportation expenses had the largest percentage increase, 70%, due to an increase in spending for the construction and repair of state roads and also for county and city roads through grants and direct expenses. Transportation also had an increase in spending for oil impact projects. General Government expenses increased 21.6% primarily because of an additional \$23 million appropriated by the 2011 Legislative Session for the purpose of providing transportation funding distributions. General Government expenses also increased due to an increase in sales tax refunds for the Tax Department. Public Safety and Corrections increased 25% due to building projects for the Department of Corrections.

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, 2012**



Business-type Activities

Net assets of the business-type activities increased by \$194 million during the fiscal year.

Workforce Safety and Insurance's (WSI) net assets decreased \$18.5 million. Fiscal year 2012 brought an increase in business activity that was even larger than that experienced in fiscal year 2011. New and increased business activity resulted in an increase of earned premium. WSI's investment portfolio yielded a year to date return of 6.1% (net of fees), a gain of \$83 million. Incurred losses for fiscal year 2012 increased 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 \$72.6 million is higher than its net income in the prior fiscal year because of a decrease in transfers. Operating income increased due to an increase in net interest income and a net increase in the fair value of securities.

The University System's net assets increased \$61.6 million. Operating revenues increased about 5% as a result of increases in tuition, room and board, and sales and services of education departments. Operating expenses increased about 4%. In addition, state appropriations and tax revenues increased by 4% and 5% so the University System's net income was slightly higher than the prior year.

Housing Finance net asset increase of \$9.7 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 \$3.8 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 \$6.7 billion, an increase of \$1.7 billion from the prior fiscal year. Of the \$6.7 billion in net assets, \$582 million is non-spendable, \$3 billion is restricted, \$1.7 billion is committed, \$67 million is assigned and \$1.4 billion is unassigned. These fund balance categories are a result of GASB Statement 54. Note 1S provides definitions for these 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 \$1.4 billion, non-spendable was \$498 million and \$997 million was committed for expenditure by various governmental functions.

Total fund balance increased during the fiscal year by \$1.5 billion. Revenues increased approximately 88%, due primarily to increases in oil, gas, and coal taxes revenue of over a half million and sales use tax revenue of over a quarter million, plus increased individual income tax revenues of more than \$35 million. Explanations for these increases were explained with the increase in net assets for governmental activities.

General fund expenditures increased by 13.9%. General government expenditures increased because of a legislative appropriation of \$23 million for transportation funding distributions as well as an increase in sales tax refunds as previously explained.

The State Special Revenue ending fund balance grew by \$206 million to \$3.7 billion. Revenues decreased 20% and expenditures increased 41%. Revenues decreased in the state special revenue fund due to a reclassification of some oil, gas and coal tax revenues no longer being listed within the state special revenue fund and instead will be listed with the General Fund. Public Safety and Corrections and Transportation expenditures saw the highest increases. Reasons for these increases were previously explained.

The June 30 Federal Fund balance of \$5.9 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, 2012, was the first year of the 2011-13 budget cycle. The original budget increased \$226.3 million.

At the beginning of the 2011-13 budget cycle, there was an increase in the original budget of \$94 million due to the authorized carryover of general fund appropriation authority from the 2009-11 biennium, and a \$12.9 million increase for capital construction carryover.

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 Historical Society, \$35.1 million, the University

System, \$31.2 million, the Department of Public Instruction, \$9.5 million, Commerce Department, \$7 million, Legislative Council, \$3.4 million and Legislative Assembly, \$2.6 million.

Of the \$12.9 million in capital construction carryover dollars, \$2.7 million was for the Office of Management and Budget; \$2.4 million was for the Information Technology Department; \$2.5 million was for the Adjutant General; \$2.8 million was for the Department of Corrections; \$1.5 was for the Veteran's Home and various smaller amounts for several other state agencies.

An additional general fund budget appropriation of \$8.9 million was given to the Department of Human Services in November of 2012 for the purpose of defraying the expenses of incorporating the Medicaid and children's health insurance program eligibility determination functionality into the health benefit exchange, and for the purpose of defraying the corresponding costs related to the modification of the department's economic assistance eligibility system.

The 2012 Legislature authorized various general fund adjustments for the 2011-13 budget. In a disaster bill, \$85.9 million in additional general fund appropriation authority was given to various agencies, including \$48.7 million to adjutant general for disaster relief fund and \$30 million to the Land Department for the purpose of providing infrastructure development grants to flood-impacted political subdivisions.

An additional general fund budget appropriation of \$23 million was given to the State Treasurer's Office in March 2012 as the 2011 Legislature approved this additional amount contingent on the revenue collections for oil, gas, and tax revenue exceeding projections by 48 million.

There were no expenditures in excess of general fund authority.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At the end of the fiscal year 2012, the State had invested \$2.7 billion, net of accumulated depreciation, in a broad range of capital assets. Depreciation charges for this fiscal year totaled \$148 million.

(Net of Depreciation, Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2012	2011	2012	2011	2012
Land and Land Improvements	\$71,417	\$70,827	\$18,790	\$19,064	\$90,207	\$89,891
Building & Building Improvements	314,004	303,958	587,770	628,722	901,774	932,680
Equipment	129,974	137,614	163,610	160,161	293,584	297,775
Intangibles						
Software	34,558	32,052	16,040	17,342	50,598	49,394
Other	6,579	6,317	324	610	6,903	6,927
Infrastructure	756,764	979,227	98,526	93,065	855,290	1,072,292
Construction in Progress	496,294	562,293	100,848	115,451	597,142	677,744
Total	\$1,809,590	\$2,092,288	\$985,908	\$1,034,415	\$2,795,498	\$3,126,703

The total increase in the State's investments in capital assets for the current fiscal year was 12% in terms of net book value. However, actual expenditures to purchase or construct capital assets were approximately \$823 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, 2012.

The State does have a number of revenue bonds outstanding at June 30, 2012. 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 \$470 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	
	2011	2012	2011	2012	2011	2012
Revenue Bonds	\$219,221	\$197,021	\$1,193,816	\$1,069,257	\$1,413,037	\$1,266,278
Notes Payable	8,563	7,428	403,509	481,735	412,072	489,163
Total	<u>\$227,784</u>	<u>\$204,449</u>	<u>\$1,597,325</u>	<u>\$1,550,992</u>	<u>\$1,825,109</u>	<u>\$1,755,441</u>

The State's total debt decreased approximately 4% during the current fiscal year.

ECONOMIC CONDITION AND OUTLOOK

Moody's Analytics recently completed an analysis of the North Dakota economy for its *Précis U.S. State* October 2012 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 30 percent from 2007 through 2011. In sharp contrast, GDP nationally has grown by less than 1 percent during that time.

Moody's predicts that North Dakota's GDP will continue to outpace the nation. The rate of growth in North Dakota's GDP is expected to exceed 7.5 percent during calendar year 2012 compared to 2.2 for the U.S. The state's unemployment rate, 3.1 percent in October 2012, is less than half the U.S. rate of 7.7 percent and remains the lowest in the nation. The state's unemployment rate is expected to remain well below the national rate, falling to 2.5 percent by 2015; the national rate is also expected to decline, but is anticipated to stay above 6 percent throughout that time frame.

The high level of economic activity, combined with the extremely low unemployment rate, has led to growth in the state's population. As the number of jobs has increased, so has the labor force as potential workers migrate from states with much weaker labor markets. From 2007 through 2011, employment in North Dakota grew by over 10 percent; nationally, it has declined by nearly 5 percent during that time.

Median household income and per capita income for North Dakota have both surpassed the national average. For 2010, median household income in North Dakota was \$56,361 compared to \$50,054 for the U.S. Per capita income was \$47,236 for North Dakota, based on 2011 Census Bureau data, but only \$41,560 for the U.S.

Moody's concludes that "The North Dakota economy will outpace that of the U.S. over the next several years. High prices and new technologies will support energy production, accompanied by growth in auxiliary industries throughout the state."

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.