

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, 2016. 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:

Total assets and deferred outflows of resources of the State exceeded its liabilities and deferred inflows of resources at fiscal year-end by \$19.5 billion (reported as net position), a decrease of \$104 million from the previous year. The net position of governmental activities decreased by 2.2% while the net position of the business-type activities showed an increase of 8.7%.

As a result of implementing GASB Statement 68, *Accounting and Financial Reporting for Pensions*, the State recorded \$32.9 million net pension asset, \$65 million deferred outflows of resources, \$388 million net pension liability, and \$54 million deferred inflows of resources for the primary government.

Fund Level:

As of the close of fiscal year 2016 the State's governmental funds reported combined ending fund balances of \$12.2 billion, a decrease of \$1.1 billion. Of this amount, \$4.1 billion is non-spendable, primarily for legal requirements. Spendable fund balance consists of \$6 billion restricted for specific purposes such as Common Schools and transportation, \$1.6 billion committed and \$80 million assigned for specific functional expenditures such as education and general government, with the unassigned fund balance making up the remaining amount of \$418 million. At the end of the fiscal year, unassigned fund balance for the General Fund was \$421.7 million.

The enterprise funds reported net position at year-end of \$3.2 billion, an increase of \$257 million during the year.

Long-term Debt:

The State's total debt (bonds and notes payable) increased approximately 9.8% during the fiscal year to \$1.86 billion, an increase of \$165 million, which represents the net difference between new issuances and payments. During the year the State issued \$307 million in bonds and \$615 million in notes.

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

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, deferred outflows of resources, liabilities, and deferred inflows of resources 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 Position presents all of the State's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the two reported as "net position". Over

time, increases and decreases in net position is 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 position changed during the most recent fiscal year. All changes in net position 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 Position and Changes in Fiduciary Net Position. 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. In addition, the required supplementary information includes up to ten years of information on the State's pension plans, including schedules on the employer proportionate share of the net pension liability, changes in the net pension liability, and employer contributions.

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 position may serve over time as a useful indicator of a government's financial position. The State's combined net position (governmental and business-type activities) totaled \$19.5 billion at the end of fiscal year 2016. Net position decreased \$104 million from the prior fiscal year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2016	2015	2016	2015	2016
Current and Other Assets	\$14,402,938	\$13,410,558	\$10,335,283	\$10,686,657	\$20,590,423	\$20,593,797
Capital Assets	3,715,887	4,366,294	1,321,495	1,451,945	5,037,382	5,818,239
Total Assets	<u>18,118,825</u>	<u>17,776,852</u>	<u>11,656,778</u>	<u>12,138,602</u>	<u>25,627,805</u>	<u>26,412,036</u>
Deferred Outflows of Resources	<u>41,803</u>	<u>47,243</u>	<u>32,194</u>	<u>34,228</u>	<u>73,997</u>	<u>81,473</u>
Long-Term Liabilities						
Outstanding	190,154	128,810	2,789,412	3,097,323	2,979,565	3,226,133
Other Liabilities	1,218,230	1,326,204	5,931,527	5,842,789	3,001,959	3,665,577
Total Liabilities	<u>1,408,384</u>	<u>1,455,014</u>	<u>8,720,939</u>	<u>8,940,112</u>	<u>5,981,524</u>	<u>6,891,710</u>
Deferred Inflows of Resources	<u>62,302</u>	<u>40,684</u>	<u>19,778</u>	<u>14,448</u>	<u>82,080</u>	<u>55,132</u>
Net Position						
Invested in Capital Assets, Net of Related Debt	3,622,722	4,299,697	1,023,385	1,155,758	4,646,107	5,455,455
Restricted	6,254,674	6,246,873	485,012	533,665	6,739,686	6,780,538
Unrestricted	6,812,546	5,781,827	1,439,859	1,528,847	8,252,405	7,310,674
Total Net Position	<u>\$16,689,942</u>	<u>\$16,328,397</u>	<u>\$2,948,256</u>	<u>\$3,218,270</u>	<u>\$19,638,198</u>	<u>\$19,546,667</u>

The largest component (37%) of the State's net position is unrestricted net position. Unrestricted net position may be used at the State's discretion, but often have limitations on use based on State statutes. Restricted net position make up thirty-five percent (35%) of the state's net position. Restricted net position represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used.

Twenty-seven percent (28%) of the State's net position 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 position changed during the fiscal year:

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

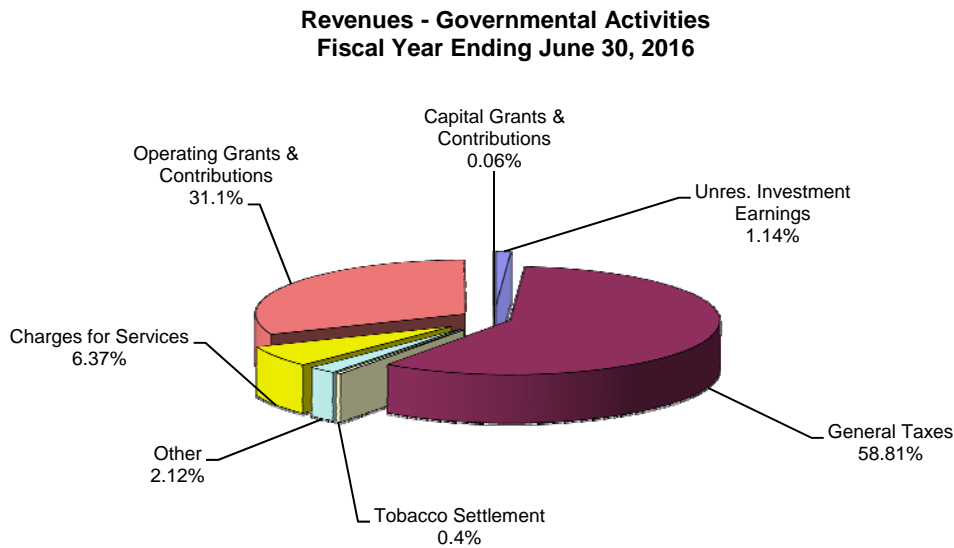
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2016	2015	2016	2015	2016
Revenues:						
Program Revenues:						
Charges for Services	\$361,967	\$359,427	\$1,786,539	\$1,860,031	\$2,148,506	\$2,219,458
Operating Grants & Contributions	1,888,798	1,755,540	312,136	298,603	2,200,934	2,054,143
Capital Grants & Contributions	1,388	3,416	36,923	29,609	38,311	33,025
General Revenues:						
Income Taxes	732,975	414,965	-	-	732,975	414,965
Sales Taxes	1,804,380	1,348,343	-	-	1,804,380	1,348,343
Other Taxes	2,827,444	1,556,657	-	-	2,827,444	1,556,657
Investment Earnings	117,643	64,347	-	-	117,643	64,347
Tobacco Settlement	21,790	22,777	-	-	21,790	22,777
Other	161,725	119,546	9,562	93	171,287	119,639
Total Revenues	<u>7,918,110</u>	<u>5,645,018</u>	<u>2,145,160</u>	<u>2,188,336</u>	<u>10,063,270</u>	<u>7,833,354</u>
Expenses						
General Government	1,171,208	1,055,378	-	-	1,171,208	1,055,378
Education	1,415,255	1,175,550	-	-	1,415,255	1,175,550
Health and Human Services	1,706,333	1,776,822	-	-	1,706,333	1,776,822
Regulatory	66,744	69,084	-	-	66,744	69,084
Public Safety and Corrections	249,291	227,618	-	-	249,291	227,618
Agriculture and Commerce	106,455	106,846	-	-	106,455	106,846
Natural Resources	236,079	321,992	-	-	236,079	321,992
Transportation	603,813	679,070	-	-	603,813	679,070
Interest on Long Term Debt	7,155	1,334	-	-	7,155	1,334
Bank of North Dakota	-	-	71,053	85,822	71,053	85,822
Housing Finance	-	-	37,511	40,246	37,511	40,246
Loan Programs	-	-	11,366	17,323	11,366	17,323
State Lottery	-	-	20,360	26,038	20,360	26,038
Unemployment Compensation	-	-	144,921	225,358	144,921	225,358
University System	-	-	1,170,159	1,211,439	1,170,159	1,211,439
Workforce Safety and Insurance	-	-	377,926	366,663	377,926	366,663
Other	-	-	549,799	569,432	549,799	569,432
Total Expenses	<u>5,562,333</u>	<u>5,413,694</u>	<u>2,383,095</u>	<u>2,542,321</u>	<u>7,945,428</u>	<u>7,956,015</u>
Increase (decrease) in Net Position Before Contributions, Loss & Transfers						
Loss & Transfers	2,355,777	231,324	(237,935)	(353,985)	2,117,842	(122,661)
Loss on Computer Project	-	(4,950)	-	-	-	(4,950)
Contributions to Permanent Fund Principal	16,382	15,638	-	-	16,382	15,638
Transfers	(542,713)	(603,557)	535,980	611,332	(6,733)	7,775
Increase (decrease) in Net Position	<u>1,829,446</u>	<u>(361,545)</u>	<u>298,045</u>	<u>257,347</u>	<u>2,127,491</u>	<u>(104,198)</u>
Net Position - Beginning -As Restated						
	14,860,496	16,689,942	2,650,211	2,960,923	17,510,707	19,650,865
Net Position- Ending	<u>\$16,689,942</u>	<u>\$16,328,397</u>	<u>\$2,948,256</u>	<u>\$3,218,270</u>	<u>\$19,638,198</u>	<u>\$19,546,667</u>

Governmental Activities

Governmental Activities decreased the State's net position by \$362 million. Revenues decreased 29%, with the largest dollar decrease in the State's revenues for fiscal year 2016 coming from oil, gas, and coal taxes and business and other taxes, a decrease of \$1.2 billion. This decrease is due to the decreased level of oil and gas production in the state and lower world oil prices. A decrease in sales and use tax is due to slowing taxable sales and purchases as a result of declining energy and agricultural prices worldwide. The decline in rig counts has resulted in a loss of higher paid energy jobs as well as a decrease in out-of-state commuters. Individual Income tax also showed a decrease also due to slowing oil patch activity reducing wages and salaries. Taxable oil royalty payments are reduced by the decrease in the value of oil. Farm income is also constrained by low agricultural commodity prices.

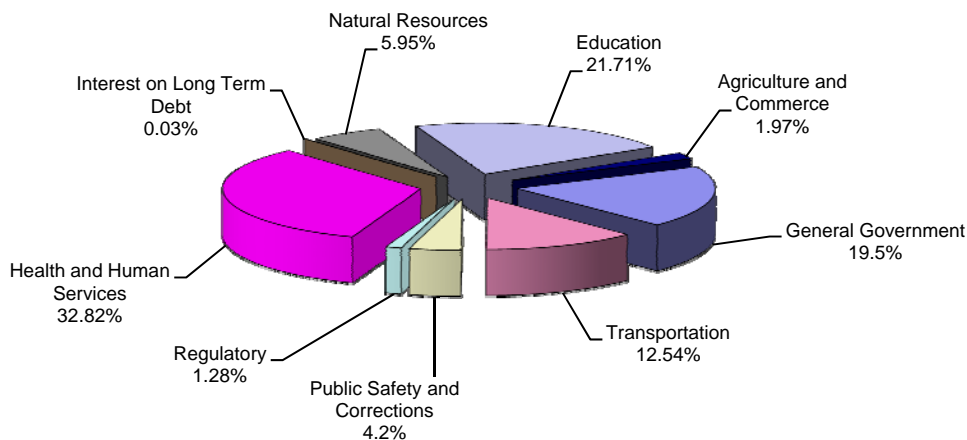
Expenses for governmental activities remained relatively consistent with only a decrease of 3%.

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, 2016**



Business-type Activities

Net position of the business-type activities increased by \$257 million during the fiscal year.

Workforce Safety and Insurance’s (WSI) net position increased \$11.4 million. Policyholder count decreased by 942 policies in fiscal year 2016. The decline in policies is due to the weaker economic conditions in the State. However, WSI’s financial position remains stable. Earned premium net of discounts and reinsurance totaled \$291 million, \$330 million, and \$313 million for fiscal years 2016, 2015, and 2014, respectively. WSI re-entered the Securities Lending arena in fiscal year 2016. Total income for the year was \$213,849. The number of total claims filed in fiscal year 2016 was also less than in fiscal year 2015 and 2014.

The Bank of North Dakota net position increased \$93.2 million. Net position increased because of an increase in assets attributable to increased loan demand, coupled with a decrease in the securities portfolio. Total assets grew by 4.9% to \$7.2 million. The increase was attributable to continued growth in state deposits and liquidity of banks investing at the Bank.

The University System’s net position increased \$116.7 million. Net position increased due to a slight increase in tuition and fee revenues (4%) and state appropriations, excluding capital assets, increased three percent. In addition, in total assets increased \$92.3 million due to an increase in current assets and net capital assets, offset by a decrease in other noncurrent assets.

Housing Finance net position increase of \$8.4 million was similar to the prior year’s net position change as revenues and expenses remained fairly consistent.

FINANCIAL ANALYSIS OF THE STATE’S FUNDS

Governmental Funds

As the State completed the year, its governmental funds reported combined fund balances of \$12.2 billion, a decrease of \$1.1 billion from the prior fiscal year. Of the \$12.2 billion in net position, \$4.1 billion is non-spendable, \$6 billion is restricted, \$1.6 billion is committed, \$79.5 million is assigned, and \$418.3 million is unassigned. These fund balance categories are a result of GASB Statement 54. Note 1U

provides definitions for these categories. The following analysis of funds provides the explanation for the overall change in net position 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 \$421.7 million, non-spendable was \$3.9 billion and \$997 million was committed for expenditure by various governmental functions.

Total General fund balance decreased during the fiscal year by \$541 million. Revenues decreased approximately 27.5%, due to decreases in individual and corporate income taxes of 290 million, sales and use tax of 366 million and oil, gas, and coal taxes of approximately \$201 million. Explanation for these decreases were explained with the decrease in net position for governmental activities.

General fund expenditures decreased by 5%. Transportation expenditures decreased because of a decrease in spending for oil impacted projects as previously discussed.

The State Special Revenue ending fund balance decreased by \$510 million resulting in \$6.8 billion fund balance. Revenues decreased 45% and expenditures did not vary substantially. Revenues decreased in the state special revenue fund primarily due to a decrease in oil, gas, and coal tax revenues due to lower world oil prices as previously discussed. Expenses remained relatively consistent.

The June 30 Federal Fund balance of \$8.6 million consists of non-spendable items such as prepaids and inventory and unavailable 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 position 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, 2016, was the first year of the 2015-17 budget cycle. The original budget decreased \$100.3 million.

At the beginning of the 2015-17 budget cycle, there was an increase in the original budget of \$128.5 million due to the authorized carryover of general fund appropriation authority from the 2013-15 biennium, and a \$18.7 million increase for capital construction carryover. There was also a decrease to the original budget of \$9.9 million in the 15-17 budget cycle due to emergency clause expenditures given in the 15-17 biennium that was used in the 13-15 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 University System, \$64.9 million, the Department of Transportation, \$20.4 million, the Department of Human Services, \$18.6 million, Legislative Council, \$4.9 million, the Department of Commerce, \$4.3 million, the Adjutant General, \$3.8 million, the Office of Management & Budget, \$3.8 million and Department of Public Instruction, \$2.5 million.

Of the \$18.7 million in capital construction carryover dollars, \$5.9 million was for the Department of Human Services; \$6 million was for the Department of Trust Lands; \$4.2 million was for the Office of Management and Budget and various smaller amounts for several other state agencies.

Of the \$9.9 million in decreases, \$7.8 million was for the University of North Dakota and \$2 million was for the Parks and Recreation. These amounts were appropriated as emergency appropriations in the 15-17

biennium and was used in the 13-15 biennium and therefore was decreased out of the agencies 15-17 biennium general fund budget.

In fiscal year 2016, Governor Dalrymple implemented a 4.05 percent general fund reduction allotment because of a projected shortfall in general fund revenues for the 2015-17 biennium. The reduction totaled \$239.1 million. Also during fiscal year 2016, there were additional insignificant appropriation increases for various purposes.

There were no expenditures in excess of general fund authority.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At the end of the fiscal year 2016, the State had invested \$5.5 billion, net of accumulated depreciation, in a broad range of capital assets. Depreciation charges for this fiscal year totaled \$207 million.

(Net of Depreciation, Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015*	2016	2015*	2016	2015*	2016
Land and Land Improvements	\$138,132	\$144,393	\$20,445	\$23,377	\$158,577	\$167,770
Building & Building Improvements	403,834	393,825	771,275	995,882	1,175,109	1,389,707
Equipment	161,759	161,279	173,224	173,735	334,983	335,014
Intangibles						
Software	33,019	181,480	9,825	9,718	42,844	191,198
Other	8,641	8,630	1,384	1,108	10,025	9,738
Infrastructure	1,338,820	1,855,003	115,579	116,121	1,454,399	1,971,124
Construction in Progress	1,631,681	1,621,684	229,763	132,004	1,861,444	1,753,688
Total	\$3,715,886	\$4,366,294	\$1,321,495	\$1,451,945	\$5,037,381	\$5,818,239

* Beginning capital asset balances were adjusted for certain reclassifications.

The total increase in the State's investments in capital assets for the current fiscal year was 16% in terms of net book value. However, actual expenditures to purchase or construct capital assets were approximately \$1.8 billion for the year. A major portion of this amount was used to construct or reconstruct assets 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, 2016.

The State does have a number of revenue bonds outstanding at June 30, 2016. 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 \$727 million. The advances have a fixed rate of interest, ranging from 1.12 percent to 5.56 percent.

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

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2016	2015 Restated	2016	2015 Restated	2016
Revenue Bonds	\$129,345	\$64,049	\$890,192	\$1,040,019	\$1,019,537	\$1,104,068
Notes Payable	4,412	3,891	665,792	747,186	670,204	751,077
Total	<u>\$133,757</u>	<u>\$67,940</u>	<u>\$1,555,984</u>	<u>\$1,787,205</u>	<u>\$1,689,741</u>	<u>\$1,855,145</u>

The State's total debt increased approximately 9.8% 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 2016 publication. The report depicts an economy that is beginning to emerge from a recession that has existed for most of 2016 and driven by low oil and agriculture prices. The recession is expected to end by the close of 2016, but growth will be slow to accelerate until late in 2017.

Impacted by global commodity prices, North Dakota's two major industries, energy and agriculture both declined in 2016. As worldwide oil production increased, causing a glut on the market, prices fell, which translated into decreased oil activity in North Dakota. A price of about \$50 per barrel will give producers the incentive to bring wells and jobs back on line. However, drilling will not accelerate in earnest until oil prices return to about \$60 per barrel.

Farm income is more than 90 percent lower than the peak in 2012. North Dakota farmers are accustomed to swings in agriculture prices and were prepared for the downturn, helping to soften the blow. In addition to the low agriculture prices, the strong U.S. dollar resulted in a disadvantageous exchange rate with Canada, the state's biggest trade partner.

Private employment steadied in the second quarter and has finished the third quarter at an eight-month high. The labor force has surpassed prerecession levels and those with jobs are earning more because of tight labor availability. Because of weak non-wage income which is driven by energy and agriculture, overall personal income is less than one year ago.

The state's unemployment rate, only 2.2 percent in October 2016, is less than half the U.S. rate of 4.7 percent, and remains one of the lowest in the nation. The state's unemployment rate is expected to remain well below the national rate, remaining under 3 percent through 2021. The national rate is expected to remain close to 5 percent through 2020.

Median household income and per capita income for North Dakota have both surpassed the national average. For 2015, median household income in North Dakota was \$57,415 compared to \$56,516 for the U.S. Per capita income for 2014 was \$55,950 for North Dakota, while \$48,112 for the U.S.

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.