NORTH DAKOTA PUBLIC FINANCE AUTHORITY
(A Component Unit of the State of North Dakota)

FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NORTH DAKOTA PUBLIC FINANCE AUTHORITY

Table of Contents

	Exhibit	Page
BASIC FINANCIAL STATEMENTS		
INDEPENDENT AUDITOR'S REPORT	1	
MANAGEMENT'S DISCUSSION AND ANALYSIS	3	
FINANCIAL STATEMENTS		
Balance Sheets	7	
Statements of Revenues, Expenses and Changes in Fund Net Assets	8	
Statements of Cash Flows	9	
Statements of Appropriations	11	
Notes to Financial Statements	12	
SUPPLEMENTARY INFORMATION		
Combining Balance Sheets	28	
Combining Statements of Revenues, Expenses and Changes in Fund Net Assets	29	
Combining Statements of Cash Flows	30	
EXHIBITS		
Schedule of Expenditures of Federal Awards	A-1	32
Summary Schedule of Prior Audit Findings	A-2	33
Independent Auditor's Report on Compliance and Other Matters and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	A-3	34
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	A-4	36
Schedule of Findings and Questioned Costs	A-5	38
Independent Auditor's Specific Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee	B-1	40
Independent Auditor's Communication to the Industrial Commission of North Dakota	B-2	43

BRADY MARTZ

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the accompanying basic financial statements of the **North Dakota Public Finance Authority**, a component unit of the State of North Dakota, as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the **North Dakota Public Finance Authority's** management. Our responsibility is to express an opinion on these financial statements based on our audit. The December 31, 2006 financial statements were audited by other auditors whose report, dated April 10, 2007, expressed an unqualified opinion on those statements.

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. 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **North Dakota Public Finance Authority** as of December 31, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 28, 2008 on our consideration of **North Dakota Public Finance Authority's** internal control over financial reporting and 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 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.

The Management's Discussion and Analysis on pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BRADY, MARTZ & ASSOCIATES, P.C.
207 East Broadway, P.O. Box 1297
Bismarck, ND 58502-1297 (701) 223-1717 Fax (701) 222-0894
OTHER OFFICES: Minot and Grand Forks, ND
Thief River Falls, MN

RSM McGladrey Network
An Independently Owned Member

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the **North Dakota Public Finance Authority**. The accompanying supplemental information on pages 28 through 31 are presented for purpose of additional analysis and are not a required part of the basic financial statements of the **North Dakota Public Finance Authority**. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRADY, MARTZ & ASSOCIATES, P.C.

February 28, 2008

The discussion and analysis of the financial performance of the North Dakota Public Finance Authority (PFA) that follows is meant to provide additional insight into the PFA's activities for the years ended December 31, 2007 and 2006. Please read it in conjunction with the PFA's financial statements and footnotes, which are presented within this report.

FINANCIAL HIGHLIGHTS:

Municipal securities (loans outstanding) increased 11% from $228,254 in 2006 to $254,135 in 2007. SRF loans are funded with grant revenues and bond proceeds, which are invested until loans are funded. In 2007, there was $47,779 of SFR loans funded as compared to $31,825 in 2006. The PFA anticipates loan demand will continue to remain strong as the ND Health Departments Intended Use Plan continues to grow.

The PFA's rebate due to the Internal Revenue Service decreased by $88. In 2007 and 2006, rebate payments totaling $7 and $230, respectively, were made to the IRS. As of year-end, $222 of the rebate liability is considered current.

No bonds were issued under the PFA's Industrial Development Bond Program (IDBP) in 2007. The PFA issued $1,360 of IDBP bonds in 2006. Standard and Poor's has rated the IDBP "A". The PFA did not issue bonds under its Capital Financing Program (rated A by Standard and Poor's) in 2007. In 2006, $1,385 of bonds was issued under the Capital Financing Program (CFP). The State Revolving Fund Loan Program (rated Aaa by Moody's) issues bonds to provide the required match to receive capitalization grants from the EPA. No bonds were issued under the SRF program in 2006 or 2007.

The growing State Revolving Fund Program helped the PFA's total assets increase $18,436 to $414,391. The balance sheet indicates that the PFA continues to have adequate resources to provide for bond repayments. Change in net assets of the PFA resulted in an increase of $34,893 providing the PFA with an overall strong financial position. Grant proceeds account for a significant portion of net assets. Federal law provides that grants may only be expended for SRF program purposes. Net assets are also restricted for debt service of bond issues or for the purchase of municipal securities. As of December 31, 2007 the PFA had $49,191 of commitments to extend credit.

REQUIRED FINANCIAL STATEMENTS:

The discussion and analysis are intended to serve as an introduction to the PFA's financial statements. The financial statements of the PFA provide accounting information similar to that of many other business entities. The Balance Sheets summarize the assets and liabilities, with the difference between the two reported as net assets. It also serves as the basis for analysis of the soundness and liquidity of the PFA. The Statements of Revenues, Expenses and Changes in Fund Net Assets summarize the PFA's operating performance for the two years. The Statements of Cash Flows summarizes the flow of cash through the PFA as it conducts its business.

(continued on next page)

CONDENSED BALANCE SHEETS
DECEMBER 31,

	2007	2006	Dollar Variance	Percentage Variance
ASSETS				
CURRENT ASSETS - UNRESTRICTED	**$ 32**	$ 107	$ (75)	-70.09%
CURRENT ASSETS - RESTRICTED	**30,679**	26,543	4,136	15.58%
NONCURRENT ASSETS - RESTRICTED	**383,680**	369,305	14,375	3.89%
TOTAL ASSETS	**$ 414,391**	$395,955	$ 18,436	4.66%
LIABILITIES				
CURRENT LIABILITIES	**$ 12,659**	$ 12,773	$ (114)	-0.89%
NONCURRENT LIABILITIES	**141,394**	157,737	(16,343)	-10.36%
TOTAL LIABILITIES	**154,053**	170,510	(16,457)	-9.65%
NET ASSETS				
UNRESTRICTED	**2,719**	2,518	201	7.98%
RESTRICTED FOR DEBT SERVICE	**68,189**	62,186	6,003	9.65%
RESTRICTED FOR LOAN PURPOSES	**189,430**	160,741	28,689	17.85%
TOTAL NET ASSETS	**260,338**	225,445	34,893	15.48%
TOTAL LIABILITIES AND NET ASSETS	**$ 414,391**	$395,955	$ 18,436	4.66%

Cash and Investments

Certain PFA cash and investments, which are included in the restricted current and non-current assets, are restricted for the debt service of bond issues or for the purchase of municipal securities. Additional discussion of these investments can be found at Note 3 to the financial statements.

Municipal Securities

Obligations of North Dakota political subdivisions are classified separately on the balance sheet as "municipal securities" and included in the restricted current and non-current assets of the condensed Balance Sheet. These investment securities are primarily city, school district and water district obligations and are pledged to the various bond issues. No losses for market value declines are anticipated and an allowance has not been provided. Note 3 to the financial statements contain further information regarding municipal securities.

(continued on next page)

Bonds Payable

In order to provide local political subdivisions with funds to finance projects, the PFA has issued bonds to facilitate the purchase of the political subdivision's municipal securities. The bonds payable are included in the restricted current and non-current liabilities of the preceding statement. The bonds are direct obligations of the PFA and are secured by municipal securities purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions. Further details are contained in Note 4 to the financial statements.

Rebate Due to IRS

Under Internal Revenue Service Code Sections 103 and 148, earnings from non-purpose investments in excess of bond interest expense must be remitted as a rebate, once every five years, to the U.S. Treasury. This liability is included in the current and non-current liabilities. Note 8 to the financial statements contain additional information.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED DECEMBER 31,

	2007	2006	Dollar Variance	Percentage Variance
OPERATING REVENUES				
Investment income	$ 6,792	$ 6,418	$ 374	5.83%
Administrative fees and other	1,118	1,008	110	10.91%
	7,910	7,426	484	6.52%
NONOPERATING REVENUE				
Grant and set-asides	26,597	15,844	10,753	67.87%
Investment income	9,417	9,341	76	0.81%
	36,014	25,185	10,829	43.00%
TOTAL REVENUE	43,924	32,611	11,313	34.69%
OPERATING EXPENSES				
Interest expense	7,589	7,979	(390)	-4.89%
State Revolving Fund expenses	983	1,096	(113)	-10.31%
Rebate due to IRS	94	86	8	9.30%
Amortization of bond issue costs	196	180	16	8.89%
Other	169	163	6	3.68%
	9,031	9,504	(473)	-4.98%
CHANGE IN NET ASSETS	34,893	23,107	11,786	51.01%
TOTAL NET ASSETS, BEGINNING OF YEAR	225,445	202,338	23,107	11.42%
TOTAL NET ASSETS, END OF YEAR	$ 260,338	$225,445	$ 34,893	15.48%

(continued on next page)

Note 1 to the financial statements contains discussion of several of the various operating revenue and expense items pertaining to PFA operations.

Grant and set-asides

Under an agreement with the North Dakota Department of Health, the PFA assists in administering the State Revolving Loan Fund. The grant proceeds are classified as non-operating revenue in the Statement of Revenues, Expenditures and Changes in Net Assets.

The purpose of the Loan Fund is to provide low cost financing to local political subdivisions to finance wastewater disposal system projects and drinking water projects. The federal Environmental Protection Agency (EPA) provides funds to finance approximately 80 percent of the cost of the projects. The state finances its 20 percent share of the cost through bonds issued by the PFA.

Economic Factors and Budgetary Information

Note 1 to the financial statements discusses the PFA's economic dependence on North Dakota political subdivision municipal securities obligations.

As discussed in financial statement Note 1, the PFA, an agency of the Industrial Commission, operates through a biennial appropriation provided by the State Legislature. The PFA prepares a biennial budget as a part of the Industrial Commission's budget, which is included in the Governor's budget that is presented to the General Assembly at the beginning of each legislative session. The PFA has a continuous appropriation of income from operations. Changes to the appropriation not falling under the continuing appropriation are subject to approval by the State Emergency Commission.

Contacting the North Dakota Public Finance Authority's financial management:

The information in this report is intended to provide the reader with an overview of the PFA's operations along with the PFA's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Dakota Public Finance Authority, PO Box 5509, Bismarck, ND 58506-5509.

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(In Thousands)

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	$ 32	$ 107
Restricted		
Restricted cash and cash equivalents	1,117	1,187
Interest receivable	4,186	4,071
Investments	11,382	10,225
Municipal securities	13,994	11,026
Advance to Bank of North Dakota	-	34
Total restricted current assets	30,679	26,543
Total current assets	30,711	26,650
NONCURRENT ASSETS - RESTRICTED		
Investments	138,986	145,522
Municipal securities	240,141	217,228
Deferred bond financing costs, net	885	1,082
Advance to Bank of North Dakota	3,668	5,473
Total restricted noncurrent assets	383,680	369,305
Total assets	$ 414,391	$ 395,955
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 28	$ 7
Rebate due to IRS	222	-
Bonds payable	10,825	10,975
Interest payable	1,584	1,757
Advance from Bank of North Dakota	-	34
Total current liabilities	12,659	12,773
NONCURRENT LIABILITIES		
Rebate due to IRS	215	349
Bonds payable, net	137,511	151,915
Advance from Bank of North Dakota	3,668	5,473
Total noncurrent liabilities	141,394	157,737
Total liabilities	154,053	170,510
NET ASSETS		
Unrestricted	2,719	2,518
Restricted for debt service	68,189	62,186
Restricted for loan purposes	189,430	160,741
Total net assets	260,338	225,445
Total liabilities and net assets	$ 414,391	$ 395,955

See Notes to Financial Statements

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED DECEMBER 31, 2007 AND 2006
(In Thousands)

	2007	2006
OPERATING REVENUES		
Investment income	$ 6,792	$ 6,418
Administrative fees and other	1,118	1,008
	7,910	7,426
OPERATING EXPENSES		
Interest expense	7,589	7,979
State Revolving Fund administration	440	516
State Revolving Fund set-asides	543	580
Rebate due to IRS	94	86
Salaries and benefits	124	116
Amortization of bond issue costs	196	180
Operating	39	39
Paying agent fees	6	8
	9,031	9,504
OPERATING LOSS	(1,121)	(2,078)
NONOPERATING REVENUE		
Grant and set-asides	26,597	15,844
Investment income	9,417	9,341
	36,014	25,185
CHANGE IN NET ASSETS	34,893	23,107
TOTAL NET ASSETS, BEGINNING OF YEAR	225,445	202,338
TOTAL NET ASSETS, END OF YEAR	$ 260,338	$ 225,445

See Notes to Financial Statements

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006
(In Thousands)

	2007	2006
OPERATING ACTIVITIES		
Receipts of administrative fees from customers	$ 1,118	$ 1,008
Payments to service providers	(1,007)	(1,151)
Payments to employees	(124)	(116)
Payment of rebate to IRS	(7)	(230)
NET CASH USED FOR OPERATING ACTIVITIES	(20)	(489)
NONCAPITAL FINANCING ACTIVITIES		
Grant and set-asides	26,597	15,844
Interest paid on bonds payable	(7,625)	(8,311)
Principal payment on advance from Bank of North Dakota	(1,839)	(328)
Proceeds from issuance of bonds payable	-	2,745
Principal payments on bonds payable	(14,690)	(10,055)
NET CASH FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES	2,443	(105)
INVESTING ACTIVITIES		
Interest received on investments and municipal securities	16,095	15,538
Collection of advance to Bank of North Dakota	1,839	388
Proceeds from maturities and sales of investments	65,951	87,767
Purchases of investments	(60,572)	(86,396)
Proceeds from maturities of municipal securities	21,898	15,543
Purchases of municipal securities	(47,779)	(34,685)
NET CASH USED FOR INVESTING ACTIVITIES	(2,568)	(1,845)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(145)	(2,439)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,294	3,733
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,149	$ 1,294
CASH AND CASH EQUIVALENTS - UNRESTRICTED	$ 32	$ 107
RESTRICTED CASH AND CASH EQUIVALENTS	1,117	1,187
TOTAL CASH AND CASH EQUIVALENTS	$ 1,149	$ 1,294

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS – page 2
(In Thousands)

	2007	2006
RECONCILIATION OF OPERATING LOSS TO TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	**$ (1,121)**	$ (2,078)
Adjustments to reconcile operating loss to net cash used for operating activities		
Amortization of bond financing costs	**196**	180
Net accretion of discount on bonds payable	**136**	121
Reclassification of investment income and expense to other activities	**660**	1,440
Changes in assets and liabilities		
Accounts payable	**21**	(8)
Rebate due IRS	**88**	(144)
NET CASH USED FOR OPERATING ACTIVITIES	**$ (20)**	$ (489)

See Notes to Financial Statements

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
STATEMENT OF APPROPRIATIONS
TWO YEARS ENDED JUNE 30, 2007 AND SIX MONTHS ENDED DECEMBER 31, 2007
(In Thousands)

Note: Only appropriations of specific amounts are included in this statement. A reconciliation to the operating expenses on the December 31, 2007 and 2006 statement of revenues and expenses follows:

	2005-2007 Appropriations	7-1-05-12-31-05 Expenditures	1-1-06-12-31-06 Expenditures	1-1-07-6-30-07 Expenditures	Unexpended Appropriations at 6-30-07	2007-2009 Appropriations	7-1-07-12-31-07 Expenditures	Unexpended Appropriations at 12-31-07
Salaries and wages	$ 334	$ 57	$ 116	$ 60	$ 101	$ 365	$ 64	$ 301
Operating expenses	223	14	39	28	142	212	11	201
Total administrative expenses	557	71	155	88	243	577	75	502
Equipment	12	-	-	-	12	8	-	8
Total expenses	$ 569	$ 71	$ 155	$ 88	$ 255	$ 585	$ 75	$ 510

	2007	2006
Total appropriation expenditures for year ended December 31	$ 163	$ 155
Interest expense	7,589	7,979
Depreciation and amortization	196	180
State Revolving Fund administrative fees	983	1,096
Rebate due to IRS	94	86
Administrative and operating expenses paid out of general operating funds - paying agent fees	6	8
Total operating expenses	$ 9,031	$ 9,504

The Public Finance Authority also incurs noninterest expenditures which are not part of the biennial appropriation process. Examples of these expenditures include expenses associated with the issuance and repayment of bonds issuded to fund qualified projects. These expenditures are authorized by the Industrial Commission and come under the continuing appropriation authority as provided by Article 10, Section 12 of the North Dakota Constitution.

Check Figure	9,031	9,504

See Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The North Dakota Public Finance Authority (PFA) was established July 1, 1975, by the North Dakota Legislature, as provided in Chapter 6-09.4 of the North Dakota Century Code, as a separate agency of the State of North Dakota. The purpose of the PFA is to make funds available for borrowing by North Dakota political subdivisions through the issuance of its bonds and the purchase of municipal securities of the political subdivisions. The PFA has been granted all powers required in order to accomplish this purpose and is under the control and management of the North Dakota Industrial Commission.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the PFA should include all component units over which the PFA exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization, or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the PFA. GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an Amendment of GASB Statement 14, further defined reporting units as a legally separate, tax exempt affiliated organization that meet all of the following criteria:

- The economic resources of the organization entirely or almost entirely directly benefit the PFA or its constituents, and
- The PFA or its component units are entitled to or can otherwise access, a majority of the economic resources of the organization, and
- The economic resources that the PFA is entitled to, or can otherwise access, are significant to the PFA.

Based on the criteria of GASB Statement No. 14 and 39, no organizations were determined to be part of the reporting entity. The PFA is included as a discretely presented component unit within the State of North Dakota's reporting entity.

Budgetary Process

The PFA operates through a biennial appropriation provided by the State Legislature. The PFA prepares a biennial budget which is included in the Governor's budget that is presented to the General Assembly at the beginning of each legislative session. The General Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. The Governor has line item veto powers over all legislation subject to legislative override. Once passed and signed, the appropriation becomes the PFA's financial plan for the next two years. The PFA has a continuous appropriation of income from operations. Changes to the appropriation not falling under the continuing appropriation are subject to approval by the State Emergency Commission.

The Statement of Appropriations has been prepared using the accrual basis of accounting and includes only those expenses for which an appropriation has been established.

(continued on next page)

Basis of Accounting and Measurement Focus

The North Dakota Public Finance Authority is presented in the accompanying financial statements as a proprietary fund type - an enterprise fund.

An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public or other funds on a continuing basis be financed or recovered primarily through user charges. The PFA recovers its costs through administrative charges to municipalities and earnings on administrative funds. The Program revenues include 1) Income from receivables and 2) Administrative fees. The Non Program revenues include 1) Investment income and 2) Income from grants and set-asides.

As a proprietary fund type, the PFA accounts for its transactions using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

The accompanying financial statements of the North Dakota Public Finance Authority follow the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing generally accepted accounting principles for governmental entities. In accordance with Governmental Accounting Standards Board Statement No. 20, the PFA follows all applicable GASB Pronouncements as well as following Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with GASB pronouncements.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Concentration of Credit Risk

Municipal securities primarily consist of obligations of cities, school districts and water organizations. The PFA performs credit evaluations and, in some instances, municipal securities are collateralized by property and leases. Generally, the PFA maintains a security interest until related receivables are collected. Municipal securities are due under terms corresponding with applicable bonds. All customers are located in the state of North Dakota.

(continued on next page)

Cash and Cash Equivalents

The PFA considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The PFA follows the bond indenture documentation on satisfying requirements for unrestricted and restricted cash and cash equivalents.

Investments

Investments are reported at fair value. All investment income, including changes in the fair value of investments, is recognized in the statement of revenues, expenses, and changes in fund net assets. A portion of the PFA's investments consists of nonparticipating contracts. These instruments are reported at cost. The PFA follows the bond indenture documentation on satisfying requirements for unrestricted and restricted investments.

Funds held by trustees or the PFA under bond resolutions are to be invested to the fullest extent possible in investment obligations selected by the PFA. The maturity date or the date on which such investment obligations may be redeemed shall coincide as nearly as practicable with the date or dates on which moneys in the funds or accounts for which the investments were made will be required. The restricted bond accounts have their moneys invested in various debt securities such as U.S. Treasury securities, U.S. Government Agency securities, tax-exempt obligations of states and political subdivisions, certificates of deposit, and investment contracts.

Deferred Bond Financing Costs

Bond issuance costs are being amortized over the life of the bonds using the interest method.

Equipment and Furnishings

Equipment and furnishings are stated at cost, net of accumulated depreciation. Equipment and furnishings with a cost of $5,000 or more per unit are capitalized and reported in the accompanying financial statements. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from five to ten years.

Accumulated Unpaid Vacation and Sick Pay

Annual leave and sick leave are a part of permanent employees' compensation as set forth in Section 54-06-14 of the North Dakota Century Code. Annual leave is earned based on tenure of employment, within a range of a minimum of one working day per month of employment, to a maximum of two working days per month of employment, to be fixed by rules and regulations adopted by the employing unit. In general, accrued annual leave cannot exceed 30 days at each year-end, as set by the Agency. Employees are paid for unused annual leave upon termination or retirement.

Sick leave is earned based on tenure at the rate of one working day per month of employment. There are no limitations on the amount of sick leave that an employee can accumulate. Employees who have ten continuous years of service are paid one-tenth of their accumulated sick leave upon leaving service under chapter 54-52 of the North Dakota Century Code.

Vacation and sick leave are immaterial as of December 31, 2007 and 2006, and are not accrued.

(continued on next page)

Restricted Net Assets

The PFA administers the SRF federal grant programs for the North Dakota Department of Health. Grant proceeds account for a significant portion of net assets. Federal law provides that the grants may only be expended for SRF program purposes. Net assets are also restricted for debt service of bond issues or for the purchase of municipal securities. The PFA follows the CFP and SRF bond indenture for the repayment of restricted net assets.

Operating and Non-operating Revenues

Operating revenues consist of sales of goods and services, quasi-external operating transactions with other funds, grant revenue for specific activities that are considered to be operating activities of the grantor, receipts from other agencies for reimbursement of operating transactions and other miscellaneous revenue. Grants that would qualify as an operating activity are those that do not subsidize an existing program, rather they finance a program the agency would not otherwise undertake.

All other revenues that do not meet the above criteria are classified as non-operating.

Administrative Fee Revenue

All loans originated by the PFA are charged an administration fee. These fees are used to cover the costs incurred in the administration of the loan programs. Income is recorded when the fees are received.

Grant and Set-Asides Revenue

The SRF Program grants, received from the United States Environmental Protection Agency, are to be used to make below-market interest rate loans to political subdivisions for the purpose of financing authorized projects. In addition, the Drinking Water SRF Program is allowed to "set-aside" a percentage of each grant award, which is expended for administration, technical assistance and source water assessment programs.

State Revolving Fund Administration Expense

State Revolving Fund administration expenses are incurred by the PFA and North Dakota Department of Health in administration of the State Revolving Loan Programs.

State Revolving Fund Set-Asides Expenses

The Drinking Water SRF Program is allowed to "set-aside" a percentage of each grant award, which is expended for administration, technical assistance and source water assessment programs.

Rebate Due to IRS

Under Internal Revenue Service Code Sections 103 and 148, earnings from nonpurpose investments in excess of bond interest expense must be remitted as rebate, once every five years, to the U.S. Treasury. Annually, rebate is calculated and the liability is accordingly adjusted.

(continued on next page)

NOTE 2 - DEPOSITS AND INVESTMENTS

DEPOSITS

The North Dakota Public Finance Authority is required to maintain its deposits at the Bank of North Dakota. As of December 31, 2007, the PFA had the following deposits (amounts in the thousands):

	Bank Balance
Cash and cash equivalents	$ 1,149
Certificates of deposit	11,692
Certificates of deposit recorded as advances to Bank of North Dakota	3,668
Bank investment contracts - Bank of North Dakota	18,702
Canadian Imperial Bank of Commerce	11,997
Total deposits	$ 47,208

Custodial and Concentration Credit Risk

For a deposit, the custodial credit risk that, in the event of the failure of a depository financial institution, the PFA will not be able to recover collateral securities that are in the possession of an outside party. The PFA's deposits are uncollateralized. All of the deposits, except Canadian Imperial Bank of Commerce, are with the Bank of North Dakota.

INVESTMENTS

NDCC 6-09.4-7 authorizes the PFA to invest any funds in the same manner as permitted for investment of funds belonging to the state or the Bank of North Dakota. The PFA does have a formal investment policy. Also, the General Bond Resolution and Master Trust Indenture specify the permitted investments. The PFA follows those stipulations when investing funds.

Funds held by trustees or the PFA under bond resolutions are to be invested to the fullest extent possible in investment obligations selected by the PFA. The maturity date or the date on which such investment obligations may be redeemed shall coincide as nearly as practicable with the date or dates on which moneys in the funds or accounts for which the investments were made will be required. The restricted bond accounts may have their moneys invested in various debt securities such as U.S. Treasury securities, U.S. Government Agency securities, guaranteed investment contracts and certificates of deposit. There is no limit on the amount the PFA may invest in any one issuer.

(continued on next page)

As of December 31, 2007, the PFA had the following investments (amounts are in thousands):

	Fair Value
MBIA	$ 44,435
IXIS Funding Corp.	21,061
GE Funding	23,187
Trinity Plus Funding Company	18,831
US Treasuries	50
Total guaranteed investment contracts	$ 107,564

Credit Risk

The PFA's North Dakota State Revolving Fund Program Master Trust Indenture restricts investments in Guaranteed Investment Contracts (GICs) and Bank Investment Contracts (BICs) issued, at the time the contract is entered into, a long-term debt rating by Moody's, at least equal to the better of (i) "A" or (ii) the then current rating assigned by Moody's to the Bonds without regard to credit enhancement for long-term obligations.

Concentration of Credit Risk

Each of the above listed investments, except US Treasuries, represents 5 percent or more of total investments.

NOTE 3 - MUNICIPAL SECURITIES

Obligations of North Dakota political subdivisions are classified separately on the balance sheet as "municipal securities." These investment securities are primarily obligations of cities, school districts and water organizations, and are pledged to the various bond issues. Due to the maturity of these securities, a market value is not readily available. The PFA intends to hold these securities to maturity. No losses for market value decline are anticipated and an allowance has not been provided. The PFA had the following municipal securities as of December 31:

	2007	2006
Capital financing program	**$ 18,324**	$ 25,041
State revolving fund program	**235,811**	203,213
	254,135	228,254
Less current portion	**13,994**	11,026
	$ 240,141	$ 217,228

(continued on next page)

NOTE 4 - BONDS PAYABLE

Changes in Bonds Payable

The following is a summary of changes in bonds payable for the years ended December 31, 2007 and 2006:

Balance, December 31, 2005	$ 170,079
Issuance of bonds payable	2,745
Principal payments on bonds payable	(10,055)
Net accretion of premiums and discounts on bonds payable	121
Balance, December 31, 2006	162,890
Issuance of bonds payable	-
Principal payments on bonds payable	(14,690)
Net accretion of premiums and discounts on bonds payable	136
Balance, December 31, 2007	$ 148,336

Bonds Payable

The bonds of the PFA have been issued to provide financing to purchase municipal securities in order to provide local political subdivisions with funds to finance local projects. The bonds are direct obligations of the PFA and are secured by municipal securities purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions.

Maturities of Bonds Payable

Maturities of principal and interest on all bonds are as follows:

Years Ending December 31,	Principal	Interest	Total Debt Service
2008	$ 10,825	$ 6,740	$ 17,565
2009	11,205	6,275	17,480
2010	10,555	5,803	16,358
2011	10,860	5,350	16,210
2012	10,970	4,898	15,868
2013-2017	51,960	17,133	69,093
2018-2022	31,960	6,365	38,325
2023-2027	9,255	934	10,189
2028-2031	575	46	621
Premiums, net of discounts	171	(171)	-
	$ 148,336	$ 53,373	$ 201,709

(continued on next page)

The following summarizes the PFA's bonds outstanding at December 31, 2007 and 2006:

Description and Due Date	Interest Rate	Original Value	2007	2006
Series 1992-CFP				
Serial Bonds 6/1/05-6/1/07	6.50	$ 13,535	$ -	$ 5
Series 1993-CFP				
Serial Bonds 6/1/05-6/1/13	4.70-5.75	7,905	**1,400**	1,870
Series 1995-CFP				
Serial Bonds 6/1/05-6/1/15	5.40-6.00	2,505	**45**	60
Series 1995-SRF				
Serial Bonds 10/1/05-10/1/07 (net of discount)	6.00-6.40	6,975	-	346
Series 1996-CFP				
Serial Bonds 6/1/05-6/1/16	5.30-5.65	3,365	**70**	100
Series 1996-SRF				
Serial Bonds 10/1/05-10/1/17 (net of premium)	5.10-6.00	29,845	**412**	513
Series 1997-CFP				
Serial Bonds 6/1/05-6/1/17	4.85-7.15	15,345	**2,170**	6,305
Series 1998-CFP				
Serial Bonds 6/1/05-6/1/23 (net of deferred loss on refunding of $82)	4.20-5.25	9,695	**3,543**	4,206
Series 1998-SRF				
Serial Bonds 10/1/05-10/1/19 (net of premium)	4.00-5.50	35,965	**20,863**	22,406
Series 1999				
Serial Bonds 4/1/05-4/1/14 (net of deferred loss on refunding of $18)	10.00	10,285	**3,403**	4,468
Series 1999-CFP				
Serial Bonds 6/1/05-6/1/23	4.80-8.25	4,530	**1,700**	1,790
Series 2000-SRF				
Serial Bonds 10/1/05-10/1/21 (net of discount)	5.10-5.35	16,725	**2,013**	2,619

(continued on next page)

Description and Due Date	Interest Rate	Original Value	2007	2006
Series 2001-CFP				
Serial Bonds 6/1/05-6/1/21	4.80 - 6.00	735	**580**	610
Series 2001-SRF				
Serial Bonds 10/1/05-10/1/21 (net of discount) (net of deferred loss on refunding of $588)	3.40 - 5.00	23,725	**18,429**	19,605
Series 2002-CFP				
Serial Bonds 6/1/04-6/1/28	3.00 - 5.60	1,700	**1,345**	1,415
Series 2003-CFP				
Serial Bonds 6/1/05-6/1/28	2.95 - 5.40	1,495	**1,350**	1,390
Series 2003-SRF				
Serial Bonds 10/1/05-10/1/23 (net of premium) (net of deferred loss on refunding of $1,521)	2.00 - 5.00	47,250	**41,860**	44,345
Series 2004-CFP				
Serial Bonds 6/1/05-6/1/24	2.00 - 4.90	880	**695**	765
Series 2004-SRF				
Serial Bonds 10/1/05-10/1/21 (net of premium) (net of deferred loss on refunding of $1,170)	2.00 - 4.75	11,790	**10,821**	10,850
Series 2005-SRF				
Serial Bonds 10/1/06-10/1/23 (net of premium) (net of deferred loss on refunding of $300)	3.00 - 5.00	36,210	**35,012**	36,477
Series 2005-CFP				
Serial Bonds 6/1/07-6/1/31	4.25 - 5.00	1,385	**1,285**	1,385
Series 2006-IDBP				
Serial Bonds 6/1/07-6/1/31	4.00 - 5.00	1,360	**1,340**	1,360
			$ 148,336	$ 162,890

(continued on next page)

On July 27, 2005 the PFA issued $36,210 of revenue bonds (Series 2005A SRF Bonds) with an average interest rate of 3.82 percent. The net proceeds of the refunding portion of the bonds were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the refunded bonds. As of December 31, 2007, $4,070 of bonds outstanding is considered defeased and the liability has been removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt by $386. This amount is being netted against the new debt and amortized over the life of the refunded debt, which is the same as the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 9 years by $806 and resulted in an economic gain of $660.

The PFA issued $11,790 of revenue bonds (Series 2004A SRF Bonds) with an average interest rate of 4.16 percent on October 5, 2004. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the refunded bonds. As of December 31, 2007, $11,005 of bonds outstanding is considered defeased and the liability has been removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt by $1,446. This amount is being netted against the new debt and amortized over the life of the refunded debt, which is the same as the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 17 years by $919 and resulted in an economic gain of $679.

NOTE 5 - ADVANCE FROM BANK OF NORTH DAKOTA

Changes in Advance from Bank of North Dakota

The following is a summary of changes in advance from the Bank of North Dakota for the years ended December 31, 2007 and 2006:

Balance, December 31, 2005	$	5,725
Principal payments on advance from Bank of North Dakota		(218)
Balance, December 31, 2006		5,507
Principal payments on advance from Bank of North Dakota		(1,839)
Balance, December 31, 2007	$	3,668

(continued on next page)

Maturities of Advance from Bank of North Dakota

Maturities of principal and interest on the advance are as follows:

Years Ending December 31,	Principal	Interest	Total Debt Service
2008	$ -	$ 152	$ 152
2009	-	152	152
2010	-	152	152
2011	65	150	215
2012	155	142	297
2013-2017	2,731	414	3,145
2018-2019	717	41	758
	$ 3,668	$ 1,203	$ 4,871

NOTE 6 - PENSION PLAN

The North Dakota Public Finance Authority participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. The following is a brief description of the plan.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the North Dakota Public Finance Authority. The plan provides retirement, disability, and death benefits. If an active employee dies with less than three years of credit service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employee's accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be paid to the surviving spouse's designated beneficiary.

Eligible employees, who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of $100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

(continued on next page)

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The North Dakota Public Finance Authority has implemented a salary reduction agreement and is currently contributing the employee's share. In addition to the 4.12% employer contribution, the employer is required to contribute 1% of each participating employee's gross wage to a pre-funded retiree health insurance program. The North Dakota Public Finance Authority is required to contribute 4.12% of each participant's salary as the employer's share. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. The North Dakota Public Finance Authority's required and actual contributions to NDPERS were $3, $3 and $3 for the years ended December 31, 2007, 2006, and 2005.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; P.O. Box 1657; Bismarck, ND 58502-1657.

NOTE 7 - STATE REVOLVING LOAN FUND

Under an agreement with the North Dakota Department of Health, the PFA assists in administering the State Revolving Loan Fund. The purpose of the Loan Fund is to provide low cost financing to local political subdivisions to finance wastewater disposal system projects and drinking water projects.

The federal Environmental Protection Agency (EPA) provides funds to finance approximately 80 percent of the cost of the projects. The state finances its 20 percent share of the cost through bonds issued by the PFA.

As of December 31, 2007 and 2006, the following Loan Fund transactions had occurred:

	2007	2006
Municipal securities purchased	$ 47,779	$ 31,825
EPA grant funds received	26,597	15,844

(continued on next page)

NOTE 8 - REBATE DUE TO IRS

Under Internal Revenue Service Code Sections 103 and 148, earnings from non-purpose investments in excess of bond interest expense must be remitted as a rebate, once every five years, to the U.S. Treasury. A detail of the cumulative rebate at December 31, 2007 and 2006 is as follows:

	2007	2006
1995A SRF bonds	$ -	$ 8
1996A SRF bonds	27	24
1998A SRF bonds	199	163
2000A SRF bonds	48	33
2001A SRF bonds	3	-
2003A SRF bonds	22	9
2005A SRF bonds	138	112
Rebate due to IRS	437	349
Current rebate due to IRS	(222)	-
Long-term rebate due to IRS	$ 215	$ 349

NOTE 9 - RELATED PARTY TRANSACTIONS

All cash accounts of the PFA are deposited in the Bank of North Dakota. All investments are under the safekeeping of the Bank of North Dakota. The Bank of North Dakota acts as paying agent for all bonds and as trustee for the 1999 Bonds and the 1996, 1998, 2000, 2001, 2003, 2004 and 2005 State Revolving Fund Bonds.

(continued on next page)

The PFA had the following transactions with related parties summarized as follows:

	2007	2006
Bank of North Dakota		
Cash and cash equivalents - unrestricted	$ 32	$ 107
Cash and cash equivalents - restricted	1,117	1,187
Interest receivable	163	205
Certificates of deposit recorded as investments (no current portion)	11,692	10,474
Advance to/from Bank of North Dakota (1)	3,668	5,507
Interest payable	13	26
Bank investment contract (2)	18,702	16,434
Expenses		
Registrar, paying agent and trustee fees	90	85
Account analysis	4	3
Information services	1	1
Letter of credit fees	-	27
Office of the Attorney General		
Legal fees	11	13
Information Technology Department		
Telecommunications and data	3	3

(1). Notes were purchased by the Bank of North Dakota to fund required reserve funds established by the following series resolutions. The proceeds are invested in certificates of deposit with the Bank of North Dakota. Maturities and interest rates of the bonds and certificates of deposit coincide. The entire amount is non-current. (See Note 5).

(2). The bank investment contract in conjunction with the SRF 2001A bond issue was awarded to the Bank of North Dakota. The investment contract is at a fixed rate and matures on October 1, 2021.

	2007	2006
CFP 1991	$ -	$ 67
CFP 1992	-	15
CFP 1993	1,026	1,475
CFP 1995	130	130
CFP 1996	204	204
CFP 1997	898	2,206
1999 A/B	1,410	1,410
	$ 3,668	$ 5,507

(continued on next page)

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Amounts passed through from the State Department of Health from federal grantor agencies are subject to audit and adjustment by the federal grantor agencies. Any disallowed grant costs may constitute a liability. The amount, if any, of costs which may be disallowed by the grantor will be recognized in the year determined.

The PFA is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The PFA's exposure to credit loss is represented by the contractual amount of these commitments. The PFA follows the same credit policies in making commitments as it does for on-balance-sheet instruments. Commitments to extend credit totaled $49,191 and $19,752 as of December 31, 2007 and 2006.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

On April 1, 1997, a Standby Bond Purchase Agreement was executed with the Central Dakota Irrigation District, a political subdivision. Should the District experience financial difficulties, the PFA will purchase Central Dakota Irrigation District's Refunding Improvement Bonds (warrants) in an aggregate principal amount not less than the outstanding principal amount of the warrants plus accrued interest on the warrants. The original principal amount of the warrants issued April 1, 1997 was $3,270.

The PFA purchased letters of credit from the Bank of North Dakota in order to fund the reserves for the Capital Financing Program Bonds. As of December 31, 2007 $3,839 of credit was available through these letters of credit and no funds have been advanced.

NOTE 11 - RISK MANAGEMENT

The PFA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the State for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participate in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of $250 per person and $1,000 per occurrence.

The PFA also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The PFA pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a twelve-month period. The State Bonding Fund currently provides the PFA with blanket fidelity bond coverage in the amount of $500 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

(continued on next page)

The PFA, as a contributor to RMF, participates in the North Dakota Workforce Safety and Insurance (WSI), an Enterprise Fund of the State of North Dakota. WSI is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NORTH DAKOTA PUBLIC FINANCE AUTHORITY

SUPPLEMENTARY INFORMATION

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
COMBINING BALANCE SHEET
DECEMBER 31, 2007
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents - unrestricted	$ -	$ -	$ 32	$ 32
Restricted				
Restricted cash and cash equivalents	31	8	1,078	1,117
Interest receivable	2,530	1,414	242	4,186
Investments	6,165	1,910	3,307	11,382
Municipal securities	7,175	4,244	2,575	13,994
Total restricted current assets	15,901	7,576	7,202	30,679
Total current assets	15,901	7,576	7,234	30,711
NONCURRENT ASSETS - RESTRICTED				
Investments	94,774	43,984	228	138,986
Municipal securities	111,124	113,268	15,749	240,141
Deferred bond financing costs, net	483	292	110	885
Advance to Bank of North Dakota	-	-	3,668	3,668
Total restricted noncurrent assets	206,381	157,544	19,755	383,680
Total assets	$ 222,282	$ 165,120	$ 26,989	$ 414,391
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	$ 15	$ 5	$ 8	$ 28
Rebate due to IRS	98	124	-	222
Bonds payable	5,455	2,695	2,675	10,825
Interest payable	811	614	159	1,584
Total current liabilities	6,379	3,438	2,842	12,659
NONCURRENT LIABILITIES				
Rebate due to IRS	117	98	-	215
Bonds payable, net	65,826	55,434	16,251	137,511
Advance from Bank of North Dakota	-	-	3,668	3,668
Total noncurrent liabilities	65,943	55,532	19,919	141,394
Total liabilities	72,322	58,970	22,761	154,053
NET ASSETS				
Unrestricted	-	-	2,719	2,719
Restricted for debt service	42,281	24,399	1,509	68,189
Restricted for loan purposes	107,679	81,751	-	189,430
Total net assets	149,960	106,150	4,228	260,338
Total liabilities and net assets	$ 222,282	$ 165,120	$ 26,989	$ 414,391

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEAR ENDED DECEMBER 31, 2007
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
OPERATING REVENUES				
Investment income	$ 2,796	$ 2,653	$ 1,343	$ 6,792
Administrative fees and other	525	492	101	1,118
	3,321	3,145	1,444	7,910
OPERATING EXPENSES				
Interest expense	3,586	2,434	1,569	7,589
State Revolving Fund administration	394	46	-	440
State Revolving Fund set-asides	-	543	-	543
Rebate due to IRS	52	42	-	94
Salaries and benefits	-	-	124	124
Amortization of bond issue costs	98	38	60	196
Operating	-	-	39	39
Paying agent fees	-	-	6	6
	4,130	3,103	1,798	9,031
OPERATING INCOME (LOSS)	(809)	42	(354)	(1,121)
NONOPERATING REVENUE				
Grant and set-asides	18,379	8,218	-	26,597
Investment income	6,534	2,440	443	9,417
	24,913	10,658	443	36,014
INCOME BEFORE TRANSFERS	24,104	10,700	89	34,893
TRANSFERS	(4,876)	4,876	-	-
CHANGE IN NET ASSETS	19,228	15,576	89	34,893
TOTAL NET ASSETS, BEGINNING OF YEAR	130,732	90,574	4,139	225,445
TOTAL NET ASSETS, END OF YEAR	$ 149,960	$ 106,150	$ 4,228	$ 260,338

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2007
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
OPERATING ACTIVITIES				
Receipts of administrative fees from customers	$ 525	$ 492	$ 101	$ 1,118
Payments to service providers	(379)	(584)	(44)	(1,007)
Payments to employees	-	-	(124)	(124)
Payment of rebate to IRS	(7)	-	-	(7)
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	139	(92)	(67)	(20)
NONCAPITAL FINANCING ACTIVITIES				
Grant and set-asides	18,379	8,218	-	26,597
Transfers	(4,876)	4,876	-	-
Interest paid on bonds payable	(3,451)	(2,544)	(1,630)	(7,625)
Principal payment on advance from Bank of North Dakota	-	-	(1,839)	(1,839)
Principal payments on bonds payable	(5,235)	(2,615)	(6,840)	(14,690)
NET CASH FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES	4,817	7,935	(10,309)	2,443
INVESTING ACTIVITIES				
Interest received on investments and municipal securities	9,197	5,040	1,858	16,095
Collection of advance to Bank of North Dakota	-	-	1,839	1,839
Proceeds from maturities and sales of investments	34,665	29,279	2,007	65,951
Purchases of investments	(36,701)	(21,689)	(2,182)	(60,572)
Proceeds from maturities of municipal securities	7,924	7,257	6,717	21,898
Purchases of municipal securities	(20,052)	(27,727)	-	(47,779)
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	(4,967)	(7,840)	10,239	(2,568)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(11)	3	(137)	(145)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	42	5	1,247	1,294
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 31	$ 8	$ 1,110	$ 1,149

(continued on next page)

COMBINING STATEMENT OF CASH FLOWS – page 2
(In Thousands)

	Clean Water SRF	Drinking Water SRF	Capital Financing Program	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED FOR OPERATING ACTIVITIES				
Operating income (loss)	$ (809)	$ 42	$ (354)	$ (1,121)
Adjustments to reconcile operating loss to net cash used for operating activities				
Amortization of bond financing costs	98	38	60	196
Net amortization (accretion) of premium (discount) on bonds payable	187	(88)	37	136
Reclassification of investment income and expense to other activities	603	(132)	189	660
Changes in assets and liabilities				
Accounts payable	15	5	1	21
Rebate due IRS	45	43	-	88
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	$ 139	$ (92)	$ (67)	$ (20)

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2007

EXHIBIT A-1

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures (In Thousands)
ENVIRONMENTAL PROTECTION AGENCY		
Passed Through the North Dakota Department of Health		
Capitalization Grants for State Revolving Funds	66.458	$ 18,379
Capitalization Grants for Drinking Water State Revolving Funds	66.468	8,122
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	96
Total Environmental Protection Agency		$ 26,597

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting.

NOTE 2 - AGENCY OR PASS-THROUGH NUMBER

The pass-through entity has not provided us with the identifying number on all programs, therefore, they are not included in this schedule.

NOTE 3 - SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the North Dakota Public Finance Authority provided federal awards to sub-recipients as follows:

The above awards consist entirely of loans advanced to the sub-recipients.

The North Dakota Public Finance Authority also has outstanding loan balances to sub-recipients from prior years. These balances are not included on the accompanying schedule of expenditures and federal awards because the federal government imposes no continuing compliance requirements on the sub-recipient.

Program Title	Federal CFDA Number	(In Thousands)
Capitalization Grants for State Revolving Funds	66.458	$ 18,239
Capitalization Grants for Drinking Water State Revolving Funds	66.468	7,794
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	96
		$ 26,129

2006-2:

Criteria

The maximum amount allowable for administering and managing the State Revolving Loan Program – Clean Water is 4 percent of the cumulative amount of capitalization grant awards received.

Statement of Condition

Capitalization Grants for State Revolving Funds only allow 4% of the cumulative capitalization grants to be expended for administrative purposes. Capitalization grants and State Match Bond proceeds may not be used to pay administrative expenses once this limit is reached. In December 2006, the North Dakota Public Finance Authority and North Dakota Department of Health exceeded the 4% limit when administrative expenses were paid with State Match Bond proceeds.

Cause

Adequate procedures are not in place to ensure the payments of administrative expenses are disbursed from the appropriate fund.

Effect

North Dakota Public Finance Authority exceeded the maximum amount allowed for administering and managing the State Revolving Loan Program – Clean Water.

Recommendation

We recommend the North Dakota Public Finance Authority and North Dakota Department of Health review the procedures relating to the payment of administrative expenses to ensure they are disbursed from the appropriate fund.

Current Status

In January 2007, the North Dakota Public Finance Authority and North Dakota Department of Health reimbursed the State Match Bond Proceeds account.

BRADY MARTZ

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

EXHIBIT A-3

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the basic financial statements of **North Dakota Public Finance Authority**, a component unit of the State of North Dakota, as of and for the year ended December 31, 2007 and have issued our report thereon dated February 28, 2008. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered **North Dakota Public Finance Authority's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **North Dakota Public Finance Authority's** over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **North Dakota Public Finance Authority's** internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the **North Dakota Public Finance Authority's** internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2007-1 to be a significant deficiency in internal control over financial reporting.

BRADY, MARTZ & ASSOCIATES, P.C.
207 East Broadway, P.O. Box 1297
Bismarck, ND 58502-1297 (701) 223-1717 Fax (701) 222-0894
OTHER OFFICES: Minot and Grand Forks, ND
Thief River Falls, MN

RSM McGladrey Network
An Independently Owned Member

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in the accompanying schedule of findings and questioned costs is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **North Dakota Public Finance Authority's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

North Dakota Public Finance Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management, and the U.S. Environmental Protection Agency, and is not intended to be and should not be used by anyone other than these specified parties.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

February 28, 2008

BRADY MARTZ

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

EXHIBIT A-4

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

Compliance

We have audited the compliance of **North Dakota Public Finance Authority** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. **North Dakota Public Finance Authority's** major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of **North Dakota Public Finance Authority's** management. Our responsibility is to express an opinion on **North Dakota Public Finance Authority's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **North Dakota Public Finance Authority's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on **North Dakota Public Finance Authority's** compliance with those requirements.

In our opinion, **North Dakota Public Finance Authority** complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2007-1.

BRADY, MARTZ & ASSOCIATES, P.C.
207 East Broadway, P.O. Box 1297
Bismarck, ND 58502-1297 (701) 223-1717 Fax (701) 222-0894
OTHER OFFICES: Minot and Grand Forks, ND
Thief River Falls, MN

Internal Control Over Compliance

The management of **North Dakota Public Finance Authority** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered **North Dakota Public Finance Authority's** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the **North Dakota Public Finance Authority's** internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the North Dakota Public Finance Authority's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employee, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any the deficiency in the accompanying schedule of findings and questioned costs to be a material weakness.

North Dakota Public Finance Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management, and the U.S. Environmental Protection Agency, and is not intended to be and should not be used by anyone other than these specified parties.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

February 28, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the North Dakota Public Finance Authority.
2. A significant deficiency in internal control was disclosed by the audit of the financial statements. This significant deficiency is not considered to be a material weakness.
3. No instances of noncompliance material to the financial statements of the North Dakota Public Finance Authority which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. The auditor's report on compliance for the major federal award program for the North Dakota Public Finance Authority expresses an unqualified opinion on the major federal program.
5. There were no audit findings relative to the major federal award program for the North Dakota Public Finance Authority.
6. The program tested as a major program was #66.468 State Revolving Loan Program – Drinking Water.
7. The threshold for distinguishing a Type A program was $300,000.
8. The North Dakota Public Finance Authority was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

2007-1

Criteria

Segregation of accounting functions necessary to assure adequate internal control.

Statement of Condition

Accounting personnel is responsible for cash receipts, cash disbursements and maintaining the financial reporting system.

Cause

The limited number office personnel prevents a proper segregation of accounting functions necessary to assure adequate internal accounting control.

Effect

A system of internal controls with proper segregation of duties is not present for the North Dakota Public Finance Authority to ensure that the underlying financial information is in compliance with accounting principles generally accepted in the United States of America.

Recommendation

This is not unusual in organizations of this size, but the Commission should be constantly aware of this condition and realize that the concentration of duties and the responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the Commission's knowledge of matters relating to the North Dakota Public Finance Authority's operations.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - Continued

Views of Responsible Officials and Planned Corrective Actions

Management has addressed the segregation of accounting issue that comes with the small office of the North Dakota Public Finance Authority. Management is working with the Bank of North Dakota to implement additional internal control procedures. With this in mind, procedures have been and will continue to be implemented to provide the highest level of internal control possible.

C. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS.

There are no findings or questioned costs relating to the federal award programs which are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

BRADY MARTZ

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

EXHIBIT B-1

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
INDEPENDENT AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED DECEMBER 31, 2007

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

Audit Report Communications:

1. **What type of opinion was issued on the financial statements?**

   An unqualified opinion was issued on the 2007 financial statements.

2. **Was there compliance with statues, laws, rules, regulations under which the agency was created and is functioning?**

   Yes - A review was made of Chapter 6-09.4 and other pertinent chapters of the North Dakota Century Code and we felt the Authority operated within the statutes, laws, rules and regulations under which it was created.

3. **Was internal control adequate and functioning effectively?**

   Yes. However, we did note a significant deficiency in internal control described as item 2007-1 in the accompanying schedule of findings and questioned costs.

4. **Were there any indications of lack of efficiency in financial operations and management of the agency?**

   No

BRADY, MARTZ & ASSOCIATES, P.C.
207 East Broadway, P.O. Box 1297
Bismarck, ND 58502-1297 (701) 223-1717 Fax (701) 222-0894
OTHER OFFICES: Minot and Grand Forks, ND
Thief River Falls, MN

RSM McGladrey Network
An Independently Owned Member

5. **Has action been taken on findings and recommendations included in prior year audit reports?**

   There is a repeat audit finding relating to the lack of segregation of duties due to the size of the Authority and the limited number of staff employment at the Authority. See item 2007-1 in the accompanying schedule of findings and questioned costs for details on this finding.

6. **Was a management letter issued? If so, provide a summary below, including any recommendations and the management response.**

   No

Audit Committee Communications:

1. **Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.**

   None

2. **Identify any significant accounting estimates, the process used by management conflicts of interest, any contingent liabilities, or any significant unusual transactions.**

   None

3. **Identify any significant audit adjustments.**

   None

4. **Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to financial accounting, reporting, or auditing matter that could be significant to the financial statements.**

   None

5. **Identify any significant difficulties encountered in performing the audit.**

   None

6. **Identify any major issues discussed with management prior to retention.**

   None

7. **Identify any management consultations with other accountants about auditing and accounting matters.**

   None

8. **Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit report questions addressed above are directly related to the operations of an information technology system.**

   Based on the audit procedures performed, the Authority has one critical information technology system. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management, and the U.S. Environmental Protection Agency, and is not intended to be and should not be used by anyone other than these specified parties.

BRADY, MARTZ & ASSOCIATES, P.C.

February 28, 2008

BRADY MARTZ

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

EXHIBIT B-2

INDEPENDENT AUDITOR'S COMMUNICATION TO THE INDUSTRIAL COMMISSION OF NORTH DAKOTA

February 28, 2008

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of North Dakota Public Finance Authority for the year ended December 31, 2007, and have issued our report thereon dated February 28, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated December 12, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered North Dakota Public Finance Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether North Dakota Public Finance Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about North Dakota Public Finance Authority's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on North Dakota Public Finance Authority's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on North Dakota Public Finance Authority's compliance with those requirements.

BRADY, MARTZ & ASSOCIATES, P.C.
207 East Broadway, P.O. Box 1297
Bismarck, ND 58502-1297 (701) 223-1717 Fax (701) 222-0894
OTHER OFFICES: Minot and Grand Forks, ND
Thief River Falls, MN

RSM McGladrey Network
An independently Owned Member

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to management in our meeting about planning matters on January 8, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by North Dakota Public Finance Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements financial statements noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 28, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Institution's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Institution's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review, management of the North Dakota Public Finance Authority and the U.S. Environmental Protection Agency and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

BRADY, MARTZ & ASSOCIATES, P.C.