

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excludable from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from State of North Dakota income taxation. For further discussion, see "TAX MATTERS" herein.

NORTH DAKOTA BUILDING AUTHORITY
\$10,460,000
LEASE REVENUE REFUNDING BONDS, 2006 SERIES A
(the "Bonds")

DATED: Date of Delivery

DUE: December 1, as shown on the inside cover page

The Bonds are issuable as fully registered Bonds and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchases of Bonds will be made in book-entry only form, in the principal amount of \$5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC participants. Beneficial owners of the Bonds will not receive physical delivery of bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Bonds. Interest is payable on June 1, 2006 and on each June 1 and December 1 thereafter. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal or redemption price of and interest on the Bonds will be made directly to DTC. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. See "THE BONDS--Book-Entry-Only System."

The Bonds are subject to optional redemption and extraordinary optional redemption prior to maturity upon the occurrence of certain events as described under "THE BONDS - Redemption" herein.

The Bonds are being issued to advance refund the \$8,360,000 Lease Revenue Bonds, 1998 Series A (the "Series 1998 Bonds") and the \$4,430,000 Lease Revenue Bonds, 2000 Series A (the "Series 2000 Bonds") (collectively, the "Refunded Bonds"), issued by the Industrial Commission, acting as the North Dakota Building Authority (the "Issuer" or "Authority"), as described under "PLAN OF REFUNDING" herein. The Refunded Bonds were originally issued to finance the acquisition, construction, improvement or equipping of certain facilities (the "Projects") for the North Dakota State Board of Higher Education and the North Dakota Department of Corrections and Rehabilitation (the "Agencies").

The Bonds are issued under and are equally and ratably secured by a Trust Indenture and Assignment of Lease Rentals (the "Indenture") between the Issuer and the Bank of North Dakota as trustee (the "Trustee"). The Bonds are limited obligations of the Issuer payable solely from the revenues and receipts received pursuant to the Leases, which are produced from biennial appropriations (if any) by the North Dakota Legislature, other legally available funds, if any, and other funds or amounts held by the Trustee as security for the Bonds. Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

Ambac

The Leases specifically provide that nothing therein shall be construed to require the North Dakota Legislative Assembly to appropriate any moneys to pay any Rent thereunder and that the Agencies shall not be obligated to pay such Rent except to the extent appropriated for each biennium. THE OBLIGATION OF THE AGENCIES TO PAY ANY RENT, AS HEREIN DEFINED, UNDER ITS LEASES IS SUBJECT TO BIENNIAL APPROPRIATIONS BY THE NORTH DAKOTA LEGISLATIVE ASSEMBLY AS PROVIDED IN SUCH LEASE. NEITHER THE OBLIGATION OF THE AGENCIES TO PAY DEBT SERVICE NOR THE OBLIGATION OF THE ISSUER TO PAY THE BONDS WILL CONSTITUTE A DEBT OF THE STATE OF NORTH DAKOTA OR ANY AGENCY OR POLITICAL SUBDIVISION OF THE STATE OF NORTH DAKOTA WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION. THE ISSUANCE OF THE BONDS DOES NOT DIRECTLY OR CONTINGENTLY OBLIGATE THE AGENCIES TO PAY ANY RENT BEYOND THAT APPROPRIATED FOR THE CURRENT BIENNium OF THE STATE. THE ISSUER HAS NO TAXING POWER. See "BONDOWNERS' RISKS" herein.

The Bonds are offered when, as and if issued by the Issuer subject to the approving legal opinion of Cook Wegner & Wike PLLP, Bismarck, North Dakota, Bond Counsel, as to validity and tax exemption. Certain legal matters will be passed upon for the Issuer by the Attorney General of the State of North Dakota. The Bonds will be available for delivery at The Depository Trust Company in New York, New York on or about February 15, 2006.

RBC Capital Markets has agreed to purchase the Bonds for an aggregate price of \$10,445,681.55.

RBC Capital Markets

NORTH DAKOTA BUILDING AUTHORITY

\$10,460,000

Lease Revenue Refunding Bonds, 2006 Series A

MATURITY SCHEDULE

<u>Maturity</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP</u>
2006	\$ 710,000	4.00%	3.20%	658906 PG 1
2007	645,000	4.00%	3.36%	658906 PH 9
2008	675,000	4.00%	3.39%	658906 PJ 5
2009	535,000	4.00%	3.45%	658906 PK 2
2010	565,000	4.00%	3.50%	658906 PL 0
2011	750,000	4.00%	3.60%	658906 PM 8
2012	780,000	4.00%	3.70%	658906 PN 6
2013	815,000	4.00%	3.80%	658906 PP 1
2014	845,000	4.00%	3.90%	658906 PQ 9
2015	880,000	4.00%	4.00%	658906 PR 7
2016	920,000	4.00%	4.05%	658906 PS 5
2017	960,000	4.00%	4.10%	658906 PT 3
2018	1,010,000	4.00%	4.15%	658906 PU 0
2019	370,000	4.00%	4.20%	658906 PV 8

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. No broker, dealer, salesperson or other person has been authorized by the Industrial Commission of North Dakota acting in its capacity as the North Dakota Building Authority (the “Issuer” or “Authority”), the State of North Dakota (the “State”) or the Financial Advisor to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing.

The information set forth herein has been obtained from the Issuer, the State, and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Issuer, the State or the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions or that they will be realized. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the State or in the information or opinions set forth herein since the date of this Official Statement.

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IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

STATE OF NORTH DAKOTA



Governor John Hoeven
Lieutenant Governor Jack Dalrymple
Secretary of State Alvin A. Jaeger
Attorney General Wayne Stenehjem
Public Service Commissioner Tony Clark
Public Service Commissioner Kevin Cramer
Public Service Commissioner Susan Wefald
Agriculture Commissioner Roger Johnson
Tax Commissioner Cory Fong
State Auditor Robert R. Peterson
Insurance Commissioner Jim Poolman
Superintendent of Public Instruction Wayne Sanstead
State Treasurer Kelly Schmidt

THE INDUSTRIAL COMMISSION OF NORTH DAKOTA
ACTING AS THE NORTH DAKOTA BUILDING AUTHORITY

MEMBERS

Governor John Hoeven Chairman
Attorney General Wayne Stenehjem Member
Agriculture Commissioner Roger Johnson Member

AUTHORIZED OFFICERS

Karlene Fine Pam Sharp
Executive Director and Secretary Director
Industrial Commission of North Dakota Office of Management and Budget

BOND COUNSEL

Cook Wegner & Wike PLLP
Bismarck, North Dakota

FINANCIAL ADVISOR TO THE INDUSTRIAL COMMISSION

Public Financial Management, Inc.
Minneapolis, Minnesota

TRUSTEE, REGISTRAR AND PAYING AGENT

Bank of North Dakota
Bismarck, North Dakota

INTRODUCTION TO THE OFFICIAL STATEMENT

The following information is furnished solely to provide limited introductory information regarding the North Dakota Building Authority's (the "Issuer" or "Authority") \$10,460,000 Lease Revenue Refunding Bonds, 2006 Series A (the "Bonds"), and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto.

- Issuer:** The Industrial Commission of North Dakota, acting as the North Dakota Building Authority.
- Dated Date:** Date of delivery.
- Purpose:** The Bonds are being issued to advance refund the Issuer's \$8,360,000 Lease Revenue Bonds, 1998 Series A (the "Series 1998 Bonds") and \$4,430,000 Lease Revenue Bonds, 2000 Series A (the "Series 2000 Bonds") (collectively, the "Refunded Bonds"). See "PLAN OF REFUNDING" herein.
- Security:** The Bonds are issued pursuant to a Trust Indenture and Assignment of Lease Rentals (the "Indenture") dated as of February 1, 2006 between the Issuer and the Bank of North Dakota, as Trustee, pursuant to which the Issuer will pledge to the Trustee all of the Issuer's interest in the Projects and as lessor under the Leases (as defined herein), including the right to receive Basic Rent thereunder, for the payment of the principal of and interest on the Bonds. The Bonds are limited obligations of the Issuer payable solely from revenues received pursuant to the Leases which are produced from biennial appropriations by the North Dakota Legislative Assembly. See "SECURITY FOR THE BONDS." Summary definitions of certain capitalized terms appear below.
- Optional Redemption:** The Bonds maturing on or before December 1, 2014 are not subject to optional redemption prior to maturity except under extraordinary circumstances as described herein under "THE BONDS--Redemption Provisions." Bonds maturing on or after December 1, 2015 are subject to redemption at the option of the Issuer in whole or in part on December 1, 2014 and on any business day thereafter at a price of par plus accrued interest.
- Extraordinary Optional Redemption:** In the event of damage, destruction or condemnation of a Project or a part thereof, as provided in the Leases, the Bonds will be subject to redemption prior to stated maturity, in whole or in part on the first day of any month, at a redemption price equal to 100% of the principal amount of such Bonds to be redeemed plus accrued interest thereon to the Redemption Date, at the option of the Issuer as directed by any Agency in the event such Agency elects under the Lease or any Amended Lease to redeem the Bonds rather than repair or rebuild the affected Project.
- Denominations:** \$5,000 or integral multiples thereof.
- Record Date:** The fifteenth day of the month preceding each interest payment date.
- Principal Payments:** Due annually on December 1, 2006 through 2019.
- Interest Payments:** Semiannually on June 1 and December 1 of each year, commencing June 1, 2006.
- Tax Status:** Generally exempt from federal and North Dakota income taxes (see "TAX MATTERS" herein). The Bonds will not be designated qualified tax-exempt obligations under Section 265(b)(3) of the Code.

Professional Consultants:

<i>Bond Counsel:</i>	Cook Wegner & Wike PLLP Bismarck, North Dakota
<i>Financial Advisor:</i>	Public Financial Management, Inc. Minneapolis, Minnesota
<i>Trustee, Registrar and Paying Agent:</i>	Bank of North Dakota Bismarck, North Dakota

Legal Matters: Legal matters incident to the authorization and issuance of the Bonds are subject to the opinion of Cook Wegner & Wike PLLP, Bond Counsel, as to validity and tax exemption. The opinion will be substantially in the form set forth in Appendix F attached hereto.

Authority for Issuance: The Bonds are being issued pursuant to Chapter 54-17.2 of the North Dakota Century Code.

Continuing Disclosure: The Issuer has agreed with the Bondholders to provide ongoing disclosure of certain information. See “CONTINUING DISCLOSURE” herein.

Conditions Affecting Issuance of Bonds: The Bonds are offered when, as and if issued, subject to the approving legal opinion of Cook Wegner & Wike PLLP, Bismarck, North Dakota.

Delivery: On or about February 15, 2006.

Book-Entry Only: The Bonds will be issued as book-entry-only securities through The Depository Trust Company.

Selected Definitions:

“Additional Rent”	Additional amounts due under the Lease relating to administrative matters under the Indenture and certain costs of operating and maintaining the Projects.
“Agencies”	The North Dakota State Board of Higher Education and the North Dakota Department of Corrections and Rehabilitation.
“Basic Rent”	Semiannual rental payments due under the Lease.
“Indenture”	The Trust Indenture and Assignment of Lease Rentals dated as of February 1, 2006 between the Issuer and the Bank of North Dakota, as trustee.
“Leases”	The Lease Agreement and Assignment of Rentals I, dated as of March 1, 1998, between the Issuer and the North Dakota State Board of Higher Education; the Lease Agreement and Assignment of Rentals II, dated as March 1, 1998, between the Issuer and the North Dakota Department of Corrections and Rehabilitation; the Lease Agreement and Assignment of Rentals I, dated as of April 1, 2000, between the Issuer and the North Dakota State Board of Higher Education; and the Lease Agreement and Assignment of Rentals II, dated as of April 1, 2000, between the Issuer and the North Dakota Department of Corrections and Rehabilitation.

“Projects”	The facilities – the acquisition, construction, improvement or equipping of which were financed with the proceeds of the Refunded Bonds.
“Renewal Term”	Each of the consecutive two-year renewal terms following the Initial Term, commencing on July 1.
“Rent”	The aggregate of Basic Rent and Additional Rent.
“Trustee”	Bank of North Dakota.

The information set forth herein has been obtained from the Issuer and other sources which are believed to be reliable, but it is not to be construed as a representation by the Financial Advisor or the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Final Official Statement nor any sale made thereafter shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or in any other information contained herein, since the date hereof.

Questions regarding the Bonds or the Official Statement can be directed to, and additional copies of the Official Statement, the Issuer’s audited financial reports and the Indenture, Leases and Bond Resolution may be obtained from, Public Financial Management, Inc., 45 South Seventh Street, Suite 2800, Minneapolis, Minnesota 55402 (612) 338-3535, the Issuer’s financial advisor, or Karlene Fine, Executive Director and Secretary, Industrial Commission of North Dakota, State Capitol, 600 East Boulevard, Bismarck, North Dakota 58505 (701) 328-3722.

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OFFICIAL STATEMENT

NORTH DAKOTA BUILDING AUTHORITY

\$10,460,000

LEASE REVENUE REFUNDING BONDS, 2006 SERIES A

This Official Statement, including the cover page and Appendices hereto (the "Official Statement"), is furnished to prospective purchasers in connection with the sale and delivery by the Industrial Commission of North Dakota acting as the North Dakota Building Authority (the "Issuer" or "Authority") of \$10,460,000 aggregate principal amount of Lease Revenue Refunding Bonds, 2006 Series A (the "Bonds"). The Issuer was created pursuant to Chapter 571 of the 1985 Session Laws of the State of North Dakota for the purpose of acquiring, owning, constructing, reconstructing, extending, rehabilitating or improving buildings, related structures, parking facilities, equipment, improvements, real and personal property and interests therein primarily for the use of the State of North Dakota (the "State") and its agencies and instrumentalities. See "The Industrial Commission of North Dakota" at Appendix A.

The Bonds are being issued pursuant to Chapter 54-17.2 of the North Dakota Century Code, known as the North Dakota Building Authority Act (the "Act"), and as authorized by an authorizing resolution of the Issuer adopted on January 19, 2006 (the "Bond Resolution"). Proceeds of the Bonds, along with other available funds, will be used to (i) advance refund the Refunded Bonds, (ii) deposit an amount in the Reserve Fund, and (iii) pay certain costs and expenses associated with the issuance of the Bonds and the refunding of the Refunded Bonds. See "PLAN OF REFUNDING" herein.

Certain higher education projects located on the campuses of certain institutions of the State Board of Higher Education were previously let by the Issuer to the State Board of Higher Education pursuant to the Lease Agreement and Assignment of Rentals I, dated as of March 1, 1998, and the Lease Agreement and Assignment of Rentals I, dated as of April 1, 2000. Certain correctional projects located on the campus of the Youth Correctional Center were previously let by the Issuer to the Department of Corrections and Rehabilitation pursuant to the Lease Agreement and Assignment of Rentals II, dated as of March 1, 1998, and the Lease Agreement and Assignment of Rentals II, dated as of April 1, 2000 (collectively, the "Leases").

The Bonds are issued under and are equally and ratably secured by a Trust Indenture and Assignment of Lease Rentals dated February 1, 2006 (the "Indenture"), by and between the Issuer and the Bank of North Dakota, as trustee (the "Trustee"). Pursuant to the Indenture, the Issuer has mortgaged, pledged and assigned to the Trustee, among other things, its right, title and interest in and to the Projects and as lessor under the Leases, including the right to receive the Basic Rent thereunder, as security for the payment of the principal of and interest on the Bonds.

Under its Leases, each Agency has agreed to make semiannual rental payments ("Basic Rent"). The aggregate of the Basic Rent payable under the Leases will be sufficient to pay the principal of and interest on the Bonds coming due in each fiscal year, but only if and to the extent that the North Dakota Legislative Assembly (the "Legislature") biennially appropriates funds or there is available any other funds authorized by law sufficient to pay the Basic Rent plus such additional amounts related to administrative matters under the Indenture and, if necessary, certain costs to operate and maintain each of the Projects (the "Additional Rent") as are required to be paid pursuant to the Lease.

The Basic Rent and the Additional Rent are hereinafter collectively referred to as the "Rent." An Event of Nonappropriation will occur under the Indenture if the Legislature fails to appropriate sufficient moneys for the payment of any Rent under the Leases during any Renewal Term. If an Event of Nonappropriation has occurred and continues without cure until the following August 1, unless such Agency has certified to the Authority and the Trustee that it will pay the Rent when due from sources other than appropriation by the Legislature, provided the Legislature has not specifically terminated the Lease, the Event of Nonappropriation will become an Event of Default under the Indenture, and will entitle the Trustee to exercise the remedies available under the Indenture. See "BONDOWNERS' RISKS -- Expiration or Termination of the Lease" herein.

The Bonds are limited obligations of the Issuer payable solely from the revenues and receipts received pursuant to the Leases, which are produced from biennial appropriations (if any) by the Legislature, other funds or amounts held by the Trustee as security for the Bonds under the Indenture and/or any other funds available and authorized by law. The Leases specifically provide that nothing therein shall be construed to require the Legislature to appropriate any moneys to pay any Rent thereunder and that the Agencies shall not be obligated to pay such Rent except to the extent appropriated for each biennium. THE OBLIGATION OF THE AGENCIES TO PAY ANY RENT UNDER ITS LEASES IS SUBJECT TO BIENNIAL APPROPRIATION BY THE LEGISLATURE AS PROVIDED IN SUCH LEASE. NEITHER THE OBLIGATION OF THE AGENCIES TO PAY SUCH RENT NOR THE OBLIGATION OF THE ISSUER TO PAY THE BONDS WILL CONSTITUTE A DEBT OF THE STATE OR ANY AGENCY OR POLITICAL SUBDIVISION OF THE STATE OF NORTH DAKOTA WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION. THE ISSUANCE OF THE BONDS DOES NOT DIRECTLY OR CONTINGENTLY OBLIGATE ANY AGENCY TO PAY ANY RENT BEYOND THAT APPROPRIATED FOR THE CURRENT BIENNIUM OF THE STATE. THE ISSUER HAS NO TAXING POWER. For certain economic and financial information with respect to the State, see Appendix A and Appendix C hereto.

Each Agency has covenanted in its Leases to include in its submission to the Governor for inclusion by the Governor in the biennial executive budget of the State for each year of each biennium during the term of such Lease, as a line item for Rent, an amount fully sufficient to pay the Basic Rent required to be paid in each year of the biennium and certain Additional Rent, less any amounts derived from the net revenues and income of the Project, if any. For each biennium in which the Legislature appropriates funds to pay Rent, the State is legally committed to pay semiannually to the Trustee the specified Rent as described above. For information with respect to the North Dakota State Board of Higher Education, see Appendix D. For information with respect to the North Dakota Department of Corrections and Rehabilitation, see Appendix E.

Capitalized terms used herein have the same meaning as ascribed to them in the Leases and the Indenture. See “Defined Terms” in Appendix B hereto.

BONDOWNERS’ RISKS

Purchase of the Bonds involves certain investment risks which are discussed throughout this Official Statement. Accordingly, each prospective Bond purchaser should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision. Certain of these risks are described below.

Limited Obligations

The Bonds are payable from the aggregate of Basic Rent due under the Leases, payable from budgeted expenditures of the State subject to biennial appropriations (if any) by the Legislature from general funds and non-general funds as may have been required under previous session laws applicable to the Projects, other funds or amounts held by the Trustee as security for the Bonds under the Indenture and/or any other funds available and authorized by law. With respect to the Bonds, the Leases have commenced and are subject to successive automatic extensions under the provisions of the Leases of the term of the Leases for consecutive two-year renewal terms. The Lease Agreement and Assignment of Rentals I and the Lease Agreement and Assignment of Rentals II, dated as of March 1, 1998 with respect to the Bonds are subject to automatic two-year renewal terms and expire on December 2, 2018. The Lease Agreement and Assignment of Rentals I and the Lease Agreement and Assignment of Rentals II, dated as of April 1, 2000 with respect to the Bonds are subject to automatic two-year renewal terms and expire on December 2, 2019. Each renewal term is referred to individually as a “Renewal Term” and collectively as the “Renewal Terms”. The State’s obligation under the Leases does not constitute a general obligation or other indebtedness of

the State or any agency or political subdivision of the State within the meaning of any constitutional or statutory provision or limitation. The Issuer has no taxing power.

There is no assurance that the Legislature will appropriate sufficient funds to extend the term of the Leases for any additional Renewal Terms. Accordingly, the likelihood that there will be sufficient funds to pay the principal of and interest on the Bonds depends upon certain factors which are beyond the control of the Bondowners, including (a) the continuing need of the State and the Agencies for the Projects, (b) the economic and demographic conditions within the State, (c) the ability of the State to generate sufficient funds from sales taxes, personal and corporate income taxes and other taxes and other sources of revenue to pay obligations associated with the Leases and other obligations of the State (whether now existing or hereafter created) and (d) the value of any of the Projects if relet, assigned or conveyed in an eviction or other enforcement proceeding initiated by the Trustee in the event of the termination of any Lease as a result of the occurrence of certain events described below or if the Legislature does not appropriate sufficient funds to renew the term of a Lease as provided therein.

The obligation of each Agency under a Lease will be satisfied solely from funds of that Agency or for the benefit of the Agency which the Legislature appropriates biennially for such use or other funds that are legally available for such use. Neither the Indenture nor any Lease limits the ability of the State to incur additional obligations against its revenues.

The term of a Lease is automatically extended unless specifically terminated by the Legislature. If a Lease is terminated, the affected Agency will have no obligation under such Lease to pay any further Rent or any other payments with respect to any Lease or the Bonds. However, the termination of a Lease will result in the occurrence of an Event of Default under the Indenture. See “Expiration or Termination of the Lease” below.

Expiration or Termination of Lease

Each Lease will expire on June 30 of each odd-numbered year as described under “BONDOWNERS’ RISKS - Limited Obligations” above, but is automatically renewed for each next succeeding Renewal Term, unless specifically terminated by the Legislature. In the event that the State chooses not to extend the term of a Lease for any Renewal Term, the obligation of the State and the affected Agency to pay any Rent under that Lease will terminate on the June 30 occurring at the end of that Renewal Term. In addition, a default under the Lease and an election by the Trustee to terminate the possessory interest of the Agency under the Lease will cause a termination of that Agency’s right of possession of the Projects under such Lease. If the Lease is terminated as the result of an Event of Nonappropriation or Event of Default, the Trustee is to use moneys in the Reserve Fund to make payments of principal of and interest on the Bonds coming due to the extent of moneys then held in such fund.

An Event of Nonappropriation, which is not cured as provided in the Indenture, with respect to any of the Projects constitutes an Event of Default under the Indenture. The Indenture further provides that an Event of Default under a Lease constitutes an Event of Default under such Indenture. See “THE INDENTURE – Events of Default; Remedies--Events of Default” in Appendix B.

In the event that the Agency’s right of possession of Projects under a Lease is terminated for any reason, the obligation of that Agency to pay Rent under the Lease will continue throughout the Renewal Term then in effect, but not thereafter, and the Bonds will be payable, among other sources, from any moneys as may be available by way of recovery from that Agency of the Rent which is due throughout the Renewal Term then in effect. Should the Lease expire at the end of a Renewal Term without any extension for the next succeeding Renewal Term or if any event occurs as described above pursuant to which the Trustee terminates an Agency’s right of possession of the Project under a Lease, the Trustee may enter and take possession of such Project as provided in the Indenture and subject to the provisions of the Act. The Projects constitute special purpose facilities to be used in connection with the operation of the Agencies. No assurance can be given that the Trustee could relet, assign or convey its interest in the Projects for the amount necessary (after taking into account moneys legally available from other sources) to pay principal of and interest due on the Bonds. In the event of a reletting of any of the Projects, the net proceeds, together with other moneys then held by the Trustee under the Indenture (with certain exceptions as provided in such Indenture), are required to be used to pay the Bonds to the extent of such moneys. No assurance

can be made as to the amount of funds available from any such source for the payment of the principal of or interest on the Bonds. A potential purchaser of the Bonds should not assume that it will be possible to relet the Projects after the expiration or termination of any Agency's right of possession of such Projects under a Lease as described above in an amount equal to the aggregate principal amount of the Bonds then outstanding plus accrued interest thereon or that any such amount will be paid on a timely basis. In this regard, it should be noted that (a) the State will retain title to the land, buildings and improvements financed from the proceeds of sale of the Bonds and that the exercise of such remedies with respect to such land and buildings to protect the Trustee's interest in the Projects consequently is limited, (b) the Projects may be subject to ad valorem and other property taxation if leased or owned by someone other than an agency of the State and (c) the Projects may not be suitable for general commercial use and zoning restrictions could limit use of the Projects.

Delays in Exercising Remedies

A termination of any Agency's right of possession of Projects under a Lease as a result of an Event of Default or expiration of the term of a Lease at the end of a Renewal Term without an extension for the next succeeding Renewal Term will give the Trustee the right to possession of, and the right to relet such Projects in accordance with the provisions of the Lease and the Indenture. However, the enforceability of such Lease and the Indenture is subject to equitable principles affecting the enforcement of creditors' rights generally and liens securing such rights, the police powers of the State and the exercise of judicial authority by State or federal courts. Because of such use and the delays inherent in obtaining judicial remedies, it should not be assumed that these remedies could be accomplished rapidly. Any delays in the ability of the Trustee to obtain possession of the Projects, of necessity, will result in delays in any payment of principal of or interest on the Bonds after the expenditure of amounts on deposit in the Reserve Fund.

Destruction of a Project

All of the Projects are to be insured by policies (including casualty and property damage insurance) as provided in the Leases in an amount equal to the greater of the Discharge Price or the full replacement cost of the Projects. In the event of the damage to or destruction of any of the Projects, each Agency is nevertheless required to continue to pay Rent during the biennium for which the Legislature had appropriated moneys, subject to the State's right with respect to the Projects at the end of each biennium to terminate the Lease by the Legislature's failure to appropriate sufficient funds to extend the term of such Lease. In such event, the affected Agency will decide whether to apply the proceeds from any available insurance (and any other legally available source) to replace, repair or rebuild such Projects or whether to apply the available proceeds to redemption of Bonds. If the net proceeds from insurance or certain other sources are not used to repair or replace such Projects, the affected Agency may cause such proceeds to be paid to the Trustee for the redemption of the Bonds (or a portion thereof) as provided in the Indenture, but the Agency will nevertheless be required to continue to pay Rent under the Lease until the Bonds have been paid in full, subject to biennial appropriation by the Legislature. There can be no assurance either as to the adequacy of or timely payment under property damage insurance in effect at that time. Furthermore, there can be no assurance that such insurance proceeds will be sufficient to redeem the Bonds in whole or that the Trustee will be able to realize any additional funds from the affected Projects at that time. See "THE LEASE – Operation, Maintenance and Insurance of Project -- Insurance" in Appendix B hereto.

Depreciation and Lack of Residual Value

As a result of the depreciation of certain components of the Projects and the difficulty of removing various components of the Projects, it is probable that upon the occurrence of an Event of Nonappropriation, an Event of Default under a Lease or the Indenture or termination of a Lease for any reason, if the Trustee were to lease the affected Projects, the rentals available from such leasing would not be sufficient to pay all outstanding Bonds in full.

Bond Ratings

There is no assurance that the ratings assigned to the Bonds at the time of original issuance (see “RATINGS” herein) will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for or marketability of the Bonds.

PLAN OF REFUNDING

The Bonds will be issued to provide the moneys necessary, together with other legally available moneys, if any, to effect an advance refunding of the Refunded Bonds in order to realize debt service savings. The proceeds of the Bonds, along with other available funds, will be used to (i) refund the Refunded Bonds, (ii) deposit an amount into the Reserve Fund and (iii) pay certain costs and expenses associated with the issuance of the Bonds and the refunding of the Refunded Bonds.

Certain details pertaining to the Refunded Bonds are presented in the table below.

<u>Series</u>	<u>Issue Date</u>	<u>Refunded Par Amount</u>	<u>Maturities Refunded</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
Series 1998	March 1, 1998	\$ 6,285,000	2006-2018	12/01/08	100%
Series 2000	April 1, 2000	\$ 3,665,000	2006-2019	12/01/09	100%

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources of funds from the proceeds to be received from the sale of the Bonds and the estimated uses of such funds are shown in the following schedule:

Sources of Funds:

Principal Amount of Bonds	\$10,460,000
Net Reoffering Premium	55,858
Cash Contribution from Refunded Bonds Reserve Fund	1,043,434
Cash Contribution from Refunded Bond Funds	<u>23,216</u>
Total Sources	<u>\$11,582,508</u>

Uses of Funds:

Deposit to the Escrow Account	\$10,388,337
Deposit to Reserve Fund	1,046,000
Underwriter's Discount	42,677
Insurance Paid by Underwriter	27,500
Costs of Issuance	70,000
Contingency	<u>7,994</u>
Total Uses	<u>\$11,582,508</u>

THE BONDS

General Provisions

The Bonds will be issued in the aggregate principal amount of \$10,460,000, will be dated as of the date of delivery, and will bear interest (computed on the basis of a 360-day year consisting of twelve 30-day months) at the rates specified on the inside cover page of this Official Statement, payable on June 1, 2006 and semiannually thereafter on June 1 and December 1 of each year (collectively, the “Bond Payment Dates”), and mature on the dates, all as set forth on the inside cover page of this Official Statement. The Bonds are issuable only in fully registered form without coupons in the denomination of \$5,000 or any integral multiple thereof.

The principal of the Bonds is payable at the principal trust office of the Trustee, as paying agent, in Bismarck, North Dakota, or at any paying agent appointed by the Issuer as provided in the Indenture, upon presentation and surrender thereof. Interest on the Bonds will be paid to the person who is the registered owner thereof as of the close of business on the fifteenth day of the month next preceding such Bond Payment Date (the “Record Date”) and will be paid by moneys wired by the Trustee to DTC or its nominee, as registered owner of such Bonds, which interest to be redistributed by DTC, or on any paying agent appointed by the Issuer as provided in the Indenture, on each Bond Payment Date notwithstanding the cancellation of such Bond upon any exchange or transfer thereof subsequent to the Record Date and prior to such Bond Payment Date. The principal of, if any, and interest on the Bonds will be paid in lawful money of the United States of America.

Book-Entry-Only System

The information contained in the following paragraphs of this subsection “Book-Entry Only System” has been extracted from a schedule prepared by Depository Trust Company (“DTC”) entitled “SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY ONLY ISSUANCE.” The Issuer makes no representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered certificate will be issued for each annual maturity of the Bonds, each in the aggregate principal amount of such annual maturity, and such certificates will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations (“Direct Participants”). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written

confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC or Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer or the Trustee, disbursements of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

NEITHER THE ISSUER, THE TRUSTEE, ANY BORROWER NOR THE UNDERWRITER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS; (3) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS; (4) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER; OR (5) THE SELECTION BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNER TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF BONDS.

Redemption Provisions

Optional Redemption. The Bonds maturing on or before December 1, 2014 are not subject to call and redemption prior to maturity, except as described under “Extraordinary Optional Redemption Upon the Occurrence of Certain Events” below. The Bonds maturing on or after December 1, 2015 are subject to redemption from moneys deposited to the credit of the Bond Fund pursuant to the Lease, at the option of the Issuer in whole or in part on December 1, 2014 and on any business day thereafter, by direction of the Issuer, at a Redemption Price equal to 100% of the principal amount of Bonds to be redeemed plus accrued interest thereon to the Redemption Date.

Extraordinary Optional Redemption Upon the Occurrence of Certain Events. In the event of damage, destruction or condemnation of a Project or any portion thereof as provided in the Lease, the Bonds will be subject to redemption prior to stated maturity, in whole or in part on any Business Day, at a Redemption Price equal to 100% of the principal amount of such Bonds to be redeemed plus accrued interest thereon to the Redemption Date, at the option of the Issuer as directed by the affected Agency in the event that Agency elects under the Lease or any Amended Lease to redeem the Bonds rather than to repair or rebuild the affected Projects.

Selection of Bonds for Redemption. Outstanding Bonds subject to redemption shall, unless otherwise directed by the Issuer, be redeemed. If less than all of the Bonds of a serial maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by lot in such manner as the Trustee shall deem fair and appropriate, in denominations of not less than \$5,000.

Notice of Redemption. Notice of redemption shall be given by the Trustee in accordance with the requirements of DTC, so long as the Bonds are held in book entry form with Cede & Co. as the nominee registered owner.

Payment of the Bonds

Each Lease requires semiannual Basic Rent to be paid by each Agency to the Issuer which, when aggregated, represents the total amount of principal of and interest on the Bonds, which Basic Rent has been assigned to the Trustee pursuant to the Indenture. See “SECURITY FOR THE BONDS--The Lease and the Indenture” herein. The aggregate amount of such Basic Rent payable under each Lease is designed to be sufficient to pay the principal of and interest on the Bonds becoming due during the term of such Lease (assuming that the Legislature appropriates sufficient funds in each biennium for the succeeding biennium to automatically extend the term of the Lease).

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The following table shows the scheduled Basic Rent payable under the Leases for the Bonds for the entire term of the Leases (assuming that the Legislature appropriates biennially sufficient moneys to pay Basic Rent under the Leases coming due during the stated term of the Leases), which are equal to the payments of principal of and interest on the Bonds of each series:

Scheduled Basic Rent			
Fiscal Year Ending <u>June 30</u>	Principal <u>Component</u>	Interest <u>Component</u>	Total <u>Basic Rent</u>
2006	\$ --	\$ --	\$
2007	710,000	332,396	1,042,396
2008	645,000	390,000	1,035,000
2009	675,000	364,200	1,039,200
2010	535,000	337,200	872,200
2011	565,000	315,800	880,800
2012	750,000	293,200	1,043,200
2013	780,000	263,200	1,043,200
2014	815,000	232,000	1,047,000
2015	845,000	199,400	1,044,400
2016	880,000	165,600	1,045,600
2017	920,000	130,400	1,050,400
2018	960,000	93,600	1,053,600
2019	1,010,000	55,200	1,065,200
2020	<u>370,000</u>	<u>14,800</u>	<u>384,800</u>
Total	<u>\$10,460,000</u>	<u>\$3,186,996</u>	<u>\$13,646,996</u>

SECURITY FOR THE BONDS

The Lease and the Indenture

The Bonds are payable from Basic Rent due under each Lease, payable from budgeted expenditures of the State subject to biennial appropriations (if any) by the Legislature from general funds and non-general funds as may have been required under previous session laws applicable to the Projects, other funds or amounts held by the Trustee as security for the Bonds under the Indenture and/or any other funds available and authorized by law. With respect to the Bonds, the term of the Leases will expire on June 30, 2007, subject to successive automatic extensions under the provisions of such Lease, unless specifically terminated by the Legislature. For circumstances under which a Lease may be terminated, see “THE LEASE—Lease of Project and Options in Favor of Agency” in Appendix B. In the opinion of Bond Counsel, neither the Leases, nor the Bonds constitute a general obligation or indebtedness of the State within the meaning of any constitutional or statutory debt limitation. The State has not pledged its credit to the payment of the Leases, or the Bonds, and the State is not directly or contingently obligated to apply money from, or to levy or pledge, any form of taxation to the payment of the Leases, or the Bonds. The Issuer has no taxing power.

The Issuer, as lessor under the Leases and pursuant to the Indenture, will assign to the Trustee its right, title and interest as lessor under the Leases and all Basic Rent payable under the Leases for the benefit of the owners of the Bonds. The Issuer has also granted to the Trustee for the benefit of the owners of the Bonds a mortgage lien on, or a security interest in, or both, in the Projects and in and to certain specified funds held under the Indenture and any Additional Security.

So long as the term of the Leases has not expired, each Agency is required under its Leases to pay semiannually to the Trustee specified Basic Rent for the Projects leased to such Agency under the Leases. The aggregated Basic Rent payable under the Leases represents an amount sufficient to pay the principal of and interest on the Bonds.

Each Agency has covenanted in its Leases to cause to be included in the Governor's budget submitted to the Legislature for each successive biennium for so long as such Lease is in effect a request or requests for a sufficient amount to permit the Agency to discharge all of its obligations under the Lease for each succeeding Renewal Term. See "THE LEASE -- Lease of Project – Appropriation Request" in Appendix B hereto. The Issuer has covenanted in the Indenture that, upon notification from the Trustee, the Issuer will request that the Legislature include in the executive budget of the State a sufficient amount for payment of Rent pursuant to the Leases if any Agency has failed to comply with its covenant to request such an appropriation as described above.

In the event the Legislature does not appropriate sufficient funds to extend the term of a Lease and such Lease thereby expires by its terms at the end of a Renewal Term, the affected Agency will have no further payment obligation under its Leases, except for the Rent which is payable prior to the termination of the Lease. Upon such expiration, the Trustee may exercise one or more of the rights provided in the Lease and the Indenture. See "BONDOWNERS' RISKS" herein. Should such a shortfall occur, the Bonds would be paid ratably as to interest and principal as described under "THE INDENTURE – Events of Default; Remedies -- Application of Moneys" in Appendix B hereto.

Maintenance and Insurance of the Projects

Each Agency has agreed in its Leases, at its own expense, to maintain, manage and operate the Projects and all improvements thereon in good order, condition and repair, ordinary wear and tear excepted. Each Agency will provide or cause to be provided all security service, custodial service, power, gas, telephone, light, heating, water and all other public utility services. As provided in the Leases, the Issuer, the Trustee and the owners of the Bonds will not have any obligation to incur any expense of any kind or character for the management, operation or maintenance of the Projects during the term of such Lease.

The Projects are required to be insured to the extent described under "THE LEASE – Operation, Maintenance and Insurance of Project -- Insurance" in Appendix B hereto. All net proceeds (including any moneys derived from any self-insurance program) from policies of insurance required by the Lease or condemnation awards will be deposited into the Repair and Replacement Fund under the Indenture if the affected Agency elects to proceed with the repair and restoration of the affected Projects as described under (a) below or into the Bond Fund under the Indenture if the Agency elects to effect the redemption of a portion or all of the Bonds then outstanding as described under (b) below. Within 90 days after any such damage, destruction or taking, the Agency is required under the Lease to notify the Trustee in writing of the Agency's intent as to the application and disbursement of such funds as follows:

- (a) to the prompt repair, replacement or restoration of the damaged or destroyed portion of the Projects with the understanding as provided in the Lease that if the net proceeds of insurance or condemnation awards are not sufficient to pay the costs of repair, replacement or restoration in full, the Agency will nonetheless complete the same and will pay that portion of the cost thereof in excess of the amount of such net proceeds or condemnation awards, but only from legally available moneys; or
- (b) to the redemption, in whole or in part, of the principal of and interest on the then outstanding Bonds as described under "THE BONDS--Redemption--Extraordinary Optional Redemption Upon the Occurrence of Certain Events" above.

Reserve Fund

A Reserve Fund is established by the Indenture for the Bonds and will be fully funded at the time of original issuance of the Bonds, from proceeds of the sale of the Bonds or transfers from the Prior Bonds in an amount equal to the Reserve Fund Requirement. The Bonds maturing on December 1, 2018 and December 1, 2019 and accrued interest thereon is expected to be paid, in part, from amounts then held in the Reserve Fund.

Amounts in the Reserve Fund are to be used for the payment of principal of and interest on the Bonds to the extent amounts in the Bond Fund under the Indenture are insufficient therefor and for certain other purposes as specified in the Indenture. See “THE INDENTURE—Funds; Disposition of Pledged Revenues--Reserve Fund” in Appendix B hereto.

Bond Insurance

Payment Pursuant to Financial Guaranty Insurance Policy. Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the “Financial Guaranty Insurance Policy”) relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, New York, New York or any successor thereto (the “Insurance Trustee”) that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Issuer has been deemed a preferential transfer and therefore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder’s right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Holder’s rights to payment.

Ambac Assurance Corporation. Ambac Assurance Corporation (“Ambac Assurance”) is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and

licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **\$8,645,000,000** (unaudited) and statutory capital of **\$5,403,000,000** (unaudited) as of **September 30, 2005**. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Issuer of the Bonds. **No representation is made by Ambac Assurance regarding the federal income tax treatment of payments that are made by Ambac Assurance under the terms of the Policy due to nonappropriation of funds to the Lessee.**

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "Bond Insurance".

Available Information. The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference. The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and filed on March 15, 2005;
2. The Company's Current Report on Form 8-K dated April 5, 2005 and filed on April 11, 2005;
3. The Company's Current Report on Form 8-K dated and filed on April 20, 2005;
4. The Company's Current Report on Form 8-K dated May 3, 2005 and filed on May 5, 2005;
5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2005 and filed on May 10, 2005;
6. The Company's Current Report on Form 8-K dated and filed on July 20, 2005;
7. The Company's Current Report on Form 8-K dated July 28, 2005 and filed on August 2, 2005;
8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2005 and filed on August 9, 2005;
9. The information furnished and deemed to be filed under Item 2.02 contained in the Company's Current Report on Form 8-K dated and filed on October 19, 2005;
10. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2005 and filed on November 9, 2005;

11. The Company's Current Report on Form 8-K dated November 29, 2005 and filed on December 5, 2005;
and
12. The Company's Current Report on Form 8-K dated and filed on January 25, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "**Available Information**".

TAX MATTERS

In the opinion of Bond Counsel, based upon existing statutes, regulations, rulings and court decisions, interest on the Bonds is excludable from gross income for federal and State of North Dakota income tax purposes (other than the tax imposed on certain financial institutions by North Dakota Century Code, Chapter 57-35.3). A copy of the proposed opinion of Bond Counsel is set forth in Appendix F hereto.

Noncompliance following issuance of the Bonds with certain requirements of the Code may result in the inclusion of interest on the Bonds in gross income for federal and North Dakota income tax purposes retroactive to the date of issuance of the Bonds. The Issuer and the Agencies have covenanted to comply with such requirements. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on the Bonds.

The Code imposes an alternative minimum tax with respect to individuals and corporations on alternative minimum taxable income. Interest on the Bonds will not be treated as a preference item in calculating the federal alternative minimum taxable income of individuals and corporations. The Code provides, however, that 75 percent of the interest on bonds held by corporations will be included for purposes of calculating the alternative minimum tax that may be imposed with respect to corporations.

Although Bond Counsel is of the opinion that interest on the Bonds is excludable from the gross income of the owners thereof for purposes of federal and State of North Dakota income taxation (other than the tax imposed on certain financial institutions by North Dakota Century Code, Chapter 57-35.3), the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a beneficial owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service ("IRS"), including but not limited to regulation, ruling, or selection of the Bonds for audit examination, or the course or result of any IRS examination of the Bonds, or obligations which present similar tax issues, will not affect the market price for the Bonds.

Original Issue Discount:

To the extent the issue price of the Bonds is less than the amount to be paid at maturity of the Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds that is excluded from gross income for federal income tax purposes. For this purpose, the

issue price of the Bonds is the first price at which a substantial amount of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Original Issue Premium:

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of a Bond, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and an owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such owner. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

LITIGATION

It is a condition of closing that the Issuer execute a certificate to the effect that there is no litigation pending or known to be threatened (i) to restrain or enjoin the issuance or delivery of the Bonds or the collection of revenues pledged under the Indenture, (ii) in any way contesting or affecting the authority for the issuance of the Bonds, the validity of the Bonds, the Lease or the Indenture, or (iii) in any way contesting the organization, existence or powers of the Issuer.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization, validity and enforceability of the Lease, as to the Issuer and the Agencies and the authorization and issuance of the Bonds are subject to the unqualified approving opinion of Cook Wegner & Wike PLLP, Bismarck, North Dakota, Bond Counsel. The form of opinion of Bond Counsel is attached to this Official Statement as Appendix F. Copies of the opinion will be available at the time of the initial delivery of the Bonds. Certain legal matters will be passed upon for the Issuer by the Attorney General.

VERIFICATION

The Issuer has retained Chris D. Berens, CPA, P.C. of Omaha, Nebraska, as verification agent (the “Verification Agent”) in connection with the issuance of the Bonds. The Verification Agent will verify the adequacy of the cash and securities placed in escrow to retire the bonds being called and will perform various yield calculations required under Section 103(c) of the Internal Revenue Code of 1954, as amended, upon which the Bond Counsel will rely in their determination that the Bonds are not “arbitrage bonds”.

CONTINUING DISCLOSURE

In the Bond Resolution, the Issuer will covenant for the benefit of all Bondholders to provide certain continuing disclosure information relating to the Bonds and the security therefor to permit the Underwriter of the Bonds to comply with the amendments to Rule 15c2-12 under the Securities and Exchange Act. At the time of the initial delivery of the Bonds, the Issuer will furnish an undertaking to provide continuing disclosure substantially in the form attached to this Official Statement as Appendix G.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Group ("S&P") will assign the Bonds the ratings of "Aaa" and "AAA" respectively, based on the issuance by Ambac Assurance Corporation of its financial guaranty insurance policy simultaneously with the delivery of the Bonds. Moody's and S&P have assigned underlying ratings to the Bonds of "Aa3" and "AA-", respectively. For an explanation of the significance of a particular rating, an investor should communicate directly with the appropriate rating agency. Such rating reflects only the views of such rating agency. The Issuer furnished to the agencies certain materials and information regarding the Issuer and the Bonds. Generally, rating agencies base their ratings on such material and information and on investigations, studies and assumptions by the rating agency. There is no assurance that a particular rating will remain in effect for any given period of time or that it will not be lowered, suspended or withdrawn entirely, if, in an agency's judgment, circumstances warrant. Any such downgrade, change or suspension or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Issuer has sold the Bonds at public sale to RBC Capital Markets, as Underwriter, for a price of \$10,445,681.55 and accrued interest, if any.

FINANCIAL ADVISOR

Public Financial Management, Inc., of Minneapolis, Minnesota, has served as Financial Advisor to the Issuer in connection with the offering of the Bonds. The Financial Advisor will not participate in the underwriting of the Bonds.

ADDITIONAL INFORMATION

All of the summaries of the statutes, resolutions, opinions, contracts, agreements, financial and statistical data and other related documents described in this Official Statement are made subject to the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents, copies of which are publicly available for inspection during normal business hours at the offices of the Industrial Commission of North Dakota, Bismarck, North Dakota or Public Financial Management, Inc.,

Minneapolis, Minnesota. This Official Statement is not to be construed as a contract or agreement between the Underwriter and the purchasers or owners of the Bonds.

The execution and delivery of this Official Statement has been duly authorized by the State.

STATE OF NORTH DAKOTA

/s/ Karlene Fine

Authorized Officer

North Dakota Building Authority

APPENDIX A

**General Information Regarding
The State of North Dakota**

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THE INDUSTRIAL COMMISSION OF NORTH DAKOTA

The Legislative Assembly created the Industrial Commission of North Dakota (the "Commission") in 1919 to conduct and manage, on behalf of the State, certain utilities, industries, enterprises and business projects established by State law. The North Dakota Building Authority Act (the "Act") provides that the Commission, acting as the North Dakota Building Authority (the "Authority"), may negotiate the sale of the bonds of the Authority in such amounts and in such manner as may be provided by law for projects financed through the Authority. The Commission is responsible for the operation and management of certain other State enterprises and programs, including the Bank of North Dakota, the North Dakota Mill and Elevator Association, the North Dakota Public Finance Authority, the North Dakota Housing Finance Agency, Oil and Gas Research Program, the Agricultural Revenue Bond Program, and the North Dakota Student Loan Trust. The Commission performs regulatory functions through its Department of Mineral Resources. Effective August 1, 1997, the Commission also became the Farm Finance Agency. The Commission, effective July 1, 1991, among other powers, has the authority to borrow money and issue evidences of indebtedness for the purpose of funding lignite research, development and marketing projects, processes or activities directly related to lignite and products derived from lignite. Additionally, as of August 1, 2005, the Industrial Commission is responsible for the North Dakota Transmission Authority.

The members of the Commission are the Governor, the Attorney General and the Agriculture Commissioner of the State. The Governor is the Chairman of the Commission, and a quorum for the transaction of business of the Commission consists of the Governor and one additional member. The present members of the Commission, all of whom have been elected to office for terms expiring December 14, 2008 (with respect to the Governor) and December 31, 2006 (with respect to the other two members), are:

John Hoeven, Governor
Wayne Stenehjem, Attorney General
Roger Johnson, Agriculture Commissioner

The Attorney General of the State serves as general counsel to the Commission. Each State enterprise under the control of the Commission employs and is operated by a separate staff or authorized agents under the supervision of the Commission.

The Commission's mailing address is the Industrial Commission of North Dakota, State Capitol, 600 East Boulevard, Bismarck, North Dakota 58505, c/o Executive Director and its telephone number is (701) 328-3722.

NORTH DAKOTA STATE GOVERNMENT

The following description of State government is written with an emphasis on those functions of government that might have a direct bearing or effect on the financial condition of the State and the State's ability to pay Loan Payments under the Loan Agreements, but is not a detailed description of all functions of the State's government.

General

The State of North Dakota is governed by its constitution, the present form of which was adopted in 1889 and which has been amended from time to time.

The legislative power of North Dakota is vested in the Legislative Assembly. Pursuant to the legislative redistricting plan adopted by the Fifty-seventh Session of the Legislative Assembly (2001 N.D. Sp. Sess. Laws ch. 691), the Legislative Assembly consists of a 47-member Senate elected for four-year terms and a 94-member House of Representatives elected for four-year terms from legislative districts established by law on the basis of

population. The Legislative Assembly meets every two years, beginning on the first Tuesday after the first Monday in January after the general election, or as otherwise determined by the Legislative Assembly, for a period not to exceed 80 legislative days. The people, however, reserve the power to propose measures and to approve or reject the same at the polls by initiative and to approve or reject at the polls by referendum any measure or any item, section, part or parts of any measure enacted by the Legislative Assembly.

The chief executive power of the State is vested in the Governor who, with a Lieutenant Governor, is elected on a joint ballot for a four-year term. The Governor is primarily responsible for executive actions and for the execution of laws passed by the Legislative Assembly. Under the Constitution the Governor can veto legislation, which veto may be overridden by a two-thirds majority vote of each house of the Legislative Assembly. The constitutional veto power of the Governor also includes the power to “veto items in an appropriation bill”. The Governor has direct control of 16 departments of the Executive Branch, and chairs a number of State Commissions including the Industrial Commission, the Indian Affairs Commission, the Board of University and School Lands and the State Water Commission.

The judicial powers of the State are vested in a unified judicial system consisting of the Supreme Court, the temporary court of appeals, district courts, and such other courts as are or may be created by law for cities. The Supreme Court, consisting of five justices elected for ten-year terms, may only exercise appellate jurisdiction except as otherwise specifically provided by statute or by the constitution. In the exercise of its original jurisdiction, the Supreme Court may issue writs of habeas corpus, mandamus, quo warranto, certiorari, and injunction, and may exercise its original jurisdiction only in habeas corpus cases and in cases of strictly public concern involving questions affecting the sovereign rights of the State or its franchises or privileges. In the exercise of its appellate jurisdiction and in its superintending control over inferior courts, the Supreme Court may issue such original and remedial writs as are necessary to the proper exercise of such jurisdiction.

NORTH DAKOTA STATE FINANCES

State Fund Structure; Accounting Basis

The State maintains a general fund for the receipt of all unrestricted tax revenues from which the State appropriates moneys for the activities of the State. The State also maintains several hundred special funds (including trust funds) for tax revenues and federal revenues received by the State which are restricted as to use.

The State operates a statewide accounting system utilizing PeopleSoft financials as part of an enterprise resource plan (“ERP”). This system provides information for preparation of statewide financial statements in accordance with generally accepted accounting principles (“GAAP”) for governmental units. The system maintains general ledger accounts for all of the State’s funds and also for the GAAP funds and account groups as recommended by the Governmental Accounting Standards Board. The Office of Management and Budget has been statutorily mandated to prepare annual statewide financial statements. The financial statements of the State for fiscal year 2004 is attached as Appendix C. The financial statements of the State for fiscal year 2005 are anticipated to be available on the State’s website, www.nd.gov, prior to February 15, 2006.

Budget Procedures

The focus of North Dakota’s budget format and process is on programs. The budget includes spending requests for general funds, federal funds and other state-appropriated revenues. State agencies submit their budget requests on a biennial basis to the Office of Management and Budget based on guidelines that are published by the Office of Management and Budget to assist in preparation. State agencies have complete discretion in the formulation of their budget requests. The agency director makes the final determination regarding overall formulation of the budget

request. Once the budget request is submitted to the Office of Management and Budget, a budget hearing may be held for further clarification of budgetary data and discussion of outstanding issues and policy.

The Governor presents the executive budget to the Legislative Assembly for its consideration. The Legislative Assembly then makes changes to the executive budget in the course of its deliberations.

In addition, the Governor presents a capital budget recommendation separate from operating budget recommendations to the Legislative Assembly. Key components in the decision to prepare a formalized capital budget included statewide concerns of possible deferred building maintenance and the lack of long-term planning for new construction.

Budget Stabilization Fund

North Dakota Century Code 54-27.2 provides for a Budget Stabilization Fund. The law states that “any amount in the state general fund in excess of sixty-five million dollars at the end of any biennium must be transferred by the state treasurer to the budget stabilization fund.” Monies held in the Budget Stabilization Fund may be used as follows:

1. If General Fund revenues for the biennium are projected to be at least two and one-half percent less than estimated by the most recently adjourned legislative session, the Governor may order the Director of the Office of Management and Budget to transfer the appropriate funds from the Budget Stabilization Fund to the State General Fund to offset the decrease in General Fund revenues.
2. As appropriated by the Legislative Assembly in subsequent legislative sessions.

The Budget Stabilization Fund has had a zero balance since June 30, 1993. In early September 2005, the State Treasurer did transfer to the Budget Stabilization Fund \$99,472,631, the maximum amount that can be transferred to the Budget Stabilization Fund. The law states that the amount transferred to and the balance maintained in the Budget Stabilization Fund may not be greater than five percent of the current biennial State General Fund budget. Five percent of the 2005-07 General Fund budget is \$99,472,631. Interest earnings on the Budget Stabilization Fund will be placed in the General Fund.

Non-Legislative Powers to Control Expenditures from Appropriations

By statute, the Director of the Office of Management and Budget exercises continual control over the execution of the budget affecting the departments and agencies of the executive branch of the State government. This control entails the analysis and approval of all commitments for conformity with the program provided in the budget, frequent comparison of actual revenues and budget estimates, and, on the basis of these analyses and comparisons, control of the rate of expenditures through a system of allotments. The allotment must be made by specific fund and all departments and agencies that receive moneys from that fund must be allotted moneys on a uniform percentage basis except that appropriation to the Department of Public Instruction for foundation aid, transportation aid and special education aid may only be allotted to the extent that the allotment can be offset by transfers from the foundation aid stabilization fund. Before an allotment is made which will reduce the amount of funds which can be disbursed pursuant to an appropriation or before an allotment disallowing a specific expenditure is made, the Director must find one or more of the following circumstances to exist:

1. The moneys and estimated revenues in a specific fund from which the appropriation is made are insufficient to meet all legislative appropriations from the fund.
2. The payment or the obligation incurred is not authorized by law.
3. The expenditure or obligation is contrary to legislative intent as recorded in any reliable legislative records, including:

- a. Statements of legislative intent expressed in enacted appropriation measures or other measures enacted by the Legislative Assembly; and
 - b. Statements of purpose of amendment explaining amendments to enacted appropriation measures, as recorded in the journals of the Legislative Assembly.
4. Circumstances or availability of facts not previously known or foreseen by the Legislative Assembly which make possible the accomplishment of the purpose of the appropriation at a lesser amount than that appropriated.

The foregoing allotment system applies to the various funds maintained by the State and the departments and agencies which receive moneys from such funds. Except for certain appropriations to the Department of Public Instruction, any reduction in expenditures from appropriations is required to be on a uniform percentage basis among the departments and agencies that draw on any particular fund. The allotments are also subject to objection by the Budget Section of the Legislative Council.

A percentage reduction in the moneys available from any affected fund to any department, agency or institution in all three branches of the State government may also occur as a result of an initiated or referendum action pursuant to Article III of the Constitution of North Dakota.

Financial Controls

The State has financial controls over the appropriation and expenditure of funds. No moneys can be spent in excess of appropriations or without a cash balance in the particular fund from which the expenditure is to be made. In addition, by statute, no State institution, department, board, commission or bureau may disburse more than 75% of the operating and salary appropriations made by the Legislative Assembly for the biennium during the first eighteen months of the biennium. Under certain circumstances, an exception to this limitation may be authorized except for salaries and wages. The State's financial control is centered in the Office of Management and Budget, including pre-audit of claims. The post-audit function is carried out by the State Auditor, an elected official.

In order to meet the cash flow needs of State government, the Office of Management and Budget may issue certificates, notes or bonds in anticipation of revenue to special funds on deposit in the State Treasury. Any such borrowing must be approved by the Emergency Commission and be utilized for cash flow financing only and not to offset any projected deficits in State finances unless first approved by the Budget Section of the Legislative Council. The terms of any such issue may not exceed 180 days from the date of issuance, with principal and interest paid in full from the State general fund by the close of the biennium.

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REVENUES AND EXPENDITURES OF NORTH DAKOTA

The following table sets forth a five-year analysis of the State's General Fund revenues and expenditures as of the end of each of the past five fiscal years.

Five-Year Analysis of General Fund Revenues and Expenditures

	Fiscal Year End June 30				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>Revenues</u>					
Taxes	\$ 755,449,647	\$ 743,815,240	\$ 747,980,524	\$ 811,437,016	\$ 920,483,441
Licenses & Permits	11,260,815	11,327,505	10,441,274	11,824,190	11,660,028
Intergovernmental	381,322	--	25,066,265	25,444,241	370,966
Sales and Services	1,891,369	1,358,059	1,940,615	2,293,692	2,752,748
Royalties and Rents	6,705,433	3,797,829	5,608,132	6,356,596	12,557,991
Fines and Forfeits	2,294,372	2,296,396	3,298,945	7,379,437	4,569,233
Interest and Investment Income	9,264,494	3,431,724	1,288,838	956,020	3,534,498
Miscellaneous	<u>61,592</u>	<u>363,255</u>	<u>428,106</u>	<u>1,196,937</u>	<u>1,068,326</u>
TOTAL REVENUES	<u>\$ 787,309,404</u>	<u>\$ 766,390,008</u>	<u>\$ 796,052,699</u>	<u>\$ 866,888,129</u>	<u>\$ 956,997,231</u>
<u>Expenditures</u>					
General Government	\$ 62,140,718	\$ 63,145,955	\$ 68,475,297	\$ 61,905,844	\$ 72,951,885
Education	284,909,751	287,577,112	301,083,785	310,471,873	317,689,823
Health and Human Services	185,861,396	196,337,923	167,437,111	206,303,706	195,598,382
Regulatory	6,250,073	7,569,309	6,764,226	7,105,914	7,489,639
Public Safety and Corrections	40,616,062	60,631,989	54,297,990	60,953,820	59,733,615
Agriculture and Commerce	5,576,666	10,312,451	10,049,690	12,182,156	10,665,863
Natural Resources	13,851,581	13,069,208	11,843,329	11,346,360	11,773,878
Transportation	--	334,817	209,408	522,500	--
Capital Outlay	--	58,354	10,610,311	4,005,247	5,500,031
Debt Service	--	--	<u>118,212</u>	<u>59,782</u>	<u>754,326</u>
TOTAL EXPENDITURES	<u>\$ 599,206,247</u>	<u>\$ 639,037,118</u>	<u>\$ 630,889,359</u>	<u>\$ 674,857,202</u>	<u>\$ 682,157,442</u>
<u>Other Financing Sources (Uses)</u>					
Operating Transfers In	\$ 31,402,315	\$ 42,294,412	\$ 73,517,425	\$ 97,345,371	\$ 72,592,324
Operating Transfers Out	(231,297,905)	(213,412,321)	(228,083,459)	(221,558,208)	(263,851,137)
Operating Transfers to Component Units	(375,000)	--	--	--	--
Other	<u>11,273</u>	<u>204,715</u>	<u>410,737</u>	<u>2,020,619</u>	<u>1,483,845</u>
Total Other Financing Sources (Uses)	<u>\$(200,259,317)</u>	<u>\$(170,913,194)</u>	<u>\$(154,155,297)</u>	<u>\$(122,192,218)</u>	<u>\$(189,774,968)</u>
Revenues and Other Sources Over Expenditures and Other Uses	(12,156,160)	(43,560,304)	11,008,043	69,838,709	85,064,821
Beginning Cash Balance	<u>118,632,571⁽¹⁾</u>	<u>159,048,414⁽²⁾</u>	<u>115,908,161⁽³⁾</u>	<u>126,916,204</u>	<u>196,754,913</u>
FUND BALANCE – END OF YEAR	<u>\$ 106,476,411</u>	<u>\$ 115,488,110</u>	<u>\$ 126,916,024</u>	<u>\$ 196,754,913</u>	<u>\$ 281,819,734</u>

⁽¹⁾ Pursuant to GASB 33, the beginning fund balance was increased by \$3,329,510 to reflect the change in accounting for nonexchange transactions.

⁽²⁾ Pursuant to GASB 34, the beginning fund balance was increased by \$50,422,000 to reflect a change in the revenue recognition policy. The policy was changed to classify all revenues as available if they are collected within one year of the fiscal year. Previously the period of availability extended to thirty days after fiscal year end. The beginning fund balance was also restated by \$2,150,043 to properly reflect unemployment insurance fees collected to pay unemployment claims.

⁽³⁾ The beginning fund balance was restated by \$420,051 because of a change in accounting principles.

Source: Office of Management and Budget Comprehensive Annual Financial Reports.

Analysis of General Fund Balances

The following table sets forth the cash balances (General Fund only) as of the end of each quarter, Fiscal Year 2001 through the Second Quarter of Fiscal Year 2006 (dollars in millions).

<u>Quarter</u>	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005⁽¹⁾</u>	<u>Fiscal 2006</u>
First	\$50.8	\$24.8	\$38.6	\$56.7	\$139.5	\$83.7
Second	10.1	13.6	50.8	13.3	128.2	36.5
Third	32.4	16.9	74.6	56.3	213.6	--
Fourth	74.0	2.7	34.7	37.3	68.5	--

⁽¹⁾ During this fiscal year, the State began to see a substantial increase in oil and gas tax revenues and sales tax collections. Oil and gas tax revenues were held in the General Fund until the end of the 2003-2005 biennium when oil and gas tax revenues in excess of \$71,000,000, i.e. excess revenues in the amount of \$49,478,335, were transferred to the Permanent Oil Tax Trust Fund. Sales tax collections constitute over 46 percent of all general fund revenue collections. Due to higher than anticipated taxable sales and purchases, this tax source exceeded projections by over \$39,000,000, or 6.7 percent, through March 2005.

Source: Office of Management and Budget.

Analysis of Total State End of Biennium Balances

The following table sets forth the results of the financial operations of the State (including both General Fund and special fund revenues and expenditures) for the biennium periods 1997 to 1999, 1999 to 2001, 2001 to 2003 and 2003 to 2005.

	<u>1997-99</u>	<u>1999-01</u>	<u>2001-03</u>	<u>2003-05⁽¹⁾</u>
Cash Balance Beginning July 1	\$ 210,872,624	\$ 221,694,897	\$ 334,139,162	\$ 263,523,268
Collections	4,781,013,805	5,550,897,975	5,893,541,216	6,596,324,829
Transfer from Other Funds	0	0	0	0
Disbursements	(4,770,191,532)	(5,438,453,710)	(5,964,157,110)	(6,355,621,037)
Transfer to Other Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Cash Balance Ending June 30	<u>\$ 221,694,897</u>	<u>\$ 334,139,162</u>	<u>\$ 263,523,268</u>	<u>\$ 504,227,060</u>

⁽¹⁾ Unaudited.

Source: Biennial Reports of the State of North Dakota, Office of the Treasurer; July 1, 1997 to June 30, 1999; July 1, 1999 to June 30, 2001; July 1, 2001 to June 30, 2003; and July 1, 2003 to June 30, 2005.

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2005-2007 General Fund Appropriations

<u>Purpose</u>		<u>Appropriation</u>
General Government		\$ 168,852,736
Education:		1,051,839,054
Public Institutions and Other	\$664,681,161	
Higher Education	387,157,893	
Health and Human Services		505,573,540
Regulatory		21,112,165
Public Safety		142,777,447
Agricultural, Economic Development, Extension and Research:		81,048,559
Extension and Research	56,612,187	
Other Agricultural and Economic Development	24,436,372	
Natural Resources		<u>18,249,122</u>
TOTAL		<u>\$1,989,452,623</u>

Source: Office of Management and Budget.

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Sources of General Fund Revenues

Actual collections for the General Fund portion of State revenues for the 1999-01, 2001-03 and 2003-05 biennia, and the State's Legislative forecast for the 2005-07 biennium are shown below.

<u>Revenue Source</u>	1999-2001 Actual <u>Collections</u>	2001-2003 Actual <u>Collections</u>	2003-2005 Actual <u>Collections</u>	2005-2007 Legislative <u>Forecast</u>
Sales and Use Tax	\$ 613,066,466	\$ 640,618,363	\$ 717,758,293	\$ 762,724,000
Motor Vehicle Excise Tax	109,115,230	119,592,232	128,010,103	136,133,400
Individual Income Tax	409,331,437	396,153,000	452,547,326	464,347,000
Corporate Income Tax	99,134,855	88,417,166	102,926,972	83,819,000
Business Privilege Tax	5,464,955	6,257,389	4,958,673	5,166,400
Cigarette and Tobacco Tax	41,706,350	39,313,360	39,476,712	37,147,000
Oil and Gas Production Tax	38,433,365	39,159,000	45,534,044	39,838,800
Oil Extraction Tax	23,566,635	22,841,000	25,465,956	31,161,200
Coal Severance Tax	22,173,854	0	0	0
Coal Conversion Tax	25,672,170	46,878,511	47,196,831	48,833,000
Insurance Premium Tax	39,113,433	48,990,027	56,284,535	63,637,000
Wholesale Liquor Tax	10,321,999	11,155,834	11,889,465	12,300,000
Gaming Tax	27,437,507	27,612,652	20,850,911	20,130,000
Lottery	0	0	7,269,005	10,000,000
Departmental Collections	40,816,171	57,506,019	61,004,537	48,545,021
Interest Income	20,832,123	8,509,483	6,935,015	10,470,000
Mineral Leasing Fees	9,531,698	6,440,513	11,024,583	5,996,333
Bank of North Dakota Transfers	50,000,000	78,699,787	60,000,000	60,000,000
State Mill Transfers	3,000,000	6,000,000	5,000,000	5,000,000
Student Loan Trust Fund Transfers	0	9,000,000	26,258,969	9,000,000
Gas Tax Administration	1,380,608	1,363,392	1,396,200	1,400,000
Federal Fiscal Relief Payments	0	0	56,456,581	0
Other Transfers ⁽¹⁾	<u>5,159,194</u>	<u>15,370,511</u>	<u>65,153,319</u>	<u>79,100,000</u>
Total	<u>\$1,595,258,050</u>	<u>\$1,669,878,239</u>	<u>\$1,953,398,031</u>	<u>\$1,934,748,154</u>

(1) Other transfers for the 1999-2001 biennium include \$3,000,000 from Land & Minerals Trust Fund, \$1,500,000 from the PERS Life Insurance Fund, \$200,000 from the Financial Institutions Regulatory Fund and \$2,150,000 from the Developmental Disability Loan Sale. Other transfers for the 2001-03 biennium include \$3,545,102 from the Land and Minerals Trust Fund, \$9,733,820 from the Water Development Trust Fund, \$2,000,000 from the Developmental Disability Loan Sale, and \$91,589 from miscellaneous transfers. Other transfers for the 2003-05 biennium include \$2,000,000 from the Land and Minerals Trust Fund, \$11,910,000 from the Permanent Oil Tax Trust Fund, \$2,800,000 from the Insurance Department's fidelity Bonding Fund, \$10,070,373 from the Water Development Trust Fund, \$2,200,000 from the PACE fund, \$35,911,035 from the Health Care Trust Fund and \$261,911 from miscellaneous transfers. Other transfers estimated for the 2005-07 biennium include \$6,800,000 from the Land and Minerals Trust Fund, \$55,300,000 from the Permanent Oil Tax Trust Fund, \$100,000 from the Compulsive Gambling Fund, and \$16,900,000 from the Health Care Trust Fund.

Source: Office of Management and Budget.

Sources of Total State Appropriations

A comparison of the sources for the total appropriations made for the 1999-01, 2001-03, 2003-05 and 2005-07 biennia is presented below:

	1999-2001 Legislative <u>Appropriation</u>	2001-2003 Legislative <u>Appropriation</u> ⁽¹⁾	2003-2005 Legislative <u>Appropriation</u>	2005-2007 Legislative <u>Appropriation</u>
General Fund	\$1,594,038,538	\$1,746,983,713	\$1,803,661,161	\$1,989,452,623
Special Funds	<u>3,215,299,301</u>	<u>3,025,896,983</u>	<u>3,255,778,235</u>	<u>3,763,221,167</u>
Total	<u>\$4,809,337,839</u>	<u>\$4,772,880,696</u>	<u>\$5,059,439,396</u>	<u>\$5,752,673,790</u>

⁽¹⁾ Using the allotment process, the General Fund 2001-2003 appropriation was reduced by \$18,316,037.

Tax Structure

The State general fund receives the major share of its revenues from the following taxes:

Sales and Use Tax. North Dakota currently imposes a State retail tax of 5% on the purchase price of most commodities, with food being the most notable exception. A 7% sales tax is levied upon retail sales of all alcoholic beverages. New farm machinery, irrigation equipment, new mobile homes and the purchase of qualifying manufacturing equipment are subject to a sales and use tax of 3%. The tax is collected by businesses and remitted to the State.

The history for sales and use tax rates during the past ten years is as follows:

1997 Session enacted legislation enabling the Tax Commissioner to accept the filing of a sales tax return electronically.

1999 Session enacted legislation reducing the sales and use tax rate on used farm machinery and repair parts from three percent to one and one-half percent from May 1, 1999 through June 30, 2001. Also enacted by the 1999 Legislative Assembly was the Renaissance Zone Act. The provisions of this legislation included income and property tax exemptions in addition to income and financial institutions tax credits.

2001 Session enacted legislation that continued the one and one-half percent sales tax rate on used farm machinery and repair parts through June 30, 2002. Beginning July 1, 2002, sales of used farm machinery and repair parts were exempted from sales tax.

2003 Session enacted the Streamlined Sales and Use Tax Agreement and modified the sales tax law to be in compliance with key aspects of the agreement. The State's statutory changes become effective January 2006. An additional 1% sales tax on hotel and motel accommodations was adopted for the period of July 1, 2003 through June 30, 2007. Receipts of this additional tax are intended to be used to assist with the promotion of the Lewis and Clark Celebration.

2005 Session granted a number of exemptions with an impact of less than \$500,000. They include exemptions for sales to licensed assisted living facilities, sales to an emergency medical services provider, and precious metal bullion. The Legislative Assembly also changed the implementation date for compliance with the Streamlined Sales and Use Tax Agreement from December 31, 2005 to September 30, 2005. The Legislative Assembly also allocated a portion of the sales, use and motor vehicle excise tax collections to the senior citizen services and program fund.

Individual Income Tax. A tax on income (defined as federal taxable income with adjustments) is imposed upon individuals and fiduciaries. The 2005 rates and brackets for married taxpayers filing joint return are as follows:

2005

Up to \$49,600	Computed at 2.10%
\$49,600 to \$119,950	\$1,041.60 plus 3.92% of excess over \$49,600
\$119,950 to \$182,800	\$3,799.32 plus 4.34% of excess over \$119,950
\$182,800 to \$326,450	\$6,527.01 plus 5.04% of excess over \$182,800
Over \$326,450	\$13,766.97 plus 5.54% of excess over \$326,450

The same rates apply on different income brackets for taxpayers with filing statuses of single, married filing separately, or head of household. The income brackets are adjusted annually for inflation.

Individual income taxpayers have the option of using a long-form method of computing their state income tax liability. This method allows several deductions and tax credits not available on the standard form. The long form rates, imposed on federal taxable income with adjustments, range from 2.67% on income up to \$3,000 to 12.00% on income in excess of \$50,000. As these rates are substantially higher than those on the standard form, only 3% of all taxpayers file the long form.

The 2003 Legislative Assembly created a new individual income tax deduction to allow National Guard and U.S. armed forces reserve members who are called into active duty to deduct any taxable compensation earned while on active duty outside of the State. The seed capital investment tax credit rate was increased to 45%, and thresholds on eligible investments and credits were increased.

The 2005 Legislative Assembly provided for additional seed capital investment tax credits and expanded the agricultural investment tax credit to include investments made by corporations and passthrough entities.

Motor Vehicle Excise Tax. The State imposes a 5% tax on the purchase price (the sale price less any trade-in amount) of any motor vehicle purchased or acquired, either within or outside of North Dakota if the vehicle is required to be registered in North Dakota. If the vehicle is acquired by means other than purchase, the tax is 5% of the fair market value.

Corporate Income Tax. All corporations doing business in the State are subject to a tax on the amount of net income derived from business done in the State. The State does not allow the federal deduction for domestic production. The current rates are as follows:

		For taxable years beginning after December 31, 2003
	If North Dakota taxable income is:	The tax is:
Over	But not over	
\$ 0	\$ 3,000	2.60% of N.D. taxable income
\$ 3,000	8,000	\$ 78.00 + 4.10% of the amount over \$3,000
\$ 8,000	20,000	\$283.00 + 5.60% of the amount over \$8,000
\$20,000	30,000	\$955.00 + 6.40% of the amount over \$20,000
\$30,000		\$1,595.00 + 7.00% of the amount over \$30,000

If a corporation elects to use the water's edge method to apportion its income, the corporation will be subject to an additional 3.5% surtax on its North Dakota taxable income. The 2005 Legislative Assembly changed the top rate from 7.0% to 6.5% effective in tax year 2007.

Oil Extraction Tax. The Oil Extraction Tax went into effect January 1, 1981. The State imposes a 6.5% tax on the value (or selling price) of oil at the wellhead. This tax applies only to oil and not natural gas. New wells drilled after April 27, 1987 receive a 15-month holiday from this tax, and a subsequent reduction in the rate from 6.5% to

4%. In addition, a one-year exemption is available after a well has undergone a qualifying workover. Other incentives have been adopted since 1991. The reduced rate provisions and exemptions for new wells, horizontal wells, horizontal reentry wells, two-year inactive wells, workover wells and enhanced recovery wells are ineffective if the average price of a barrel of crude oil exceeds the trigger price (\$35.50, as indexed for inflation) for each month in any consecutive five-month period. The reduced rates and exemptions are reinstated if the average price falls below the trigger price for each month in any consecutive five-month period. The revenues from this tax are distributed 60% to the General Fund, 20% as provided in Article X, Section 24 of the North Dakota Constitution, and 20% to a resources trust fund.

Oil and Gas Production Tax. The State imposes a tax on oil and gas production at a rate equal to 5% of gross well value, payable on a monthly basis. Effective July 1, 1991, instead of gas being taxed at 5% of gross value at the well it was taxed at four cents per non-exempt million cubic feet of gas produced. This rate is adjusted annually to follow fluctuations in gas value by using the yearly producer price index for gas fuels.

Total oil tax collections (Oil Extraction and Oil and Gas Production Taxes) to the State General Fund are capped at \$71 million per biennium. All revenues in excess of \$71 million are transferred to the Permanent Oil Trust Fund. As of December 31, 2005, the balance in the Permanent Oil Trust Fund was \$20.4 million.

Insurance Premium Tax. This tax is on the gross amount of premiums, assessments, membership fees, subscriber fees, policy fees and finance and service charges received in North Dakota by any insurance company doing business in the State. The tax is imposed in an amount of 2% of life insurance, 1.75% with respect to accident and sickness insurance and 1.75% on all other lines of insurance, excluding annuity considerations.

Coal Conversion Facilities Tax. Electrical generating plants which use coal and have a single generating unit with the capacity of 10,000 kilowatts or more (effective January 1, 2002) are taxed at a rate equal to 0.65 mill times 60% of installed capacity times the number of hours in the taxable period plus 0.25 mill per kilowatt hour of electricity produced for sale. This tax is in lieu of all ad valorem taxes except on land. Other energy installations which are subject to the coal conversion facilities tax include, but are not limited to, coal gasification plants, coal liquefaction plants and plants for the manufacture of fertilizer and other products, which use or are designed to use over 500,000 tons of coal per year. These types of plants pay a tax of 4.1% of gross receipts, or in the case of coal gasification plants, either 4.1% of gross receipts or \$.135 per 1,000 cubic feet of gas produced for sale, whichever is greater. A plant which is designed for coal beneficiation is taxed at the rate of \$.20 on each ton of beneficiated coal produced for sale or 1.25% of gross receipts, whichever is greater. This tax is collected on a monthly basis. A newly constructed coal conversion facility is exempt from the State's share of the coal conversion tax for five years and may be exempted from all or part of the county's share by resolution of the county commissioners.

Coal Severance Tax. This tax applies to coal severed from the ground for sale or for industrial purposes. Effective July 1, 2001, there is a \$0.375 per ton tax with an additional \$.02 per ton to be deposited into the Lignite Research Fund. The revenues generated from the \$0.375 per ton tax are allocated 30% to the Coal Development Trust Fund and 70% to the counties.

Below are descriptions of other major taxes and fees in North Dakota:

Alcohol and Beverage Tax. This tax is imposed on the wholesalers of alcoholic beverages for the privilege of doing business in the State. The tax is based on gallonage sold by wholesalers in the following amounts:

Beer sold in bulk containers	\$0.08/gallon
Beer sold in bottles, cans	\$0.16/gallon
Wine with less than 17% alcohol	\$0.50/gallon
Wine with between 17% and 24% alcohol	\$0.60/gallon
Sparkling wines	\$1.00/gallon
Distilled spirits	\$2.50/gallon
Straight distilled alcohol	\$4.05/gallon

Cigarette and Tobacco Products Tax. A tax of 44 cents per package is imposed on cigarettes with 41 cents per package going to the State General Fund and 3 cents to cities on a population basis. A tax equal to 28% of the wholesale price of other tobacco products is collected and distributed to the General Fund.

Financial Institutions Tax. All financial institutions are required to file and pay a 7% tax on taxable income, in lieu of all other income taxes.

Estate Tax. North Dakota's estate tax is entirely contingent on credits which the federal government allows on federal estate taxes. Specifically, the federal government allows a credit for State estate taxes paid, a credit which is applied against the federal estate tax. North Dakota law now provides that its State estate tax will be equal to, but no more than, the credit allowed on federal estate tax returns.

Gaming Tax. A gaming tax is levied on the total adjusted gross proceeds from games of chance conducted by various licensed organizations. The tax rate is 5% for the first \$200,000 of adjusted gross proceeds, increasing to a maximum rate of 20% for adjusted gross proceeds in excess of \$600,000. In addition, a 4.5% excise tax is imposed on gross proceeds from pull tabs.

Mineral Leasing Fees. This fee represents the money the State receives for the lease of the State's mineral interests. As of June 30, 2005, the State had rights to approximately 2,555,643 acres, of which approximately 20% was under lease.

Fuel Taxes. North Dakota generally imposes a tax of 23 cents per gallon on all sales of motor vehicle fuels. The State also imposes a special fuels tax on certain other motor fuels, primarily diesel fuel. The special fuels tax is 23 cents per gallon, however if the special fuels are sold for heating, agricultural, railroad or privately funded industrial purposes, the special fuels tax is 2% of the purchase price of these fuels.

**NORTH DAKOTA STATE TAX DEPARTMENT
NET COLLECTIONS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 TO 2005**

<u>TAX TYPE</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Sales and Use Taxes ⁽¹⁾	\$ 398,639,332	\$401,554,564	\$ 424,855,990	\$ 438,438,623	\$ 480,337,687
Oil Extraction Tax	24,793,997	17,068,846	22,618,069	25,638,914	45,566,628
Gross Production Tax	46,029,027	36,515,072	43,477,533	47,519,075	74,046,219
Motor Fuels Taxes	112,685,871	111,635,118	115,252,746	119,937,991	122,239,373
Individual Income Tax	213,442,150	198,922,525	200,528,205	214,145,899	241,319,731
Corporation Income Tax	51,606,853	41,600,758	46,027,577	40,257,083	62,669,889
Coal Taxes ⁽²⁾	39,539,107	38,200,783	39,448,602	40,556,785	37,723,016
All Other Taxes and Fees ⁽³⁾	<u>117,682,317</u>	<u>121,246,054</u>	<u>131,017,892</u>	<u>124,851,764</u>	<u>135,746,355</u>
Total Net Collections	<u>\$1,004,418,654</u>	<u>\$966,743,720</u>	<u>\$1,023,226,614</u>	<u>\$1,051,346,134</u>	<u>\$1,199,648,898</u>

(1) Includes sales and use tax, motor vehicle excise tax and State Aid Distribution Fund.

(2) Includes coal severance tax and coal conversion facilities privilege tax.

(3) Includes cigarette tax, tobacco tax, estate tax, business and corporation privilege tax, financial institutions tax, telecommunications tax, transmission lines tax, city sales tax, city lodging tax, music and composition tax, sales and use tax and motor fuel tax cash bonds, motor fuel license fees, solid waste management fees, centennial tree contributions, organ transplant support contributions, drug tax, city restaurant and lodging, nongame wildlife contributions, and miscellaneous remittances.

Source: Comparative Statement of Collections, North Dakota State Tax Department.

NORTH DAKOTA STATE INDEBTEDNESS

Authorization and Debt Limits

Article X, Section 13 of the North Dakota Constitution provides that:

“The state may issue or guarantee the payment of bonds, provided that all bonds in excess of two million dollars shall be secured by first mortgage upon real estate in amounts not to exceed sixty-five percent of its value; or upon real and personal property of state-owned utilities, enterprises or industries, in amounts not exceeding its value, and provided further, that the State shall not issue or guarantee bonds upon property of state-owned utilities, enterprises or industries in excess of ten million dollars.

No further indebtedness shall be incurred by the state unless evidenced by a bond issue, which shall be authorized by law for certain purposes, to be clearly defined. Every law authorizing a bond issue shall provide for levying an annual tax, or make other provision, sufficient to pay the interest semiannually, and the principal within thirty years from the date of the issue of such bonds and shall specially appropriate the proceeds of such tax, or of such other provisions to the payment of said principal and interest, and such appropriation shall not be repealed nor the tax or other provisions discontinued until such debt, both principal and interest, shall have been paid. No debt in excess of the limit named herein shall be incurred except for the purpose of repelling invasion, suppressing insurrection, defending the State in time of war or to provide for the public defense in case of threatened hostilities.”

The State currently has no general obligation debt outstanding.

Additionally, the Legislative Assembly has established statutory limitations on the amount of general fund revenues that will be made available for lease payments and loan payments during a biennium, tying the limitation to a percentage of a portion of the net sales, use, and motor vehicle excise tax collections during a biennium. In 1995 the Legislative Assembly set the limitation at no more than 11% of that portion of the sales, use and motor vehicle excise taxes representing collections from one cent of the five cent (per dollar) sales, use, and motor vehicle excise taxes. In 1997 the Legislative Assembly reduced the percentage limitation from 11% to 10% of that portion of the sales, use, and motor vehicle excise taxes representing collections from one cent of the five cent (per dollar) sales, use, and motor vehicle excise taxes. The percentage limitation remains at 10% currently. (Because these limitations are statutory, the Legislative Assembly is free to alter or even eliminate such limitations in future sessions.) Lease payments and loan payments from other sources of funds, including energy savings on energy conservation projects and charges and fees related to the project funded, are not subject to such statutory limitations.

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Previous North Dakota Building Authority Financings

The Industrial Commission of North Dakota acting as the North Dakota Building Authority previously issued and has outstanding as of January 1, 2006 Bonds as follows:

1998 Series A:	
4.65% to 5.125% Serial Bonds, due December 1, 2006-2013	\$ 3,375,000
5.125% Term Bonds, due December 1, 2018	2,910,000
1998 Series B:	
4.50% to 5.00% Serial Bonds, due December 1, 2006-2010	5,750,000
1998 Series C:	
4.10% to 4.35% Serial Bonds, due December 1, 2006-2009	1,360,000
2000 Series A:	
5.125% to 5.60% Serial Bonds, due December 1, 2006-2019	3,665,000
2001 Series A:	
4.00% to 5.125% Serial Bonds, due December 1, 2006-2018 and 2022	9,345,000
5.125% Term Bonds, due December 1, 2021	2,700,000
2002 Series A:	
4.25% to 5.125% Serial Bonds, due December 1, 2006-2017	6,745,000
5.20% Term Bond, due December 1, 2019	815,000
5.25% Term Bond, due December 1, 2022	1,390,000
2002 Series B:	
5.20% Serial Bonds, due December 1, 2006	405,000
2002 Series C:	
3.00% to 4.30% Serial Bonds, due August 15, 2006-2014	8,685,000
2002 Series D:	
3.25% to 4.50% Serial Bonds, due December 1, 2006-2016	13,060,000
2003 Series A:	
5.25% Serial Bonds, due June 1, 2006-2010	11,305,000
2003 Series B:	
2.00% to 3.70% Serial Bonds, due December 1, 2006-2015	6,395,000
4.00% Term Bond, due December 1, 2018	2,425,000
4.25% Term Bond, due December 1, 2020	1,790,000
5.00% Term Bond, due December 1, 2022	1,970,000
2003 Series C:	
3.50% to 5.25% Serial Bonds, due December 1, 2006-2013	18,110,000
2005 Series A	
4.25% to 4.50% Serial Bonds, due December 1, 2009-2024	<u>37,955,000</u>
Total Outstanding (Excluding the Bonds)	<u>\$140,155,000</u>

The 1998A Bonds were issued to finance the acquisition, construction, improvement or equipping of certain facilities for the State Board of Higher Education and the Department of Corrections and Rehabilitation. The 1998A Bonds are expected to be advance refunded by a portion of the proceeds of the Bonds.

A portion of the 1998B Bonds were issued to advance refund the callable maturities, June 1, 2002 through 2011, of the then outstanding 1991 Series A Bonds. The 1991 Bonds were called on June 1, 2001 at a price of par and in the amount of \$9,495,000. The remainder of the 1998B Bonds were issued to advance refund the callable maturities, August 15, 2001 through 2007, of the then outstanding 1992 Series A Bonds. The 1992 Bonds were called on August 15, 2000 at a price of par and in the amount of \$1,755,000.

The 1998C Bonds were issued to finance a portion of the renovation and addition to the Ed James Wing of the medical school at the University of North Dakota for the State Board of Higher Education.

The 2000A Bonds were issued to finance a portion of the construction of an Animal Research Facility at North Dakota State University for the State Board of Higher Education and to fund a portion of the renovation of the Pine Cottage at the North Dakota Youth Correctional Center for the Department of Corrections and Rehabilitation. The 2000A Bonds are expected to be advance refunded by a portion of the proceeds of the Bonds.

The 2001A Bonds were issued to finance a portion of the construction of an addition to the Health and Wellness Center at Williston State College and to fund a portion of the renovation of Old Main at Minot State University for the State Board of Higher Education.

The 2002A Bonds were issued to finance a portion of the construction of a Bismarck service delivery office for Job Service North Dakota, a laboratory addition for the North Dakota State Department of Health and certain energy conservation projects at the University of North Dakota and North Dakota State University for the State Board of Higher Education.

The 2002B Bonds were issued to finance a portion of certain energy conservation projects at the University of North Dakota for the State Board of Higher Education.

The 2002C Bonds were issued to current refund the callable maturities of the then outstanding 1993 Series B Bonds. The 1993B Bonds were called on August 15, 2002 at a price of par.

The 2002D Bonds were issued to advance refund all of the outstanding maturities of the 1995 Series A Bonds totaling \$15,225,000. The 1995A Bonds were called on December 1, 2004 at a price of par.

The 2003A Bonds were issued to current refund the callable maturities of the then outstanding 1993 Series A Bonds totaling \$17,295,000. The 1993A Bonds were called on June 1, 2003 at a price of 101% of par.

The 2003B Bonds were issued to finance the acquisition, improving, equipping or construction of certain facilities for the North Dakota State Board of Higher Education, the North Dakota Department of Corrections and Rehabilitation, and the North Dakota State Department of Health.

The 2003C Bonds were issued to finance the purchase or lease of computer hardware and software and for the costs of the implementation services for the enterprise resources planning system for the North Dakota Information Technology Department.

The 2005A Bonds were issued to finance the acquisition, improving, equipping or construction of certain facilities for the Office of Management and Budget, the Office of the Attorney General, the North Dakota State Board of Higher Education, the North Dakota Department of Corrections and Rehabilitation, the North Dakota State Historical Society and the North Dakota Parks and Recreation Department.

Building Authority bonds do not constitute an obligation of the State within the meaning of any constitutional or statutory provision. All of the Building Authority bonds listed above were issued under separate indentures of trust and are not on a parity with each other.

Revenue Debt

The State and certain State-created entities have the authority to incur debt supported by revenues derived from the assets of the various programs financed by such indebtedness. Only the Public Finance Authority Bonds listed below include a moral obligation provision. Such outstanding debt as of January 1, 2006 is shown below:

	<u>Outstanding</u>
State of North Dakota Student Loan Revenue Bonds	\$ 124,000,000
North Dakota Public Finance Authority Bonds ⁽¹⁾	165,250,000
North Dakota Housing Revenue Bonds, including accreted value	631,207,443
Board of Higher Education ⁽²⁾	115,209,113
North Dakota State Water Commission ⁽³⁾	106,069,234
North Dakota Department of Transportation	<u>51,445,000</u>
Total	<u>\$1,193,180,790</u>

(1) Section 6-09.4-10 of the North Dakota Public Finance Authority Act provides that in order to assure the maintenance of the required Debt Service Reserve in the Reserve Fund, if a reserve is required or implemented under or by the Act, there shall be appropriated by the Legislative Assembly and paid to the Public Finance Authority for deposit in said Fund, such sum, if any, as shall be certified by the Industrial Commission, as necessary to restore said Fund to an amount equal to the Required Debt Service Reserve. Prior to August 1, 2005, the North Dakota Public Finance Authority was known as the North Dakota Municipal Bond Bank under which the outstanding bonds were issued.

(2) As of June 30, 2005.

(3) A portion of the outstanding North Dakota State Water Commission Bonds is supported by biennial legislative appropriations from special funds and not from revenues as set out above.

NORTH DAKOTA ECONOMY

General

North Dakota lies in the central portion of the Northern Plains with a land area of 70,665 square miles. Elevation in the northeast corner of the State is 750 feet above sea level and in the southwest corner of the State is 3,506 feet.

In the east, the Red River Valley is flat with fertile soil, and particularly suited to agricultural activity. Gently rolling hills characterize the glaciated plains in the central area of the State and west of this area is the Missouri Plateau.

With an average growing season of 120 days, relatively low growing season temperatures and an average growing season rainfall of 13 inches, North Dakota's climate is particularly conducive to the growing of grains. The premier farming area is located in the eastern part of the State, gradually displaced by ranching toward the west.

Agriculture

Agriculture is one of the State's chief sources of revenue. Crops make up three-quarters of the State's annual agricultural productivity; livestock makes up the rest.

Cash receipts for 2004 from the marketing of crops and livestock in the State totaled over \$4.090 billion, as compared to \$3.777 billion in 2003. Each dollar produced by agriculture turns over an additional three to four dollars of revenue in the business sector.

Historically, wheat has been the single most important source of agricultural income in North Dakota, and accounted for 22.9% of the total cash receipts in 2004. Cattle and calves ranked second, with 15.7% of the total and government payments ranked third with 13.0% of the total.

Below is a table which lists the major crops of North Dakota in 2004, the State's rank in national production of each of these crops, and the percentage of the national production of each of these crops that is grown in North Dakota.

State of North Dakota **Major Crop Production 2004**

<u>Crop</u>	<u>Rank in Nation</u>	<u>Percent of U.S. Production</u>
All Wheat	2 nd	14%
Durum Wheat	1 st	59%
Spring Wheat	1 st	43%
Barley	1 st	33%
Flaxseed	1 st	95%
All Sunflower	1 st	39%
Sunflower, Oil	1 st	39%
Sunflower, Non-Oil	1 st	37%
All Dry Edible Beans	1 st	27%
Pinto Beans	1 st	46%
Navy Beans	2 nd	30%
Canola	1 st	91%
Dry Edible Peas	1 st	61%
Oats	1 st	12%
Rye	2 nd	9%
Sugar Beets	3 rd	16%
Lentils	1 st	31%
Honey	1 st	17%

Source: North Dakota Agricultural Statistics Service.

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North Dakota 2004 Cash Receipts From Crops and Livestock (\$000)

	<u>Receipts</u>
Crops	\$3,152,582
Livestock	<u>938,281</u>
Total Crops & Livestock	\$4,090,864
Government Payments	<u>608,766</u>
TOTAL	<u>\$4,699,630</u>
<u>Five Leading Commodities</u>	
Wheat	\$ 1,075,122
Cattle/Calves	738,975
Soybeans	536,619
Corn	269,265
Sugar beets	240,853

Source: North Dakota Agricultural Statistics and U.S. Department of Agriculture.

Energy and Mineral Resources

Commodities commercially produced in North Dakota include oil and gas, lignite, leonardite, sand and gravel, and clay.

Oil and gas have been produced in 19 counties from an estimated 934 separate pools that have been discovered in North Dakota since 1951. North Dakota's crude oil production reached its first peak in 1966 at 27 million barrels, then declined to 19.6 million barrels in 1974. An exploration boom began in the late 1970's, triggered by higher crude oil prices, a high success ratio for wildcat wells, and significant new discoveries such as Little Knife Field in 1976. Drilling peaked in 1981, with annual crude oil production reaching its all-time peak in 1984 at 52.7 million barrels.

The downward slide in crude oil production that began in 1985 continued through 1994, when production hit its lowest point since 1979. Production in 1994 was 27.6 million barrels with a daily average of 75,826 barrels. Exploration for new oil and production of existing resources continued to lag through much of the 1990's, a result of low crude oil prices. With recent increases in crude oil prices, production has risen to almost 103,000 barrels/day in October 2005. North Dakota remains the nation's 9th ranking oil-producing state.

Lignite coal is the only rank of coal found in North Dakota in economic amounts. It underlies much of the western two-thirds of the state. Lignite is a "low-rank" coal, meaning it has been altered only slightly by heat and pressure, is still relatively soft, and has a relatively low heat value. Lignite is generally high in moisture content and volatile matter. North Dakota lignite has a low sulfur content (generally less than one percent) and a low ash content.

Twenty-one North Dakota counties have strippable lignite reserves. The North Dakota Department of Mineral Resources – Geological Survey estimates total strippable reserves of lignite at about 26 billion tons. This represents more than 60% of the recoverable lignite in the United States.

The earliest recorded economic production of lignite in North Dakota is for the year 1884, but small quantities had been mined for domestic use prior to that time. Production increased steadily, with some fluctuations, rising to above two million short tons in the late 1930's and above three million tons in the early 1950's. It remained at about that level into the early 1960's. Production turned sharply upward in the late 1960's and 1970's, chiefly to provide fuel for new electrical generating plants built in the state. By 1975, lignite production was about 11 million tons. Today, several large-scale plants are clustered near the plentiful water supply of Lake Sakakawea in west-central North Dakota.

A decade of rapidly increasing lignite production began in the mid-1970's, with production reaching about 25 million tons by 1985 and increasing to over 32 million tons by 1993. In 2005, coal production was 30.6 million tons. North Dakota currently ranks as one of the top 12 major coal-producing states.

Nearly all the lignite produced in North Dakota is consumed in the state. About 79% of the lignite mined is used to generate electricity (13.5% is used to generate synthetic natural gas, and 7.5% is used to produce fertilizer products). Electricity from lignite-fired power plants is one of North Dakota's leading exports.

Source: North Dakota Industrial Commission, North Dakota Department of Mineral Resources – Geological Survey.

Population and Labor Force

The 2000 population of North Dakota as reported by the United States Census Bureau is 642,200. The State is divided into 53 counties with the City of Bismarck as the capitol of the State and county seat of Burleigh County.

North Dakota Population by Decade, 1950-2000, Current Estimate

<u>Year</u>	<u>Population</u>	<u>Percent Change</u>
1950	619,636	(3.5%)
1960	632,446	2.1%
1970	617,792	(2.3%)
1980	652,717	5.6%
1990	638,800	(2.1%)
2000	642,200	1.3%
2005	636,677	--

2000 Population by Age

<u>Age</u>	<u>Population</u>	<u>Percent</u>
0-19	183,464	28.6%
20-24	50,503	7.9%
25-44	174,891	27.2%
45-64	138,864	21.6%
65+	<u>94,478</u>	<u>14.7%</u>
Total	<u>642,200</u>	<u>100.0%</u>

Source: U.S. Census Bureau and Job Service North Dakota.

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Total average nonagricultural employment in the State in 2004 was approximately 337,150. Below is a table with North Dakota annual nonagricultural employment for the years 2000 through 2004.

North Dakota Annual Average Total Nonagricultural Employment

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Construction	15,850	15,400	15,100	15,950	17,150
Educational and Health Services	45,050	46,000	46,700	47,650	48,550
Financial Activities	16,750	16,900	18,050	18,350	18,600
Government	73,350	73,350	74,250	75,300	74,550
Information	8,450	8,450	7,950	7,700	7,650
Leisure and Hospitality	29,350	29,400	29,850	29,950	30,750
Manufacturing	23,900	24,050	23,700	23,550	24,550
Natural Resources & Mining	3,300	3,500	3,200	3,350	3,550
Other Services	15,300	15,250	15,250	15,150	15,200
Professional and Business Services	24,900	25,250	24,100	23,700	24,050
Retail Trade	41,100	40,700	40,650	40,900	41,250
Transportation, Warehousing and Utilities	11,950	13,000	13,000	13,100	13,050
Wholesale Trade	<u>18,350</u>	<u>18,350</u>	<u>18,000</u>	<u>17,950</u>	<u>18,250</u>
Employment	<u>327,600</u>	<u>329,600</u>	<u>329,800</u>	<u>332,600</u>	<u>337,150</u>

Source: North Dakota Job Service.

**Annual Average
Unemployment Rates**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
United States	4.0%	4.7%	5.8%	6.0%	5.5%	5.0%
North Dakota	3.0%	2.9%	4.0%	3.6%	3.4%	3.4%
Bismarck MSA	2.6%	2.6%	3.2%	3.1%	3.0%	2.5%
Fargo MSA	2.0%	1.9%	2.4%	2.6%	3.2%	2.3%
Grand Forks MSA	3.4%	3.2%	4.0%	3.6%	3.7%	2.8%

Source: Job Service North Dakota and the U.S. Department of Labor, Bureau of Labor Statistics.

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Personal Income Trends

The table below shows trends in per capita personal income in current dollars in the State of North Dakota, the United States and other states in the Northern Plains Region.

	<u>Per Capita Personal Income</u>								2004
	<u>1980</u>	<u>1990</u>	<u>1995⁽¹⁾</u>	<u>2000⁽¹⁾</u>	<u>2001⁽¹⁾</u>	<u>2002⁽¹⁾</u>	<u>2003⁽¹⁾</u>	<u>2004⁽²⁾</u>	<u>Rank</u>
United States	\$9,940	\$18,667	\$23,255	\$29,760	\$30,413	\$30,941	\$31,472	\$32,937	--
North Dakota	7,641	15,320	18,899	24,990	25,798	26,982	28,922	31,398	25 th
Other Northern Plains States									
Minnesota	9,982	18,784	24,295	32,231	33,059	34,071	34,031	35,861	10 th
Iowa	9,346	16,683	20,985	26,540	27,225	28,280	28,340	30,560	32 nd
South Dakota	7,701	15,628	19,588	25,815	26,566	26,894	28,856	30,856	28 th
Montana	8,728	14,743	18,592	22,961	24,044	25,020	25,406	26,857	46 th

(1) Revised

(2) Preliminary

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Taxable Sales and Purchases

Below is a table which sets forth the taxable sales and purchases within the State of North Dakota by sales category for the fiscal years 2001-2005.

<u>Sales Category</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Mining, Construction, & Manufacturing	\$ 532,281,142	\$ 540,338,418	\$ 531,975,232	\$ 603,718,143	\$ 692,584,104
Transportation, Communication, & Public Utilities ⁽¹⁾	659,367,459	599,641,011	648,627,210	763,314,774	825,034,776
Wholesale & Retail Trade	5,012,155,708	5,243,133,516	5,067,840,360	5,485,101,552	5,808,142,711
Services	685,894,218	708,635,488	715,890,346	763,810,335	794,169,518
Other	<u>46,209,173</u>	<u>60,128,993</u>	<u>69,892,481</u>	<u>64,078,624</u>	<u>70,949,487</u>
Total	<u>\$6,935,907,700</u>	<u>\$7,151,877,426</u>	<u>\$7,034,225,629</u>	<u>\$7,680,023,428</u>	<u>\$8,190,880,596</u>

(1) Includes Gas and Sanitary Services.

Source: North Dakota Sales and Use Tax statistical report, North Dakota Tax Department and the Comprehensive Annual Financial Report of the State.

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APPENDIX B

The Indenture and a Form of the Lease

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\$10,460,000
NORTH DAKOTA BUILDING AUTHORITY
LEASE REVENUE REFUNDING BONDS
2006 SERIES A

TRUST INDENTURE
AND
ASSIGNMENT OF LEASE RENTALS

between

INDUSTRIAL COMMISSION OF NORTH DAKOTA
acting as the North Dakota Building Authority

and

BANK OF NORTH DAKOTA
as Trustee

Dated as of February 1, 2006

Cook Wegner & Wike PLLP
3801 Lockport Street, Suite 1
Bismarck, ND 58503
Phone: 701-255-1008
Fax: 701-255-6325
E-mail: cww@cwwbondlaw.com

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TRUST INDENTURE

THIS TRUST INDENTURE AND ASSIGNMENT OF LEASE RENTALS, dated as of February 1, 2006, by and between the State of North Dakota acting by and through the INDUSTRIAL COMMISSION OF NORTH DAKOTA acting as the NORTH DAKOTA BUILDING AUTHORITY, a governmental agency created by the laws of the State, and the BANK OF NORTH DAKOTA, a bank organized by and existing pursuant to the laws of the State and having its main office and place of business in the City of Bismarck, North Dakota.

WITNESSETH

WHEREAS, the Authority (such term, and each other capitalized term used herein, having the meaning set forth in Appendix A hereof) is a duly organized and existing instrumentality of the State under the Act; and

WHEREAS, the Authority issued the State of North Dakota, North Dakota Building Authority Lease Revenue Bonds, 1998 Series A on March 18, 1998, in the original principal amount of \$8,360,000 (the "**1998 Series A Bonds**"); and

WHEREAS, the Authority issued the State of North Dakota, North Dakota Building Authority Lease Revenue Bonds, 2000 Series A on April 20, 2000, in the original principal amount of \$4,430,000 (the "**2000 Series A Bonds**"); and

WHEREAS, the 1998 Series A Bonds and the 2000 Series A Bonds shall collectively be referred to as the "**Prior Bonds**"; and

WHEREAS, the Authority is authorized, under the Act, to issue and sell its bonds for the purpose of refunding bonds previously issued, paying all costs of issuance and funding of reserves, and is authorized to pledge revenues as herein provided to a trustee to secure the payment of principal and interest on bonds and to enter into this Indenture with the Trustee for the benefit and security of the Bondholders; and

WHEREAS, the Authority has deemed it advisable to advance refund the Prior Bonds and to preserve the pledge of the lease revenues and real property security interests pledged to the Prior Bonds to the Bonds issued hereunder and to enter into this Indenture to secure the payment of the Bonds described in this Indenture, and has duly authorized and directed the issuance of such Bonds; and

WHEREAS, the proceeds of such Bonds, together with any other available funds, will be used to advance refund the Prior Bonds, fund the Reserve Fund and pay costs of issuance; and

WHEREAS, the Authority has acquired interests in the Projects; and

WHEREAS, as permitted by the Act, the Authority has entered into a Lease with each Agency providing for, among other items, rentals payable in amounts and at times which shall include amounts adequate to pay the principal of and interest on the Bonds when due; and

WHEREAS, the execution and delivery of this Indenture and the issuance of the Bonds have been in all respects duly and validly authorized by the Authority pursuant to the Bond Resolution; and

WHEREAS, the execution and delivery of this Indenture has been duly authorized by the Authority, and all conditions, acts and things necessary and required by the Constitution and laws of the State, or otherwise, to exist, to have happened or to have been performed precedent to and in the execution and delivery of this Indenture, and in the issuance of the Bonds, do exist, have happened or have been performed in regular form, time and manner; and

WHEREAS, the Trustee has accepted the trust created by this Indenture and in evidence thereof has joined in the execution hereof;

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

GRANTING CLAUSES

That the Authority, in order to secure the payment of the principal of and interest on the Prior Bonds and the Bonds issued under this Indenture according to their tenor and effect and the performance and observance of each and all of the covenants and conditions herein and therein contained, whether now or hereafter existing and whether absolute or contingent, and for and in consideration of the premises and of the purchase and acceptance of the Bonds by the respective registered Owners thereof, and for other good and valuable consideration, the receipt whereof is hereby acknowledged, has executed and delivered the Prior Bonds Indentures, the Granting Clauses thereof which are incorporated by reference as though fully set out herein, and by such presents did mortgage, grant, bargain, sell, assign, transfer, convey, and pledge a security interest in and a lien upon and set over, unto the Trustee and to its successor or successors in the trust thereby created and to its assigns forever:

I.

All the Authority's present and future interest in the Projects and any Additional Security, as defined and described herein.

II.

The reversion or reversions, remainder or remainders, in and to the Projects described in Granting Clause I hereof and each and every part thereof, together with the entire interest of the Authority in and to all and singular the tenements, hereditaments, easements, rights, privileges and appurtenances to the Projects belonging or in any wise appertaining thereto.

III.

All right, title and interest of the Authority as lessor under the Leases and all Basic Rent payable under Section 3.3 of the Leases and the Additional Rent payable under Section 3.5(d) of the Leases, due or to become due thereunder or any extension or renewal thereof.

IV.

All the (i) moneys, securities and investments in the Bond Fund, the Reserve Fund, the Repair and Replacement Fund, and the Administration Fund covenanted to be created and maintained under this Indenture, and (ii) accounts, contract rights, general intangibles, moneys and instruments arising therefrom or relating thereto and all proceeds and products of and accessions to any thereof.

V.

All investment earnings in the Escrow Account.

VI.

All proceeds from any property described in the Granting Clauses and any and all other interests in the Leases for the Projects of every name and nature from time to time hereafter by delivery or by writing of any kind assigned or transferred, or in which a security interest is granted, by the Authority or the Agencies or by anyone on behalf of them or with their written consent, to the Trustee which is hereby authorized to receive any and all such interest in the Leases for the Projects at any and all times and to hold and apply the same subject to the terms hereof.

SUBJECT, however, to Permitted Encumbrances, all benefit, security interest in and protection granted by this Indenture shall be perfected by filing in the records of the Commission pursuant to NDCC §54-17.2-17.

TO HAVE AND TO HOLD all and singular the property interests hereby conveyed and assigned, or agreed or intended so to be, to the Trustee, its successor or successors in trust and its assigns, FOREVER.

IN TRUST NEVERTHELESS, upon the terms and trust herein set forth, for the equal and proportionate benefit, security and protection of all Owners of the Bonds issued or to be issued under and secured by this Indenture, without preference, priority or distinction as to lien or otherwise of any of the Bonds over any of the others.

PROVIDED, HOWEVER, that if the Authority, its successors or assigns, shall well and truly pay or cause to be paid the principal, premium, if any, of the Bonds and the interest due or to become due thereon, at the times and in the manner mentioned in the Bonds according to the true intent and meaning thereof, or shall provide, as permitted hereby, for the payment thereof by depositing with the Trustee sums sufficient to pay the entire amount due or to become due thereon, and shall well and truly keep, perform and observe all the covenants and conditions pursuant to the terms of this Indenture to be kept, performed and observed by it and shall pay to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions hereof; then upon such final payment this Indenture and the rights hereby granted shall cease, determine and be void; otherwise, this Indenture to be and remain in full force and effect.

NOW, THEREFORE, it is mutually covenanted and agreed for the equal and proportionate benefit of all Owners the Bonds as follows:

**ARTICLE I
DEFINITION OF CERTAIN TERMS**

Section 1.01. Defined Terms. Definitions used herein are defined in Appendix A hereto.

Section 1.02. Characteristics of Certificate. Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include: (1) a statement that the person or persons making such certificate or opinion have read such covenant or condition and the definitions herein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (3) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such covenant or condition has been complied with; and (4) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such certificate made or given by an officer of the Authority or the Agencies may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by Counsel, unless such officer knows that the certificate or opinion or

representations with respect to the matters upon which his certificate or opinion may be based as aforesaid are erroneous, or, in the exercise of reasonable care, should have known that the same were erroneous.

ARTICLE II THE BONDS

Section 2.01. Authorization and Terms of Bonds. There is hereby established an issue of Bonds of the Authority to be issued as a single series of Bonds and to be known and designated as "North Dakota Building Authority Lease Revenue Refunding Bonds, 2006 Series A". The aggregate principal amount of Bonds that may be authenticated and delivered under this Indenture is limited to and shall not exceed \$26,000,000.

The Bonds shall be dated February 15, 2006, and shall mature on December 1 in each of the years and in the principal amounts, either as serial bond maturities or as term bond sinking fund installments, and shall bear interest at the rates per annum as set forth in Exhibit D and any Exhibit E hereto.

The Bonds shall be issued as fully registered Bonds without coupons in denominations of \$5,000 and any integral multiple thereof. The Bonds shall be numbered in such manner, as the Registrar shall determine.

The Bond shall initially be issued as book-entry only bonds with one certificate issued for each stated maturity of the Bonds in the aggregate principal amount equal to the principal amount of that maturity set forth above. The Bonds shall be initially registered in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York ("**DTC**"), and the Trustee shall treat the record owner as the absolute owner of the Bonds. So long as Cede & Co. is the registered Owner of the Bonds, references herein to the Owner, Bondholder or Holder shall mean Cede & Co. and shall not mean the beneficial owners of the Bonds.

The Authority has obtained an Issuer Blanket Letter of Representations from DTC and acknowledgment stating that DTC and its participants agree that the State and the Authority shall have no liability for the failure of DTC to perform its obligations to the participants as set forth in the "Operational Arrangements," "Rules" or "Procedures" of DTC; nor shall the State or the Authority be liable for the failure of any participant to perform any obligation the participant may incur to a beneficial owner of any Bond.

The interest payable on each Interest Payment Date for the Bonds shall be that interest which has accrued through the last day of the last complete Interest Period immediately preceding the Interest Payment Date or, in the case of the Maturity of the Bonds, the last day preceding the date of such Maturity.

The Debt Service on the Bonds shall be payable by wire transfer to the Owner.

The Bonds are subject to redemption before their Stated Maturities upon the terms and conditions and at the Redemption Prices specified in ARTICLE III hereof.

Section 2.02. Purposes of Issuance of Bonds. The Bonds are being issued (i) to advance refund the Prior Bonds, (ii) to either deposit an amount in the Reserve Fund or provide a Credit Facility, and (iii) to pay Costs of Issuance.

Section 2.03. Deposit of Bond Proceeds and Transferred Proceeds. The \$10,460,000 principal amount of the Bonds, less an Underwriter's Discount of \$70,176.80, plus a net premium of \$55,858.35 and accrued interest of \$-0-, being the \$10,445,681.55 derived from the sale of the Bonds, plus the \$1,066,650.06 transferred proceeds of the Prior Bonds, shall be deposited with the Trustee as follows:

(a)	To the Bond Fund (accrued interest)	\$-0-
(b)	To the Reserve Fund	\$1,046,000.00
(c)	To the Administration Fund	\$77,994.79
(d)	To the Bank of North Dakota for deposit in the Escrow Account under the Escrow Agreement	\$10,388,336.82

Section 2.04. Form of Bonds. The Bonds, the certificate of authentication and the assignment shall be in substantially the form(s) of Exhibit A attached hereto with such variations, omissions and insertions as are incidental to their numbers, denominations, maturities, interest rates, redemption provisions and other details as permitted or required by law or by this Indenture.

Section 2.05. Execution, Authentication and Delivery. The Bonds shall be executed on behalf of the Authority by the manual or facsimile signatures of the Governor of the State and the seal of the Commission or a facsimile thereof shall be thereunto affixed and attested by the manual or facsimile signature of the Secretary of the Commission. In case any officer who shall have signed (whether manually or by facsimile) any of the Bonds shall cease to be such officer of the Authority or the Commission, as the case may be, before the Bonds have been authenticated or delivered or sold, such Bonds with the signature thereto affixed may nevertheless be authenticated and delivered, and may be sold by the Authority, as though the person who signed such Bonds had remained in office.

At any time and from time to time after the execution and delivery of this Indenture, the Authority may deliver Bonds executed by the Authority to the Trustee for authentication; and upon Authority Certificate the Trustee shall authenticate and deliver such Bonds as in this Indenture provided and not otherwise.

No Bond shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose, unless there appears on such Bond a certificate of authentication substantially in the form provided for in Exhibit A attached hereto executed by the Trustee by the manual signature of one of its authorized officers, and such certificate upon any Bond shall be conclusive evidence that the Bond has been duly authenticated and delivered hereunder. It shall not be necessary that the same officer or employee sign the certificate of authentication on all of the Bonds.

ARTICLE III REDEMPTION; PURCHASE OF BONDS

Section 3.01. Optional Redemption of Bonds. Bonds maturing on and after December 1, 2015, may be redeemed from moneys deposited to the credit of the Bond Fund pursuant to Sections 3.8 and 6.2 of the Leases at the option of the Authority, in whole or in part, on any Business Day and subject to compliance with the requirements of Section 3.03 hereof, by direction of the Authority, on or after December 1, 2014, at a Redemption Price equal to 100% of the principal amount thereof plus accrued interest thereon to the Redemption Date.

The election of the Authority to redeem any Bonds shall be evidenced by an Authority Certificate. The Authority shall, at least 45 days before the redemption of any Bonds pursuant to this Section 3.01 (unless a shorter notice shall be satisfactory to the Trustee), deliver to the Trustee such Authority Certificate, which shall state the Redemption Date, principal amount and Stated Maturities of Bonds (or portions thereof) to be redeemed.

Section 3.02. Sinking Fund Redemption of Bonds and Extraordinary Optional Redemption.

- (a) Sinking Fund Redemption of Term Bonds. Any Term Bond or Bonds in principal amount set out in any Exhibit E attached hereto is or are subject to sinking fund redemption in part by lot at a Redemption Price equal to 100% of the principal amount thereof together with accrued interest thereon to the Redemption Date on December 1 of the years and in the principal amounts set out in such Exhibit E.
- (b) Extraordinary Optional Redemption. In the event of damage, destruction or Condemnation of a Project or a part thereof, Bonds shall be subject to redemption prior to their Stated Maturity, in whole or in part, on any Business Day, at a Redemption Price equal to 100% of the principal amount of such Bonds or portions thereof to be redeemed, together with accrued interest thereon to the Redemption Date, in the principal amount equal to moneys which are deposited in or transferred to the Bond Fund pursuant to Section 4.4 of the Leases. The Trustee shall apply any such amounts described above to the redemption of the Bonds in accordance with the applicable provisions of such Section and this Section 3.02(b) on the first day of the month after which proper notice of redemption has been given; provided, however, that such amount to be applied to such redemption shall be rounded to the next lower \$5,000 multiple.

Section 3.03. Selection of Bonds for Redemption. The Outstanding Bonds subject to redemption shall, unless otherwise directed by the Authority, be redeemed. If less than all of the Outstanding Bonds of a serial maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by lot in such manner as the Trustee shall deem fair and appropriate, in denominations not less than \$5,000.

The Trustee shall promptly notify the Authority, the Registrar and the Paying Agent in writing of the Bonds selected for redemption and, in the case of any Bond selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Bonds shall relate, in the case of any Bond redeemed or to be redeemed only in part, to the portion of the principal of such Bond which has been or is to be redeemed.

Section 3.04. Notice of Redemption. Notice of redemption shall be given by the Trustee in accordance with the requirements of The Depository Trust Company, so long as the bonds are held in book entry form with Cede & Co. as the nominee registered owner.

Notice of redemption having been given as aforesaid and moneys sufficient to pay the Redemption Price and accrued interest thereon to the Redemption Date having been deposited with the Trustee on or prior to the Redemption Date, the Bonds so to be redeemed shall on the Redemption Date, become due and payable at the Redemption Price specified plus accrued interest thereon to the Redemption Date and on and after such date (unless the Authority shall default in the payment of the Redemption Price and accrued interest) such Bonds shall cease to bear interest. Upon surrender of any such Bonds for redemption in accordance with such notice, such Bond shall be paid at the Redemption Price thereof plus accrued interest to the Redemption Date. Installments of interest due on or before the Redemption Date shall continue to be payable.

No notices of redemption under this Section 3.04 other than any redemption of Term Bonds shall be sent by the Trustee until funds sufficient for such redemption have been deposited to the credit of the Bond Fund or until arrangements satisfactory to the Trustee have been made for the deposit of such amounts.

Section 3.05. Purchase of Bonds. The Authority may, at any time, authorize and direct the Trustee to purchase Bonds in the open market from available moneys in the Bond Fund, such purchases to be made at a price not in excess of the principal amount thereof plus accrued interest thereon to the purchase date. In addition, the Authority may, from time to time, direct the Trustee to request the submission of tenders requesting such submission prior to making the purchases authorized pursuant to this Section 3.05. The Authority may specify the maximum and minimum period of time which shall transpire between the date upon which such notice is to be given and the date upon which such tenders are to be accepted or may authorize the Trustee to determine the same in its discretion. No tenders shall be considered or accepted at any price exceeding the maximum price (which shall not exceed the price specified in the first sentence of this paragraph) specified by the Authority for the purchase of the Bonds. The Trustee shall accept bids with the lowest price and, in the event the moneys available for purchase pursuant to such tenders are not sufficient to permit acceptance of all tenders and if there shall be tenders at an equal price above the amounts of moneys available for purchase, then the Trustee shall determine in its discretion which of the Bonds tendered shall be purchased.

ARTICLE IV RESERVED

ARTICLE V FUNDS; DISPOSITION OF PLEDGED REVENUES

Section 5.01. Bond Fund. The Authority covenants that it will establish and maintain or cause to be established and maintained, so long as any of the Bonds are Outstanding, with the Trustee a separate Fund to be designated the Bond Fund which shall be held by the Trustee in trust for application only in accordance with the provisions of this Indenture.

The Trustee shall deposit into the Bond Fund (i) the amount of Bond proceeds representing accrued interest paid on the Bonds on the date of purchase by the Original Purchaser, (ii) payments of Basic Rent received by the Trustee pursuant to the Leases, (iii) any Balance remaining in the Administration Fund relating to the Bonds as required by Section 5.06 hereof, (iv) investment earnings as provided in Section 5.03 hereof, (v) the money authorized to be transferred from the Reserve Fund hereunder, (vi) money transferred pursuant to Section 3.01 and Section 3.02 hereof for redemption of the Bonds, (vii) such amount as necessary to pay at the earliest redemption date after the Bond closing, the principal and any accrued interest on any interim borrowings, and (viii) any other moneys required by the terms of this Indenture to be deposited in the Bond Fund or paid to the Trustee under the Leases or this Indenture for credit to the Bond Fund.

Any Balances in the Bond Fund shall be used for the payment of Debt Service on the Bonds and to pay Debt Service on the Bonds duly called for redemption in accordance with ARTICLE III hereof. Amounts required for such purpose shall be applied by the Trustee therefor without further authorization or direction.

Section 5.02. Reserve Fund. The Authority covenants that it will establish and maintain, so long as any of the Bonds are Outstanding, with the Trustee a Fund to be designated the Reserve Fund, to be initially funded by a deposit of bond proceeds or cash or a Credit Facility as provided in Section 14.13 hereof. Unless a Credit Facility is provided, the Trustee shall, upon receipt from Bond proceeds, credit to the Reserve Fund the amounts designated in Section 2.03 hereof.

The value of Permitted Investments credited to the Reserve Fund shall be determined by the Trustee as of each Interest Payment Date. In the event the Balance in the Reserve Fund is less than the Reserve Fund Requirement, the Trustee will deposit amounts paid to the Trustee pursuant to Section 3.5(d) of the Leases. In the event the Balance in the Reserve Fund is greater than the Reserve Fund Requirement, the Trustee shall transfer such excess to the Rebate Fund or Bond Fund. Any interest or profit derived from investments shall be credited to the Rebate Fund or the Bond Fund at the direction of the Authority.

The Reserve Fund shall be used and applied solely for the payment of Debt Service on the Bonds, except as otherwise provided in Section 5.08(d) hereof, upon transfer to the Bond Fund at any time when the Balance in the Bond Fund is insufficient to meet the requirements specified herein for payment of Debt Service on the Bonds; provided, however, that on the Stated Maturity or any Redemption Date of the Bonds, the moneys in the Reserve Fund may be applied to the payment of the maturing principal amount of such Bonds or to the Redemption Price (i) to the extent that such application will not reduce the Balance of the Reserve Fund below an amount equal to the Reserve Fund Requirement, or (ii) with respect to the retirement or redemption of Bonds within two years of the final Maturity of all Bonds, to the extent that such application will not reduce the Balance of the Reserve Fund below an amount at least equal to the remaining principal amount of all then Outstanding Bonds, whether or not other moneys are available for the payment of such maturing or redeemed Bonds; and provided, further, that at any time when the aggregate of the Balance in the Bond Fund and the Reserve Fund equal an amount sufficient to redeem or retire at maturity all of the then Outstanding Bonds at the next Redemption Date or Stated Maturity, as the case may be, applicable to such Bonds, said Balance may thereafter be applied to such redemption in advance of the Stated Maturity of such Bonds, or applied to such payment of Bonds at their Stated Maturity, as the case may be, and whether or not other moneys are available for such redemption or payment.

The Trustee, at the direction of the Authority, shall make a reduction in the Reserve Fund Requirement on deposit in the Reserve Fund in the amount of \$656,000.00 on December 1, 2018, provided that the reduced Reserve Fund Requirement is met.

Section 5.03. Investment of Funds. Moneys on deposit to the credit of the Funds shall be invested by the Trustee in Permitted Investments. The Trustee may make any and all investments permitted under this Section through its own investment

department. Obligations so purchased shall be deemed at all times to be a part of the respective Fund, but may from time to time be sold or otherwise converted into cash, whereupon the proceeds derived from such sale or conversion shall be credited to such Fund. Any interest accruing or any profit realized from such investment shall be credited to the specific Fund as specified elsewhere in this Indenture. Investment income credited to the Bond Fund shall be credited against the amount of Basic Rent required to be deposited in the Bond Fund under Section 3.3 of the Leases prior to the next Interest Payment Date. The Trustee shall redeem or sell, at the best price obtainable, any obligations so purchased, whenever it shall be necessary to do so in order to provide moneys to meet any payment from the Bond Fund. The Authority shall direct the Trustee to, or in the absence of direction the Trustee shall, invest and reinvest the moneys in any Fund or any combination of Funds in Permitted Investments so that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended. If such Permitted Investments include any book entry government securities, the Trustee shall have such Permitted Investments held in the name of the Trustee at the appropriate Federal Reserve Bank. The Trustee shall sell at the best price obtainable in accordance with usual and customary trust department procedures, or present for redemption, any Permitted Investments purchased by it as an investment whenever it shall be necessary to provide moneys to meet any payment from such Fund. Neither the Trustee nor the Authority shall be liable for any loss resulting from any such investment, nor from failure to preserve rights against endorsers or other prior parties to instruments evidencing any such investment. Investment of funds pursuant to this Section shall be limited as to amount and Yield of investment in such manner that no part of the Outstanding Bonds shall be deemed "arbitrage bonds" under Section 148 of the Internal Revenue Code and regulations promulgated thereunder, and in accordance with the Tax Certificate.

Section 5.04. Transfer of Permitted Investments. Whenever any transfer is required by this Indenture to be made from any Fund to any other Fund, the Trustee may use Permitted Investments included in the Balance of the former to the extent necessary to make such transfer, but only to the extent such Permitted Investments are permissible investments for the Fund to which they are to be transferred. The amount of any such transfer of Permitted Investments shall be the value of Permitted Investments determined with respect thereto as of the date of transfer.

Section 5.05. Termination. When no Bonds remain Outstanding, the Trustee shall transfer to the Authority, or to the order of the Authority, the Balances in all Funds if, and to the extent that, such Balances are in excess of amounts needed to pay Debt Service on the Bonds, any amount required to be rebated to the United States and the Bond Fees. To the extent that such Balances are needed to pay such amounts or fees, the Trustee shall retain such Balances hereunder and pay such amounts or fees to the Persons to who such amounts are due and payable as provided hereunder. In the event that any portion or all of the Balances in the Funds payable to the Authority pursuant to this Section consist of Permitted Investments which are payable solely to the Trustee and cannot be effectively transferred to the Authority, the Trustee shall continue to hold such Permitted Investments under this Indenture on behalf of the Authority until such time as such securities can be transferred to the Authority or amounts payable thereunder received, whether by acceleration at the option of the holder thereof, at maturity or otherwise, all at the direction of an Authorized Officer.

Section 5.06. Administration Fund. The Authority covenants that it will establish and maintain, so long as any of the Bonds are Outstanding, with the Trustee a Fund to be designated the Administration Fund. The Trustee shall, upon delivery of the Bonds to the Original Purchaser thereof and from Bond proceeds, credit to the Administration Fund the amount specified in Section 2.03 hereof. The Trustee shall also credit to the Administration Fund all amounts received pursuant to Section 3.5(a), (b) and (c) of the Leases.

Amounts in the Administration Fund shall, upon receipt by the Trustee of Authority Certificates, or other Trustee approved vouchers, directing the payment to designated payees in designated amounts for stated services, or in the case of reimbursement of the Authority for its expenses, to the Authority, and in each case certifying that such payment is authorized by this Indenture, be used for and applied only to pay Costs of Issuance, Administrative Expenses and Bond Fees or to reimburse another Fund or other source of the Authority, for the previous payment of such Costs of Issuance, Administrative Expenses or Bond Fees incurred before, on or after the date of delivery of the Bonds. Payments from the Administration Fund for such purposes shall be made by check or draft, but only in accordance with such Authority Certificates or vouchers.

The Balance in the Administration Fund shall also be applied to the following purposes in the following order of priority: to remedy deficiencies in the Bond Fund; to remedy deficiencies in the Rebate Fund; to pay Costs of Issuance, Bond Fees and Administrative Expenses; and any reimbursement to the Agencies or authorized entities of the Agencies.

When directed by the Authority, any Balance remaining in the Administration Fund from the Bond proceeds deposited to the credit of the Administration Fund pursuant to Section 2.03 hereof shall be deposited by the Trustee in the Bond Fund and applied as provided in Section 5.01 hereof.

Pending transfers from the Administration Fund, the moneys therein shall be invested in Permitted Investments, and any earnings on or income from such investments shall be deposited in the Bond Fund as provided in Section 5.01 hereof.

Section 5.07. Building Authority Fund. All Funds created by this Indenture shall be Funds within the Building Authority Fund as established by NDCC §54-17.2-20.

Section 5.08. Rebate Fund. The Authority covenants that it will establish and maintain, so long as any Bonds are Outstanding, with the Trustee a separate Fund to be designated the Rebate Fund. The Trustee shall credit to the Rebate Fund any Excess Earnings.

- (a) The Authority shall calculate or cause to be calculated by Counsel, by an Independent Accountant or by a rebate analyst acceptable to the Trustee at the times set forth below, the Excess Earnings and the Trustee shall within 30 days thereafter transfer to the Rebate Fund the amount equal to (i) the Excess Earnings, plus (ii) investment income attributable to the Excess Earnings, if any. In order to comply with this Section 5.08, the Trustee is authorized to obtain such opinions of Bond Counsel, reports of accountants and certificates of the Authority, and rely on the information contained in such reports or certificates which may be necessary for the purpose of this calculation. The expenses incurred by the Authority or the Trustee shall be borne or reimbursed pro rata by the Agencies and paid as Additional Rent.
- (b) No determination of Excess Earnings shall be made with respect to the Bond Fund as long as the Bond Fund is depleted annually except for an amount not to exceed the greater of one-twelfth of annual Debt Service or one year's earnings on the Bond Fund.
- (c) The Trustee, acting on behalf of the Authority, shall make installment payments of the Excess Earnings at the times and in the amounts required by the Internal Revenue Code.
- (d) In the event that (i) insufficient moneys are credited to the Rebate Fund to make any rebate or other payment required by subsection (c) hereof, and (ii) the Trustee shall not have received an Opinion of Bond Counsel, filed with the Trustee within five Business Days after the occurrence of the event described in clause (i) above, to the effect that failure to make such rebate or other payment will not cause the interest on the Bonds to be subject to income taxation under the Internal Revenue Code, the Trustee shall withdraw immediately the amount of any such deficiency from the following Funds in the following order of priority:
 - (1) The Administration Fund
 - (2) The Reserve Fund
 - (3) The Bond Fund

In the event that the Trustee receives the opinion of Bond Counsel to the effect that all or a part of the Excess Earnings are not required to be rebated to the United States, the Trustee shall transfer any such amount held in the Rebate Fund to the Bond Fund, which amount shall be a credit against the next payment of Rent. Notwithstanding any provision of this Section, if the Authority shall provide to the Trustee an Opinion of Bond Counsel that any specified action required under this Section is no longer required or that some further or different action is required to maintain or assure the exclusion from federal gross income of interest with respect to the Bonds, the Trustee and the Authority may conclusively rely on such Opinion in complying with the requirements of this Section, and the provisions herein shall be deemed to be modified to that extent.

Section 5.09. Repair and Replacement Fund. The Authority covenants that it will establish and maintain with the Trustee a Fund to be designated the Repair and Replacement Fund if and to the extent it receives Net Proceeds of insurance or Condemnation awards.

Moneys held in the Repair and Replacement Fund will be applied by the Trustee to the payment of the costs of repair, replacement or restoration upon such terms as the Trustee may reasonably require. Any earnings on or income from the investment of moneys in the Repair and Replacement Fund shall be retained therein and expended for costs of repair, replacement or restoration. Any balance remaining in the Repair and Replacement Fund after the payment of all costs of any repair, replacement or restoration shall be transferred to the Bond Fund and used to pay the principal of the Bonds including the redemption of Term Bonds.

ARTICLE VI PARTICULAR COVENANTS OF THE AUTHORITY

The Authority covenants and agrees, so long as any of the Bonds shall be Outstanding and subject to the limitations on its obligations herein set forth, that:

Section 6.01. Payment of Bonds. It will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture and the Bond Resolution and in each and every Bond executed, authenticated and delivered hereunder; will pay or cause to be paid, solely from the Basic Rent, any pledged net revenues and income of the Projects, the Debt Service on every Bond issued hereunder on the dates, at the places and in the manner prescribed in the Bonds; and will cause any pledged net revenues and income to be deposited with the Trustee prior to the due date of each installment of principal and interest and prior to the Maturity of any Bond in amounts sufficient to pay such Debt Service due on the Bond; provided, however, that the Debt Service on any Bond is not and shall not be deemed to represent a debt or pledge of the faith or credit or constitute an obligation of the State or grant to the Owner of any Bond any right to have the State or the Authority levy any taxes or appropriate any funds to the payment of principal of or interest on the Bonds, such payment to be made solely and only out of the revenues and income to be produced and received from the Basic Rent, any pledged net revenues and income of the Projects, those moneys held by the Trustee hereunder and hereby appropriated to such payment, and/or any other funds available and authorized by law.

Section 6.02. Appropriation Request. It will, upon notification from the Trustee, request that the legislative assembly of the State include in the executive budget of the State sufficient moneys for the payment of Rent pursuant to the Leases, if any Agency

has failed to comply with the requirements of Section 3.13 of the Leases and if the amounts available to the Trustee will not be sufficient to pay the principal of and interest on the Bonds when due.

Section 6.03. Powers of the Authority. It is duly authorized under the Constitution and laws of the State to acquire, install, renovate, construct and lease the Projects, to issue and sell the Bonds, to refund the Prior Bonds, to execute this Indenture and the Escrow Agreement and assign and pledge to the Trustee the Trust Estate, including any pledged net revenues and income of the Projects, and to make the covenants as herein provided. All necessary action and proceedings on its part to be taken for the creation and issuance of the Bonds, the refunding of the Prior Bonds, and the execution and delivery of this Indenture and the Escrow Agreement have been duly and effectively taken and the Bonds in the hands of the Owners thereof are and will be valid and enforceable limited obligations of the Authority in accordance with their terms.

Section 6.04. Title or Other Real Property Interest and Possession. It is lawfully possessed of the Projects, subject only to the provisions of the Act. Title to or other legally sufficient real property interest in the Projects, including the Sites and any Additional Security, is vested in the Authority. There is no pledge of or lien or charge upon any pledged revenues or income of the Projects pursuant to the Leases other than the pledge and lien granted or assigned to the Trustee by this Indenture.

Section 6.05. Payment of Lawful Charges. It will, from time to time and before the same become delinquent, pay or cause the Agencies to pay and discharge all taxes, assessments, governmental charges and claims for rent, royalties, labor, materials or supplies which if unpaid might by law become a lien or charge upon the Projects, the Sites, or any pledged revenues and income therefrom superior to, or which might interfere with, any pledge of and lien on the Trust Estate, including any pledged revenues and income of the Projects, and covenants and security granted hereby; provided, however, that no such tax, assessment, charge or claims shall be required to be paid if the Authority shall not have funds legally available therefor or so long as the Authority or the Agencies shall in good faith contest the validity thereof and provide security satisfactory to the Trustee against enforcement and for payment thereof.

Section 6.06. To Maintain the Projects. It will not do or suffer to be done any act or thing whereby the Projects might or could be encumbered or the usefulness thereof impaired, and will at all times cause the Projects and the machinery, equipment, and the Sites thereof to be maintained, preserved and kept in good condition, repair and working order and from time to time cause to be made, from funds legally available therefor, all necessary renewals, repairs, replacements and alterations.

Section 6.07. Concerning the Leases. It will not modify or amend or consent to modification or amendment of the provisions of the Leases without the consent and approval of the Trustee. The consent of the Trustee may be given, if in its judgment the Bondholders will not be prejudiced thereby. The Authority shall take such action or cause and permit the Trustee to take such action as may be necessary or advisable to enforce the covenants, terms and conditions of the Leases, including the exercise of any right of repossession of the Projects or termination of an Agency's rights as tenant under the Leases if such action shall, in its discretion, be deemed to be in the best interest of the Authority or the Bondholders. The Authority shall do or cause to be done all things on its part as lessor under the Leases so that the obligations of the Agencies thereunder shall not be impaired or excused. If any Lease shall terminate, the Authority shall use its best efforts to again lease the Projects for the purposes and in accordance with the requirements of the Act subject to the rights of the Trustee.

Section 6.08. Not to Sell, Assign, Encumber or Pledge. Except as permitted by the terms of this Indenture, it will not sell, assign or encumber the Projects, or permit the same to be sold, assigned or encumbered except for Permitted Encumbrances; will not mortgage or encumber the Projects or pledge or assign any pledged revenues and income of the Projects or any part thereof, or permit an encumbrance of the Projects or the assignment or pledge of any pledged revenues thereof, if the mortgage, encumbrance, pledge or assignment might be or become a charge or lien on the Projects or any pledged revenues and income of the Projects prior or equal to the pledge and lien herein provided for the security of the Bonds or if such mortgage, pledge or assignment might interfere with the pledge and lien herein provided; or if such pledge, mortgage or lien would cause the Bonds to be an obligation of the State pursuant to the North Dakota Constitution, Article X, Section 13.

Section 6.09. To Observe Lawful Regulations. It will well and truly keep, observe and perform all obligations and regulations lawfully imposed upon it by law, contract or otherwise as a condition of continued enjoyment of its rights, privileges and franchises, leasehold interest in or title to the Projects.

Section 6.10. Fire and Extended Coverage Insurance on the Projects. The Authority will cause the Agencies to procure and maintain, so long as any Bonds are Outstanding hereunder, insurance pursuant to the requirements of Article IV of the Leases.

Section 6.11. Concerning the Insurance Policies. In case of any default by an Agency in fulfilling the covenants with respect to maintaining any of the insurance policies required under Section 4.3 of the Leases and Section 6.10 hereof, the Trustee may, and at the direction of the Authority upon indemnification of the Trustee satisfactory to the Trustee shall, effect such insurance in the name of the Authority or the Agency or in the name of the Trustee. All money paid by the Trustee as premiums upon such insurance shall be repaid to it by the Agency, upon demand, with interest at the rate equal to the base rate of the Bank of North Dakota and, if not so repaid, shall be secured by the lien of this Indenture subordinate to the indebtedness evidenced by the Bonds issued hereunder.

Upon the happening of any loss or damage covered by any such policies from one or more of the causes to which reference is made in Section 6.10, the Authority shall make or cause the Agency to make due proof of loss containing a power of attorney in

favor of the Trustee to endorse all drafts drawn for the payment thereof to the order of the Trustee, and to sign receipts therefor, and shall do all things necessary or desirable to cause the insuring companies to make payments in full directly to the Trustee.

Section 6.12. Repairs and Reconstruction. Unless an Agency exercises the option to prepay Rent for the purpose of redeeming a portion of the Bonds pursuant to Section 4.4 of the Leases, in the event of any loss or damage to or destruction or Condemnation of the Projects, the Authority will promptly cause to be repaired, reconstructed or restored the damaged or destroyed portion thereof or portion of the Projects taken by Condemnation, and will apply the Net Proceeds of the insurance policies or Condemnation awards solely for that purpose as provided in Section 4.4 of the Leases, by deposit to the Repair and Replacement Fund to be disbursed pursuant to Section 5.09 hereof.

Any amounts held by the Trustee or by the Authority and remaining in the Repair and Replacement Fund at the completion of, and payment for, such repair, reconstruction or restoration, may be deposited in the Bond Fund and applied to the reduction of the principal of the Bonds, including redemptions of Term Bonds, in accordance with the provisions of this Indenture.

In the event an Agency pursuant to the rights under the Leases, or the Authority, shall not elect to repair, reconstruct or restore the damaged, destroyed or condemned property as above provided, the Trustee shall deposit the Net Proceeds in the Bond Fund and retire a portion of the Outstanding Bonds. Upon the deposit of Net Proceeds under this Section to the Bond Fund the Bonds shall be subject to redemption, and redemption shall be effected pursuant to the provisions of, in the manner, and with the effect provided in ARTICLE III of this Indenture.

Section 6.13. Further Assurances. The Authority will execute or cause to be executed any and all further instruments that may reasonably be requested by the Trustee and be authorized by law, pursuant to NDCC §54-17.2-17, to perfect the pledge of and lien on the revenues and income of the Projects granted in this Indenture, or intended so to be, or to vest in the Trustee the right to receive and apply the same to the payment or protection and security of the Bonds.

Section 6.14. Proper Books and Records. So long as any of the Bonds issued hereunder shall remain Outstanding and unpaid, the Authority shall cause to be kept proper books of account and records, in which full, true and correct entries will be made of all dealings and transactions relating to the Projects. Such books and records shall be open to inspection by the Trustee, the Bondholders, the Original Purchaser of the Bonds, and their agents and representatives. The Authority shall cause to be furnished on or before 120 days after the end of each Fiscal Year the Authority's books of account which are to be audited by an Independent Accountant or firm of Independent Accountants as shall be reasonably acceptable to the Trustee, with a copy of each audit report, annual balance sheet and income and expense statement showing in reasonable detail the financial condition of the Authority, at the close of such Fiscal Year, and summarizing in reasonable detail the income and expenses for such year, including the transactions relating to the Funds, to be filed promptly with the Trustee, and shall be available for inspection by any Bondholder.

Section 6.15. To Observe All Covenants and Terms -- Limitations on Authority's Obligations. It will not issue or permit to be issued any Bonds hereunder in any manner other than in accordance with the provisions of this Indenture and the Act and the agreements in that behalf herein contained, and will not suffer or permit any Default to occur under this Indenture, but will faithfully observe and perform all the conditions, covenants and requirements hereof under the Act. The Authority may issue other bonds or evidences of indebtedness for refunding the Bonds under the terms of this Indenture or issue evidences of indebtedness as may be from time to time authorized by the legislative assembly of the State pursuant to NDCC §54-17.2-13, and it is expressly agreed that, the Authority has no authority or obligation to levy taxes for, or make any advance or payment or incur any expense or liability from its general funds in performing or causing performance of, any of the conditions, covenants or requirements of the Bonds or this Indenture.

Section 6.16. Project Use. The Authority shall not use the Projects and the Sites nor cause or consent to the use of the Projects and the Sites by the Agencies or any subsequent tenant or sublessee in a manner other than as stated in the Leases without first obtaining an Opinion of Bond Counsel stating that such action or consent when taken or given by the Authority will not result in actions or the use of the Projects and the Sites in a manner which would cause the interest payable on the Bonds to be includable in the gross income of the Owners for federal income tax purposes.

ARTICLE VII EVENTS OF DEFAULT; REMEDIES

Section 7.01. Events of Default. Each of the following events is hereby defined as, and is declared to be and to constitute an "Event of Default":

- (a) If Default shall be made in the due and punctual payment of any Debt Service on any Bond, whether at the Stated Maturity thereof, or at the date fixed for redemption thereof (including, but not limited to, redemption of Term Bonds), or upon the Maturity thereof by declaration; or
- (b) If an "Event of Default" (as defined therein) occurs under Section 5.1(a) of the Leases or any other provision of the Leases; or
- (c) If Default shall be made in the due and punctual payment of any other moneys required to be paid to the Trustee under the provisions hereof and such Default shall have continued for a period of thirty (30) days without written waiver by the Trustee after written notice thereof, specifying such Default, shall have been given by the Trustee to the Authority and the

Agencies, or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the then Outstanding Bonds to the Authority, the Agencies and the Trustee; or

- (d) If Default shall be made in the performance or observance of any other of the covenants, agreements or conditions on the part of the Authority in this Indenture, or in the Bonds contained, and such Default shall have continued for a period of thirty (30) days without written waiver by the Trustee after written notice thereof given in the manner provided in clause (c) above, provided that if the Default can be remedied but not within a period of 30 days after notice and if the Authority or the Agency has taken all action reasonably possible to remedy such Default within the 30 day period, the Default shall not become an Event of Default for so long as the Authority or the Agency shall diligently proceed to remedy the Default and in accordance with any directions or limitations of time made by the Trustee; or
- (e) If an Event of Nonappropriation has occurred and continues without cure until the following August 1, unless the Agency has certified to the Authority and the Trustee that it will pay the Rent when due from sources other than an appropriation by the legislative assembly of the State, but such certification can only be made if the legislative assembly of the State has not specifically terminated the Agency's Lease.

An Event of Default described in paragraph (a) or (e) of this Section is herein called a "Default in Payment".

Section 7.02. Acceleration of Maturity. Upon the occurrence of a Default in Payment, the Trustee may, by notice in writing delivered to the Authority and the Agencies declare the principal of all then Outstanding Bonds immediately due and payable, and such principal shall thereupon become and be immediately due and payable. Upon the occurrence of any Event of Default other than a Default in Payment, the Trustee shall at the written request of the Owners of not less than twenty five percent (25%) in aggregate principal amount of Bonds then Outstanding, by similar notice declare the principal of all Bonds then Outstanding immediately due and payable, and such principal shall thereupon become and be immediately due and payable.

The Owners of a majority in aggregate principal amount of Bonds then Outstanding hereunder shall have the right, by written notice to the Authority and to the Trustee, to annul any such declaration and destroy its effect at any time if all Covenants with respect to which the Default shall have been made shall be fully performed or made good, and all arrears of principal of and interest on all Bonds then Outstanding hereunder and the reasonable expenses and charges of the Trustee, its agents and attorneys, and all other obligations secured hereby (except the principal of any Bonds which have not then attained their Stated Maturity and interest accrued on such Bonds since the last Interest Payment Date) shall be paid, or the amount thereof shall be paid to the Trustee for the benefit of those entitled thereto. Upon any such declaration of acceleration, the Trustee shall draw upon amounts as shall be necessary to pay the Debt Service on the Bonds at the date fixed for the payment thereof, pursuant to Section 7.05 and Section 7.12 hereof, and moneys from other sources which have been deposited with the Trustee.

Section 7.03. Enforcement of Covenants and Conditions. In any case of Default or breach of any of the covenants and conditions of this Indenture, or to protect the Trust Estate, the Trustee, anything herein contained to the contrary notwithstanding, and without any request from any Bondholder (subject, however, to the provisions of Section 8.06 hereof), may take such action or actions for the enforcement of its rights, the rights of the Bondholders, and the rights of the Authority under the Leases as due diligence, prudence and care would require and to pursue the same with like diligence, prudence and care.

Upon the happening and continuance of an Event of Default, the Trustee may, and the Trustee shall upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of then Outstanding Bonds, proceed forthwith by suit or suits at law or in equity or by any other appropriate remedy to enforce payment of the Bonds, to enforce application to such payment of the funds, revenues and income appropriated thereto by this Indenture and by the Bonds, to exercise the remedies of the Authority under the Leases, and to enforce any such other appropriate legal or equitable remedy as the Trustee, being advised by Counsel, shall deem most effectual to protect and enforce any of its rights or any of the rights of the Bondholders. The Trustee need not proceed upon any such written request of the Bondholders, as aforesaid, unless such Bondholders shall have offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby.

Section 7.04. Right of Trustee to Enter the Projects. If one or more of the Events of Default shall have occurred, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Owners of the Bonds under the Leases or the Indenture, the Trustee may, with the consent of the Authority, and shall pursuant to the request in writing by the Owners of at least twenty-five percent (25%) of the aggregate principal amount of Bonds then Outstanding hereunder, enter into and upon and take and hold possession of the Trust Estate, including the Projects, or appoint a receiver therefor to use, manage and control the Trust Estate or any portion thereof and conduct the business thereof with respect thereto in such manner as in its discretion it shall deem to be the best advantage of the Owners of the Bonds. Upon every such entry the Trustee, from time to time and at the expense of the Trust Estate, may maintain and restore and insure the Trust Estate or any portion thereof and make all necessary repairs, renewals, replacements, alterations, additions, betterments and improvements, as it may deem judicious. The Trustee, in case of such entry, shall have the right to manage the Trust Estate and to carry on any business which may be conducted with respect thereto and to exercise all the rights and powers of the Authority either in the name of the Authority or otherwise, as the Trustee shall deem best, and shall be entitled to collect, take and receive all fees, earnings, income, rents, issues and profits of the Trust Estate including proceeds from the sale or assignment of the Authority's interest in the Projects.

Section 7.05. Application of Moneys. In the event that at any time the moneys held by the Trustee shall be insufficient for the payment of the Debt Service then due on the Bonds, such moneys (other than moneys held for the payment or redemption of

particular Bonds) and all revenues of the Authority and other of its moneys received or collected for the benefit or for the account of Owners of the Bonds by the Trustee shall be applied first to the payment of any rebate owed to the United States Treasury and thereafter as follows:

- (a) Unless the principal of all of the Bonds shall have become due and payable, by declaration or otherwise, such moneys shall be applied first, to the payment to the persons entitled thereto of all installments of interest then due (including any interest on overdue principal) in order of the maturity of such installments, earliest maturities first, and, if the amounts available shall not be sufficient to pay in full any installments of interest maturing on the same date, then to the payment thereof ratably, according to the amount due thereon, to the persons entitled thereto, without any discrimination or preference; and, second, to the payment of the principal and premium of the Bonds then due and payable (if any) in the order of the Maturity thereof; such payments to be made ratably and proportionately to the persons entitled thereto without discrimination or preference and without regard to the series designation.
- (b) In case the principal of all of the Bonds shall have become due and payable, by declaration or otherwise and remain unpaid, all such moneys shall be applied to the payment of the Debt Service then due and unpaid upon the Bonds without preference of principal over interest or interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by it at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless it deems another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Owner of any unpaid Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all Bonds and interest thereon have been paid under the provisions of this Section, and all expenses and charges of the Trustee have been paid, then the Balances in the Funds shall be paid to the Agencies, or to the Authority as their interests may appear.

While in possession of the Projects, the Trustee shall render annually to the Authority, and the Bondholders, at their addresses as set forth on the list required by this Indenture, a summarized statement of income and expenditures in connection therewith.

Section 7.06. Appointment of a Receiver by Trustee. In case the Trustee shall enforce its rights and the rights of the Bondholders by a suit or suits in equity or at law, the Trustee shall be entitled, pending the outcome of such suit, subject to the approval of the court, to the appointment of a receiver of the Trust Estate, or any part thereof, including the Projects and any pledged income therefrom, to the end that the security provided by this Indenture shall not be reduced and for the purpose of preventing waste. The Trustee or such receiver may receive the rents, issues and profits of the Trust Estate, including the Projects and apply the proceeds to the payment of taxes, assessments, charges and encumbrances on the Trust Estate, due or to become due; to the payment of premiums and charges of any kind or nature upon insurance maintained or covenanted to be maintained on the Trust Estate, due or to become due; to the making of necessary repairs on the Trust Estate or the payment of the expenses or charges necessary to the preservation of the security of this Indenture or to the maintenance of the Trust Estate; and to the payment of interest, or principal and interest, due upon the Bonds as provided in Section 7.05 hereof.

Section 7.07. Right of Trustee to Act Without Possession of Bonds. All rights of action (including the right to file proof of claim) under this Indenture or under any of the Bonds, may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceeding relating thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee, without the necessity of joining as plaintiffs or defendants any Owners of the Bonds hereby secured, and any recovery of judgment shall be for the equal benefit of the Owners of the Outstanding Bonds.

Section 7.08. Power of Majority of Bondholders. The Owners of a majority in aggregate principal amount of Bonds then Outstanding hereunder shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken hereunder; provided that such direction shall not be otherwise than in accordance with the provisions of law and that the Trustee shall be indemnified as provided in Section 8.06 hereof.

Section 7.09. Limitation on Suit by Bondholders. No Owner of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of this Indenture or for the execution of any trust hereof or for any other remedy hereunder, unless a Default has occurred of which the Trustee has been notified or of which it is deemed to have notice; nor unless also such Default shall have become an Event of Default and the Owners of twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding hereunder shall have made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers hereinabove granted or to institute such action, suit or proceeding in its own name; nor unless also they shall have offered to the Trustee indemnity as provided hereinafter, except as otherwise required by Section 7.02 hereof; and such notification, request and offer of indemnity are hereby declared in every such case at the option of the Trustee to be conditions

precedent to the execution of the powers and trusts of this Indenture, and to any action or cause of action for enforcement or for any other remedy hereunder, except as otherwise required by Section 7.02 hereof; it being understood and intended that no one or more Owners of the Bonds shall have any right in any manner whatsoever to affect, disturb, or prejudice the lien of this Indenture by his or their action or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal benefit of the Owners of all Bonds Outstanding hereunder. Nothing in this Indenture contained shall, however, affect or impair the right of any Bondholder, which is absolute and unconditional, to enforce and bring suit for the payment of the Debt Service on any Bond at and after the Maturity thereof or the obligations of the Authority to pay the Debt Service on each of the Bonds issued hereunder to the respective Owners thereof at the time and place in said Bonds, in accordance with the terms of the Bonds.

Section 7.10. Waiver by Bondholders. The Trustee, upon the written request of the Owners of not less than a majority in principal amount of the Bonds at the time Outstanding hereunder, shall waive any Default hereunder and its consequences, except a Default in the payment of the principal of the Bonds at the date of Maturity specified therein; provided, however, that a Default in the payment of interest on the Bonds shall not be waived unless, prior to such waiver, all arrears of interest, and all expenses of the Trustee shall have been paid or shall have been provided for by deposit with the Trustee of a sum sufficient to pay the same. In case of any such waiver, the Authority, the Agencies, the Trustee and the Owners of the Bonds shall be restored to their former positions and rights hereunder respectively. No such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

Section 7.11. Remedies Cumulative, Delay Not to Constitute Waiver. No remedy by the terms of this Indenture conferred upon or reserved to the Trustee (or the Bondholders) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any Default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Default or Event of Default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any Default or Event of Default hereunder whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent Default or Event of Default or shall impair any rights or remedies consequent thereon.

Section 7.12. Rights of Trustee. The Trustee shall upon the occurrence of any Event of Default or acceleration of the Bonds pursuant to Section 7.01 or Section 7.02 hereof have the right to foreclose the mortgage granted by this Indenture in the manner permitted by law, enter and take possession of the Projects or any part thereof, with or without termination of any Lease, and have continuous access to the Sites for the use of the Projects, and may lease the Projects to the State or any of its boards and agencies including the Agencies subject to the requirements of the Act and the Leases.

The Trustee shall be permitted to sell, convey or sublease its interest in the Projects subject to the requirements of this Indenture and the Act.

Section 7.13. Restoration of Rights Upon Discontinuance of Proceedings. In case the Trustee or Bondholders shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned for any reason, or shall not have been determined adversely to the Trustee or Bondholders, then and in every such case the Agencies, the Authority, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder with respect to the Trust Estate, and all rights, remedies and powers of the Trustee and the Bondholders shall continue as if no such proceedings had been taken.

ARTICLE VIII THE TRUSTEE, PAYING AGENT AND REGISTRAR

Section 8.01. Acceptance of Trust and Prudent Performance Thereof. The Trustee, prior to the occurrence of an Event of Default as defined in Section 7.01 and after the curing of all such Events of Default as may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. The Trustee shall during the existence of any such Event of Default (which has not been cured) exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

The Trustee shall not be required to take notice or be deemed to have notice of any Default hereunder or under the Leases, except Default in the deposits or payments specified in the Leases, unless the Trustee shall be specifically notified in writing of such Default by the Agencies, by the Authority or by the Owners of at least twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding hereunder, and all notices or other instruments required by this Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the office of the Trustee, and in the absence of such notice so delivered, the Trustee may conclusively assume that there is no Default, except as aforesaid. The Trustee shall provide written notice to the Agencies in the event any payment of Basic Rent is not made when due or within two Business Days after the due date of such payment, which shall be hand delivered or given by telephone (confirmation thereof being given by mail).

No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that

- (a) prior to such an Event of Default hereunder, and after the curing of all such Events of Default which may have occurred:
 - (i) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee, and
 - (ii) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and to the correctness of the opinions expressed therein, upon any Certificate or Opinion of Counsel furnished to the Trustee conforming to the requirements of this Indenture; but in the case of any such Certificate or Opinion of Counsel which by any provision hereof is specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not it conforms to the requirements of this Indenture;
- (b) at all times, regardless of whether or not any such Event of Default shall exist:
 - (i) the Trustee shall not be liable for any error or judgment made in good faith by an officer or officers of the Trustee unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts, and
 - (ii) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of all the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Section 8.02. Trustee May Rely Upon Certain Documents and Opinions. Except as otherwise provided in Section 8.01:

- (a) the Trustee may rely and shall be protected in acting upon any resolution, Certificate, statement, instrument, Opinion of Counsel, report, notice, request, consent, order, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;
- (b) any request, direction, election, order, certification or demand of the Authority or the Agencies shall be sufficiently evidenced by an instrument signed by an Authorized Officer or an agent, as the case may be (unless otherwise in this Indenture specifically prescribed), and any resolution of the Authority may be evidenced to the Trustee by a Certified Resolution;
- (c) the Trustee may consult with Counsel (who may be Counsel for the Authority) and the opinion of such Counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such Counsel;
- (d) whenever, in the administration of the trusts of this Indenture, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a Certificate of the Authority and such Certificate of the Authority shall, in the absence of negligence or bad faith on the part of the Trustee, be full warrant to the Trustee for any action taken or suffered by it under the provisions of this Indenture.

Section 8.03. Trustee Not Responsible for Indenture Statements, Validity. The Trustee (as such) shall not be responsible for any recital or statement herein, or in the Bonds (except in respect of the Certificate of the Trustee endorsed on such Bonds), or for the recording or re-recording, filing, or re-filing of this Indenture, or for insuring the Projects, or collecting any insurance moneys, or for the validity of the execution by the Authority or the Agencies (as the case may be) of this Indenture, the Leases, the Bond Resolution or of any supplemental instrument, or for the sufficiency of the security of the Bonds issued hereunder or intended to be secured hereby, or for the value or title of any of the Trust Estate, or otherwise as to the maintenance of the security hereof; and the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any covenants, condition or agreement on the part of the Authority or the Agencies except as herein set forth, but the Trustee may require of the Authority or the Agencies full information and advice as to the performance of the covenants, conditions and agreements aforesaid and of the condition of the physical property included in the Trust Estate. The Trustee shall not be accountable for the use of any proceeds of the Bonds authenticated or delivered hereunder or of any of the proceeds of such Bonds except as specifically stated in this Indenture.

Section 8.04. Limits on Duties and Liabilities of Trustee. The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty of the Trustee and the Trustee shall be answerable only for its own negligence or willful

misconduct. The Trustee shall not be required to give any bond or surety in respect of the execution of the trusts and powers or otherwise in respect of the premises.

Section 8.05. Money Held in Trust. Money held by the Trustee hereunder is held in trust and shall be segregated from other funds to the extent required by law.

Section 8.06. Obligation of Trustee. The Trustee shall be under no obligation to institute any suit, or to take any proceeding under this Indenture, or to enter any appearance or in any way defend in any suit which it may be defendant, or to take any steps in the execution of the trusts hereby created or in the enforcement of any rights and powers hereunder until it shall have reasonable grounds for believing that repayment of all costs and expenses, outlays and Counsel fees and other reasonable disbursements in connection therewith is reasonably assured to it, except as required by Section 7.03 hereof. The Trustee may, nevertheless, begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as such Trustee, without assurance of reimbursement, and in such case the Trustee shall be reimbursed for all costs and expenses, outlays and Counsel fees and other reasonable disbursements properly incurred in connection therewith. If the Authority shall fail to make such reimbursement, the Trustee may reimburse itself from any moneys in its possession under the provisions of this Indenture and shall be entitled to a preference therefor over any of the Bonds Outstanding hereunder.

Section 8.07. Intervention in Judicial Proceedings. In any judicial proceeding to which the Authority or any Agency is a party and which, in the opinion of the Trustee and its Counsel, has a substantial bearing on the interests of the Owners of Bonds issued hereunder, the Trustee may intervene on behalf of Bondholders and shall do so if requested in writing by the Owners of at least twenty-five percent (25%) in the aggregate principal amount of Bonds then Outstanding hereunder. The rights and obligations of the Trustee under this Section are subject to the approval of the court having jurisdiction in the premises.

Section 8.08. Further Investigation by Trustee. The resolutions, opinions, certificates and other instruments provided for in this Indenture may be accepted by the Trustee as conclusive evidence of the facts and conclusions stated therein and shall be in full warrant, protection and authority to the Trustee for the release of property and the withdrawal of such hereunder; but the Trustee may, in its unrestricted discretion, and shall, if requested in writing to do so by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding hereunder, cause to be made such independent investigation as it may see fit, and in that event may decline to release such property or pay over such cash unless satisfied by such investigation of the truth and accuracy of the matters to be investigated. The expense of such investigation shall be paid by the Agency, or, if paid by the Trustee, shall be repaid by the Agency upon demand with interest at the rate equal to the Bank of North Dakota Base Rate, but only from funds appropriated for such purpose.

Section 8.09. Right to Inspect Projects and Records of Authority. At any and all reasonable times the Trustee, and its duly authorized agents, attorneys, experts, engineers, accountants and representatives, shall have the right fully to inspect the Projects, including all books, papers, and contracts of the Authority and the Agencies relating solely thereto and to take such memoranda from and in regard thereto as may be desired.

Section 8.10. Right of Trustee to Perform Certain Acts. In case the Authority or any Agency shall fail reasonably to pay or to cause to be paid any tax, assessments, or governmental or other charge upon any part of the Trust Estate, to the extent, if any, that the Authority or the Agency may be liable for same, the Trustee may pay such tax, assessment or governmental charge, without prejudice, however, to any rights of the Trustee or the Bondholders arising hereunder in consequence of such failure; and any amount at any time so paid under this Section, with interest thereon from the date of payment at the rate equal to the Bank of North Dakota Base Rate, shall be repaid by the Agency upon demand, and shall become an additional obligation secured by this Indenture, and the same shall be given a preference in payment over any of the Bonds, and shall be paid out of any pledged revenues of the Projects or other proceeds of the Trust Estate if not otherwise paid by the Authority or the Agency, but the Trustee shall be under no obligation to make any such payment unless it shall have been requested to do so by the Owners of at least twenty five percent (25%) of the aggregate principal amount of Bonds then Outstanding hereunder, and shall have been provided with adequate funds for the purpose of such payment.

Section 8.11. Trustee to Retain Financial Records. The Trustee shall retain all current financial statements furnished by the Authority or the Agencies in accordance with this Indenture.

Section 8.12. Fees, Charges and Expenses of the Trustee, the Registrar and Paying Agent. The Trustee, the Registrar and each Paying Agent shall be entitled to payment and/or reimbursement for reasonable fees for services rendered hereunder and under the other agreements which the Authority and the Trustee have entered into to facilitate the issuance and sale of the Bonds, all advances, legal fees and other expenses reasonably and necessarily made or incurred in and about the execution of the trusts created by this Indenture and under the other agreements which the Authority and the Trustee have entered into to facilitate the issuance and sale of the Bonds, and in and about the exercise and performance of the powers and duties of the Trustee, the Registrar and each Paying Agent hereunder and under the other agreements which the Authority and the Trustee have entered to facilitate the issuance and sale of the Bonds, and for the reasonable and necessary costs and expenses incurred in defending any liability in the premises of any character whatsoever (unless such liability is adjudicated to have resulted from the negligence or willful misconduct of the Trustee, the Registrar or the Paying Agent).

Section 8.13. Notice to the Bondholders if Default Occurs. The Trustee shall give all Owners of all Bonds by first class mail, notice of all Defaults or Events of Default known to the Trustee, within thirty (30) days after the occurrence of a Default or

Event of Default unless such Default or Event of Default shall have been cured before the giving of such notice; provided that, except in the case of a Default in Payment, or in the making of any payment required to be made by the Bond Fund, the Trustee shall be protected in withholding such notice if and so long as the Trustee in good faith determines that the withholding of such notice is in the best interest of the Bondholders. The Registrar shall provide the Trustee with all information, which the Trustee reasonably requires in connection with the giving of such notices.

Section 8.14. Successor Trustee, Paying Agents and Registrar. Any corporation, association or Agency into which the Trustee, the Registrar or any Paying Agent may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, ipso facto, shall be and become a successor trustee, paying agent or bond registrar hereunder and vested with all of the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

Section 8.15. Resignation by Trustee, Paying Agents and Registrar. The Trustee, any Paying Agent, and the Registrar may at any time resign from the trusts and be discharged of the duties and obligations hereby created by giving sixty (60) days written notice to the Authority, the Trustee and all Bondholders by first class mail and such resignation shall take effect upon the appointment of a successor trustee, paying agent, or registrar. If any instrument of acceptance by a successor trustee, paying agent or registrar shall not have been delivered to the resigning Trustee, Paying Agent or Registrar within sixty (60) days after the giving of such notice of resignation, the resigning Trustee, Paying Agent or Registrar may petition any court of competent jurisdiction for the appointment of a successor. Notwithstanding any other provision of this Indenture, no removal, resignation or termination of the Trustee, Paying Agent or Registrar shall take effect until a successor shall be appointed.

Section 8.16. Removal of Trustee. The Trustee may be removed by the Authority at any time for any breach of the Trust set forth herein. Notwithstanding the foregoing, the Trustee may not be removed unless and until a successor trustee has been appointed pursuant to Section 8.17 hereof.

Section 8.17. Appointment of Successor Trustee. In case the Trustee shall resign or be removed, or be dissolved or otherwise become incapable of acting hereunder, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, the Authority, by an Authority Resolution, may remove the Trustee and shall promptly appoint a successor. If, within one year of such vacancy occurring, the Owners of a majority in aggregate principal amount of the then Outstanding Bonds, by an instrument or concurrent instruments in writing signed by such Owners, or by their attorney-in-fact, duly authorized appoint a successor, such successor shall supersede the successor appointed by the Authority. If no successor trustee has been appointed as herein provided after sixty (60) days from the mailing of notice of resignation by the Trustee under Section 8.15 hereof, or from the date the Trustee is removed or otherwise incapable of acting hereunder, any Bondholder may petition a court of competent jurisdiction to appoint a successor trustee. The Authority shall promptly notify the Paying Agent and the Registrar as to the appointment of any successor trustee.

Every successor Trustee appointed pursuant to this Section shall be a trust company or bank in good standing located in or authorized to do business under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than \$75,000,000.

Section 8.18. Concerning Any Successor Trustee. Every successor trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor, and to the Authority, an instrument in writing accepting such appointment hereunder, and thereupon such successor, without any further act, assignment or conveyance, shall become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessor as trustee; but such predecessor shall, nevertheless, on the written request of the Authority, or of its successor trustee, execute and deliver an instrument transferring to such successor trustee all the estates, properties, rights, powers and trusts of such predecessor hereunder, and every predecessor trustee shall deliver all securities and moneys and Balances held by it as Trustee hereunder to its successor together with an accounting of the Balances held by it hereunder. Should any instrument in writing from the Authority be required by any successor trustee for more fully and certainly vesting in such successor the estates, rights, powers and duties hereby vested or intended to be vested in the predecessor trustee, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Authority.

Section 8.19. Trustee Protected in Relying Upon Resolutions, Etc. The resolutions, orders, requisitions, opinions, certificates and other instruments conforming to the requirements of this Indenture may be accepted by the Trustee as conclusive evidence of the facts and conclusions stated therein and shall be full warrant, protection and authority to the Trustee for the withdrawal of cash hereunder.

Section 8.20. Successor Trustee as Custodian of Funds. In the event of a change in the office of the Trustee, the predecessor trustee which has resigned or been removed shall cease to be custodian of the Funds, and the successor trustee shall be and become such custodian.

Section 8.21. Co-Trustee. At any time or times, for the purpose of meeting any legal requirements of any state in which the Trustee determines it necessary to take any action hereunder, the Trustee shall have power to appoint one or more Persons approved by the Trustee either to act as co-trustee or co-trustees, jointly with the Trustee of all or any part of the Trust Estate, or to act as a separate trustee or separate trustees of all or any part of the Trust Estate, and to vest in such Person or Persons, in such capacity,

such title to the Trust Estate or any part thereof, any such rights, powers, duties, trusts or obligations as the Trustee may consider necessary or desirable subject to the remaining provisions of this Section 8.21.

In the event the Trustee deems the appointment of a separate or co-trustee necessary, and before such appointment will be effective, the Trustee shall request and obtain the Authority's approval of such appointment, provided that the Authority's approval shall not be unreasonably withheld.

The Authority shall execute, acknowledge and deliver all such instruments as may be required by any such co-trustee or separate trustee.

Every co-trustee or separate trustee shall, to the extent permitted by law but to such extent only, be appointed subject to the following terms, namely:

- (a) The Bonds shall be authenticated and delivered, and all rights, powers, trusts, duties and obligations by this Indenture conferred upon the Trustee in respect of the custody, control and management of moneys, papers, securities and other personal property shall be exercised solely by the Trustee or, to the extent otherwise respectively specified herein, and the Paying Agent.
- (b) All rights, powers, trusts, duties and obligations conferred or imposed upon the trustees shall be conferred or imposed upon and exercised or performed by the Trustee, or by the Trustee and such co-trustee or co-trustees or separate trustee or separate trustees jointly, as shall be provided in the instrument appointing such co-trustee or co-trustees or separate trustee or separate trustees, except to the extent that, under the law of any jurisdiction in which any particular act or acts are to be performed, the Trustee shall be incompetent or unqualified to perform such act or acts, in which event such act or acts shall be performed by such co-trustee or co-trustees or separate trustee or separate trustees.
- (c) Any request in writing by the Trustee to any co-trustee or separate trustee to take or to refrain from taking any action hereunder shall be sufficient warrant for the taking, or the refraining from taking, of such action by such co-trustee or separate trustee.
- (d) Any co-trustee or separate trustee may delegate to the Trustee the exercise of any right, power, trust, duty or obligations, discretionary or otherwise.
- (e) The Trustee at anytime, by any instrument in writing, may accept the resignation of or remove any co-trustee or separate trustee appointed under this Section 8.21. Upon the request of the Trustee, the Authority shall join with the Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal.
- (f) No Trustee hereunder shall be personally liable by reason of any act or omission of any other trustee or co-trustee hereunder.
- (g) Any demand, request, direction, appointment, removal, notice, consent, waiver or other action in writing delivered to the Trustee shall be deemed to have been delivered to each such co-trustee or separate trustee.
- (h) Any moneys, papers, securities or other items of personal property received by any such co-trustee or separate trustee hereunder shall forthwith, so far as may be permitted by law, be turned over to the Trustee.

Upon the acceptance in writing of such appointment by any such co-trustee or separate trustee, it or he or she shall be vested with such title to the Trust Estate or any part thereof, and with such rights, powers, duties or obligations, as shall be specified in the instrument of appointment jointly with the Trustee (except insofar as local law makes it necessary for any such co-trustee or separate trustee to act alone) subject to all the terms of this Indenture. Every such acceptance shall be filed with the Trustee. Any co-trustee or separate trustee may, at any time by an instrument in writing, constitute the Trustee, its or his attorney-in-fact and agent, with full power and authority to do all acts and things and to exercise all discretion on its or his behalf and in its or his name.

In case any co-trustee or separate trustee shall die, become incapable of acting, resign or be removed, the title to the Trust Estate, and all rights, powers, trusts, duties and obligations of said co-trustee or separate trustee shall, so far as permitted by law, vest in and be exercised by the Trustee unless and until a successor co-trustee or separate trustee shall be appointed in the manner herein provided.

Section 8.22. Qualification of Trustee: Eligibility. There shall at all times be a Trustee hereunder which shall be a trust company or a bank having the powers of a trust company and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers and shall be subject to supervision or examination by a federal or state authority. Any trust company or bank acting as Trustee hereunder, other than the Bank of North Dakota, shall have combined capital stock, capital surplus and undivided profits of at least \$75,000,000. If such trust company or bank publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section, the combined capital stock, capital surplus and undivided profits of such trust company or bank shall be deemed to be its combined capital stock, capital surplus and undivided profits as set forth in its most recent report of condition so published.

Section 8.23. Statement by Trustee of Funds and Other Matters. Not more than ninety (90) days after the close of each Fiscal Year, or more frequently if requested by the Authority, the Trustee shall furnish the Authority a statement setting forth (to the extent applicable) in respect to such Fiscal Year, (a) all transactions relating to the receipt, disbursement and application of all moneys received by the Trustee pursuant to all terms of this Indenture, (b) the Balances held by the Trustee at the end of such Fiscal Year to the credit of each Fund, (c) a brief description of the Balances of all moneys and Permitted Investments (including an itemization of Permitted Investments) held by the Trustee as a part of the Balance of each Fund as of the end of such Fiscal Year, (d) the principal amount of Bonds purchased by the Trustee during such Fiscal Year from moneys available therefor in any Fund pursuant to the provisions of this Indenture and the respective purchase price of such Bonds, (e) the principal amount of Bonds retired during such Fiscal Year, and (f) any other information which the Authority may reasonably request.

Section 8.24. Trustee, Paying Agents, and Registrar May Buy, Hold, Sell or Deal in Bonds. The Trustee, the Registrar, or any Paying Agent and its directors, officers, employees or agents may, in good faith, buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner of a Bond may be entitled to take, with like effect as if such Trustee, Paying Agent, or Registrar were not the Trustee, a Paying Agent, or Registrar, as the case may be, under this Indenture.

Section 8.25. Paying Agent; Paying Agents to Hold Moneys in Trust. The Paying Agent shall hold in trust for the benefit of the Owners of the Bonds and the Trustee any sums held by such Paying Agent for the payment of the principal of and interest on the Bonds. Anything in this paragraph to the contrary notwithstanding, the Authority may, at any time, for the purpose of obtaining a satisfaction and discharge of this Indenture, or for any other reason, cause to be paid to the Trustee all sums held in trust by any Paying Agent hereunder as required by this paragraph, such sums to be held by the Trustee upon the trusts herein contained, and such Paying Agents shall thereupon be released from all further liability with respect to such sums.

Each Paying Agent other than the Trustee shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it by this Indenture by executing and delivering to the Authority a written acceptance thereof under which the Paying Agent will agree particularly;

- (1) to hold all sums held by it pursuant to this Indenture in trust for the benefit of the Owners of the Bonds until such sums shall be paid to such Owners or otherwise disposed of as herein provided;
- (2) at any time during the continuance of any Event of Default, upon the written request of the Trustee, to forthwith pay to the Trustee all sums so held in trust by such Paying Agent; and
- (3) in the event of the resignation or removal of such Paying Agent, pay over, assign and deliver any moneys, records or securities held by it as Paying Agent to its successor or, if there be no successor, to the Trustee.

No Paying Agent shall be obligated to expend its own funds in paying Debt Service on the Bonds.

Section 8.26. Removal of Paying Agents; Successors. The Paying Agent may be removed at any time by an instrument filed with the Paying Agent and the Trustee, and signed by the Authority. Any successor paying agent shall be appointed by the Authority and shall be a commercial bank having trust powers or trust company duly organized under the laws of any state of the United States or a national banking association having trust powers, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Indenture and any supplemental indenture.

In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys, records or securities held by it as Paying Agent, as the case may be, to its successors or, if there be no successor, to the Trustee.

Section 8.27. Authority Administration. The Authority in exercising its administrative responsibilities pursuant to this Indenture, and the Act may assess a reasonable fee (the "NDBA Fee") which shall be collectable through the Trustee as part of the Additional Rent payable by the Agencies under Section 3.5 of the Leases.

ARTICLE IX CONCERNING THE BONDHOLDERS

Section 9.01. Execution of Instruments by Bondholders. Any request, direction, consent or other instrument in writing required by this Indenture to be signed or executed by Bondholders may be in any number of concurrent instruments of similar tenor and may be signed or executed by such Bondholders in person or by their agent duly appointed by an instrument in writing. Proof of the execution of any such instrument and of the ownership of Bonds shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee with regard to any action taken by it under such instrument if made in the following manner:

- (a) The fact and date of the execution by any Person of any such instrument may be proved by the certificate of any officer in any jurisdiction who, by the laws thereof, has power to take acknowledgments of deeds to be recorded within such jurisdiction, to the effect that the Person signing such instrument acknowledged to him the execution thereof, or by an affidavit of a witness to such execution.
- (b) The ownership of Bonds shall be proved by the Register kept under the provisions of this Indenture.

Nothing in this Article shall be construed as limiting the Trustee to the proof above specified, it being intended that the Trustee may accept any other evidence of the matters herein stated which to it may seem sufficient. Any request or consent of the Owner of any Bond shall bind every future Owner of the same Bond in respect of anything done by the Trustee in pursuance of such request or consent.

Section 9.02. Waiver of Notice. Any notice or other communication required by this Indenture to be given by delivery, publication or otherwise to the Bondholders or any one or more thereof may be waived, at any time before such notice or communication is so required to be given, by a writing mailed or delivered to the Trustee by the Owner or Owners of all of the Bonds entitled to such notice or communication.

Section 9.03. Revocation by Bondholders. At any time prior to (but not after) the evidencing to the Trustee of the taking of any action by the Owners of the percentage in aggregate principal amount of the Bonds specified in this Indenture in connection with such action, any Owner of a Bond may, by filing written notice with the Trustee at its Principal Office revoke any consent given by such Owner or the predecessor Owner of such Bond. Except as aforesaid, any such consent given by the Owner of any Bond shall be conclusive and binding upon such Owner and upon all future Owners of such Bond and of any Bond issued in exchange therefor or in lieu thereof, irrespective of whether or not any notation in regard thereto is made upon such Bond. Any action taken by the Owners of the percentage in aggregate principal amount of the Bonds specified in this Indenture in connection with such action shall be conclusively binding upon the Authority, the Trustee and the Owners of all the Bonds.

ARTICLE X PAYMENT, DEFEASANCE AND RELEASE

Section 10.01. Payment and Discharge of Indenture. If the Authority shall pay or provide for the payment of the entire indebtedness on all Bonds in any one or more of the following ways:

- (a) pay or cause to be paid the Debt Service on the Bonds at the time and in the manner stipulated therein and herein, or
- (b) provide for the payment of Debt Service on the Bonds by depositing with the Trustee, at any time before Maturity, amounts sufficient, either in cash or in direct obligations of the United States of America (which do not permit the redemption thereof at the option of the issuer) and the principal and interest on which when due and payable and without consideration of any reinvestment thereof shall be sufficient, to pay the entire amount due or to become due thereon for principal and interest to Maturity of all the Bonds Outstanding, or
- (c) deliver to the Trustee (1) proof satisfactory to the Trustee that notice of redemption of all of the Outstanding callable Bonds not surrendered or to be surrendered to it for cancellation has been given or waived as provided in ARTICLE III hereof, or that arrangements satisfactory to the Trustee have been made insuring that such notice will be given or waived, or (2) an Authority Resolution under its official seal and expressed to be irrevocable, authorizing the Trustee to give such notice for and on behalf of the Authority, or (3) a waiver of such notice of redemption signed by the Owners of all such Outstanding Bonds, and in any such case, deposit with the Trustee before the date on which such notice is to be given as provided in ARTICLE III, cash or direct obligations of the United States of America (which do not permit the redemption thereof at the option of issuer) in such aggregate face amount, bearing interest at such rates and maturing at such dates as shall be sufficient to provide for the payment of such Redemption Price on the date such Bonds are to be redeemed, and on such prior dates when principal of and interest on the Outstanding Bonds is due and payable, or
- (d) surrender to the Trustee for cancellation all Bonds for which payment is not so provided, and shall also pay all other sums due and payable hereunder by the Authority,

then and in that case, all the Trust Estate shall revert to the Authority and the Agencies as their interest may appear, and the entire estate, right, title and interest of the Trustee and of the Owners of the Bonds in respect thereof shall thereupon cease, determine and become void; and the Trustee in such case, upon the cancellation of all Bonds for the payment of which cash or securities shall have been deposited in accordance with the provisions of this Indenture, shall, upon receipt of a written request of the Authority and of a Certificate of the Authority and an Opinion of Bond Counsel as to compliance with conditions precedent, and at its cost and expense, execute to the Authority, or its order, proper instruments acknowledging satisfaction of this Indenture and surrender to the Authority and the Agencies, as their interests appear, all cash and deposited securities, if any (other than cash or securities for the payment of the Bonds), which shall then be held hereunder as a part of the Trust Estate.

In case of any discharge of the lien of the Indenture pursuant to paragraph (b) or (c) above, there shall be submitted to the Trustee (i) an Opinion of Bond Counsel to the effect that the interest on the Bonds being discharged will not be includable in the gross income of the Owners for federal income tax purposes notwithstanding the discharge of the Indenture as a result of such discharge and (ii) an opinion of an Independent Accountant or firm of Independent Accountants acceptable to the Trustee stating in substance that the amounts held by the Trustee to discharge the Bonds will produce amounts necessary to provide for the timely payment of all Debt Service on the Bonds.

Section 10.02. Bonds Deemed Not Outstanding After Deposits. When there shall have been deposited at any time with the Trustee in trust cash or direct obligations of or obligations fully guaranteed by the United States of America the principal and interest on which shall be sufficient to pay the principal of any Bonds (and premium, if any) when the same become due, either at

Maturity or otherwise, or at the date fixed for the redemption thereof and to pay all interest with respect thereto at the due dates for such interest or to the date fixed for redemption, for the use and benefit of the Owners thereof, then upon such deposit such Bonds shall cease to be entitled to any lien, benefit or security of this Indenture except the right to receive the funds so deposited, and such Bonds shall be deemed not to be Outstanding hereunder; and it shall be the duty of the Trustee to hold the cash and securities so deposited for the benefit of the Owners of such Bonds, as the case may be, and from and after such date, Redemption Date or Maturity, interest on such Bonds called for redemption shall cease to accrue.

Section 10.03. Unclaimed Money. Any moneys deposited with the Trustee or a Paying Agent pursuant to the terms of this Indenture, for the payment or redemption of Bonds and remaining unclaimed by the Owners of the Bonds at Maturity or on the date fixed for redemption as the case may be, and if any such moneys remain unclaimed for a period of three years after the due date, shall, without further authorization of the Authority, and if the Authority or any successor to the obligations of the Authority under the Indenture and the Bonds shall not at the time, to the knowledge of the Trustee, be in Default with respect to any of the terms and conditions contained in the Indenture or in the Bonds, be paid to the unclaimed property administrator of the State or applied in accordance with any applicable escheat or unclaimed property laws of the State. Provided, however, that within thirty (30) days prior to the expiration of the three year period mentioned above, the Trustee, before being required to make any such payment, may, at the expense of the Authority, send written notice by first class mail to the last known address of the Owners and cause to be published in a Financial Journal, a notice that after a date named therein the said moneys will be paid in accordance with this Section.

Section 10.04. Release of Property. If any Agency shall request the Authority or the Trustee to release property which is part of the Projects or the Trust Estate for any reason, it shall deliver to the Authority and the Trustee (i) a copy of the instrument of grant or release, (ii) an Opinion of Bond Counsel to the effect that such release of property will not cause the interest on the Bonds to be includable in the gross income of the Owners for federal income tax purposes, and (iii) a written application signed by the Agency certifying that such grant or release is not detrimental to the proper use or operation of the Projects and will not impair the character or significance of the Projects as a "project" under the Act. Upon such filing, the Authority and the Trustee are authorized to and shall release such property relating to the Projects from the lien of this Indenture only upon a determination by the Trustee, evidenced in writing, that the requested release under this Section will not be prejudicial to the rights of the Owners of the Bonds and will not significantly reduce the value of the Projects or the security provided to the Owners of the Bonds by this Indenture.

Section 10.05. Partial Refunding - Allocation of Funds and Accounts. Notwithstanding any other provision of this Indenture, in the event the Authority elects to advance refund less than all of the Bonds Outstanding and defease such bonds in accordance with the provisions of Section 10.01 of this Indenture, in accordance with and upon direction of the Authority, the Trustee shall transfer such portions of such Funds and any accounts or subaccounts created by this Indenture, including but not limited to any moneys on deposit in any Reserve Funds as constitute, as nearly as practicable, a pro rata share of the principal amount of Bonds Outstanding as of the date of such proposed transfer. Provided however that no such transfers shall be made by the Trustee unless the Trustee is in receipt of an Opinion of Bond Counsel stating that such action when taken by the Trustee as directed by the Authority will not result in the interest payable on the Bonds to be includable in the gross income of the Owners for federal income tax purposes.

ARTICLE XI SUPPLEMENTAL INDENTURES

Section 11.01. Purposes for which Supplemental Indentures may be Executed. The Authority, upon resolution, and the Trustee from time to time and at any time, subject to the conditions and restrictions in this Indenture, may enter into such indentures supplemental hereto as may or shall by them be deemed necessary or desirable without the consent of any Bondholder for any one or more of the following purposes:

- (a) To correct the description of any property hereby pledged or intended so to be, or to assign, convey, pledge or transfer and set over unto the Trustee, subject to such liens or other encumbrances as shall be therein specifically described, additional property or properties of the Authority or the Agencies for the equal and proportionate benefit and security of the Owners of all Bonds at any time issued and Outstanding under this Indenture;
- (b) To add to the covenants and agreements of the Authority in this Indenture, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Authority or to or upon any successor;
- (c) To evidence the succession or successive successions of any other department, Agency, body or corporation to the Authority and the assumption by such successor of the covenants, agreements and obligations of the Authority in the Bonds hereby secured and in this Indenture and in any and every supplemental indenture contained or the succession, removal or appointment of any Trustee or Paying Agent hereunder;
- (d) To cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indentures which may be defective or inconsistent with any other provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under this Indenture or any supplemental indenture as the Authority may deem necessary or desirable and which shall not be inconsistent with the provisions of this Indenture or any supplemental indenture and which shall not impair the security of the same;

- (e) To modify, eliminate and/or add to the provisions of this Indenture to such extent as shall be necessary to maintain the exempt status of this Indenture from the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter enacted; and
- (f) To make such other modifications or amendments which are determined by the Trustee not to be prejudicial to the rights of the Trustee or the Owners of the Bonds.

Section 11.02. Execution of Supplemental Indenture. The Trustee is authorized to join with the Authority in the execution of any such supplemental indenture, to make the further agreements and stipulations which may be therein contained, and accept the conveyance, transfer and assignment of any property thereunder, but the Trustee shall not be obligated to enter into any such supplemental indenture which affects its rights, duties or immunities under this Indenture.

Section 11.03. Discretion of Trustee. In each and every case provided for in this Article (other than a supplemental indenture approved by the Owners of a majority in aggregate principal amount of the Bonds pursuant to Section 11.04 hereof), the Trustee shall be entitled to exercise its unrestricted discretion in determining whether or not any proposed supplemental indenture or any term or provisions therein contained is necessary or desirable, having in view the needs of the Authority and the respective rights and interests of the Owners of Bonds theretofore issued hereunder; and the Trustee shall be under no responsibility or liability to the Authority or to the Agencies or to any Owner of any Bond, or to anyone whatever, for any act or thing which it may do or decline to do in good faith subject to the provisions of this Article, in the exercise of such discretion.

Section 11.04. Modification of Indenture with Consent of Bondholders. Exclusive of supplemental indentures covered by Section 11.01 hereof and subject to the terms and provisions contained in this Section, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, to consent to and approve the execution by the Authority and the Trustee of such indenture or indentures supplemental hereto as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding in any particular, any of the terms or provisions contained in this Indenture or in any supplemental indenture; provided, however that nothing herein contained shall permit or be construed as permitting, without the consent of the Owners of each such Bond which would be affected thereby, (a) an extension of the Maturity of any Bond issued hereunder, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of revenues ranking prior to or on a parity with the lien or pledge created by this Indenture, or (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required to consent to supplemental indentures or amendments to any Lease or (f) a reduction in the aggregate principal amount of the Bonds required to waive an Event of Default.

Whenever the Authority shall deliver to the Trustee an instrument or instruments purporting to be executed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, which resolution or instrument or instruments shall refer to the proposed supplemental indenture and shall specifically consent to and approve the execution thereof, thereupon, the Authority and the Trustee may execute such supplemental indenture without liability or responsibility to any Owner of any Bond, whether or not such Owner shall have consented thereto.

If the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding at the time of the execution of such supplemental indenture shall have consented to and approved the execution thereof as herein provided, no Owner of any Bond shall have any right to object to the execution of such supplemental indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof.

Section 11.05. Supplemental Indentures to be Part of Indenture. Any supplemental indenture executed in accordance with any of the provisions of this Article shall thereafter form a part of this Indenture; and all the terms and conditions contained in any such supplemental indenture as to any provisions authorized to be contained therein shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes, and the respective rights, duties and obligations under this Indenture of the Authority, the Trustee and all Owners of Bonds then Outstanding shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments. If deemed necessary or desirable by the Trustee, reference to any such supplemental indenture or any of such terms or conditions thereof may be set forth in reasonable and customary manner in the text of the Bonds or in a legend stamped on the Bonds.

Section 11.06. Rights of Agencies Unaffected. Anything herein to the contrary notwithstanding, a supplemental indenture under this ARTICLE XI which adversely affects the rights of the Agencies under the Leases or this Indenture, so long as the Leases and Indenture are in effect and the Agencies is not in Default under any terms or conditions of the Leases, shall not become effective unless and until the Agencies shall consent to the execution and delivery of such supplemental indenture. The Authority shall cause notice of the proposed execution and delivery of any such supplemental indenture of which any Agency has not already consented, together with a copy of the proposed supplemental indenture, to be mailed to the Agency at least thirty (30) days prior to the proposed date of execution and delivery of any such supplemental indenture.

**ARTICLE XII
AMENDMENTS TO LEASES**

Section 12.01. Amendments to Leases Not Requiring Consent of Bondholders. The Authority, the Agencies, and the Trustee may without the consent of or notice to the Bondholders consent to any amendment, change or modification of the Leases as may be deemed necessary or desirable (i) by the provisions of the Leases and this Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission, or (iii) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Owners of the Bonds including an amendment necessitated by the application of a release of property under Section 10.04 hereof.

Section 12.02. Amendments to Leases Requiring Consent of Bondholders. Except for the amendments, changes or modifications as provided in Section 14.01 hereof, neither the Authority nor the Trustee shall consent to any other amendment, change or modification of the Leases, without the written approval or consent of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, subject to the provisions of Section 12.03 hereof. If the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding hereunder at the time of the execution of any such amendment, change or modification shall have consented to and approved the execution thereof as herein provided, no Owner of any Bond shall have any right to object to any of the terms and provisions contained therein, or in the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee, the Authority or the Agencies from executing the same or from taking any action pursuant to the provisions thereof.

Section 12.03. No Amendment May Reduce Basic Rent. Under no circumstances shall any amendment to the Leases reduce the Basic Rent payable under the Leases to an amount which together with the credits against Basic Rent provided for in Section 3.10 of the Leases is less than the amount necessary to pay principal and interest on the Bonds without the consent of the Owners of all the Bonds then Outstanding.

**ARTICLE XIII
RESERVED**

**ARTICLE XIV
MISCELLANEOUS**

Section 14.01. Covenants of Authority Bind Successors and Assigns. All the covenants, stipulations, promises and agreements in this Indenture contained, by or in behalf of the Authority, shall bind and inure to the benefit of its successors and assigns, whether so expressed or not.

Section 14.02. Immunity of Officers. No recourse for the payment of any part of the Debt Service on any Bond or for the satisfaction of any liability arising from, founded upon or existing by reason of the issue, purchase or ownership of the Bonds shall be had against any officer, member or agent of the Authority, the Commission, the State or the Agencies, as such, all such liability being hereby expressly released and waived as a condition of and as a part of the consideration for the execution of this Indenture and the issuance of the Bonds.

Section 14.03. No Benefits to Outside Parties. Nothing in this Indenture, express or implied, is intended or shall be construed to confer upon or to give to any Person, other than the Agencies, the parties hereto and the Owners of the Bonds issued hereunder, any right, remedy or claim under or by reason of this Indenture or any covenant, condition or stipulation hereof; and the covenants, stipulations and agreements in this Indenture contained are and shall be for the sole and exclusive benefit of the Agencies, the parties hereto, their successors and assigns, and the Owners of the Bonds.

Section 14.04. Separability of Indenture Provisions. In case any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Indenture, but this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

Section 14.05. Execution of Indenture in Counterparts. This Indenture may be simultaneously executed in several counterparts, each of which, when so executed, shall be deemed to be an original, and such counterparts shall together constitute one and the same instrument.

Section 14.06. Headings Not Controlling. The headings of the several Articles and Sections hereof are inserted for the convenience of reference only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 14.07. Notices to Trustee, Authority, and Agencies. Any request, demand, authorization, direction, notice, consent of Bondholders or other document provided or permitted by this Indenture shall be sufficient for any purpose under this Indenture or the Leases, when mailed registered or certified mail, return receipt requested, postage prepaid (except as otherwise provided in this Indenture) (with a copy to the other parties) at the following addresses (or such other address as may be provided by any party by notice) and shall be deemed to be effective upon receipt:

To the Authority: North Dakota Building Authority
State Capitol, 14th Floor
600 East Boulevard
Bismarck, ND 58505-0840
Attn: Executive Director, Industrial Commission

To the Trustee: Bank of North Dakota
700 East Main Avenue
P.O. Box 5509
Bismarck, ND 58506-5509
Attn: Trust Department

To the Agencies: State Board of Higher Education
State Capitol, 10th Floor
600 East Boulevard
Bismarck, ND 58505-0230
Attn: Chancellor

North Dakota Department of Corrections and Rehabilitation
3100 Railroad Avenue
PO Box 1898
Bismarck, North Dakota 58502-1898
Attn: Director

Section 14.08. Indenture Constitutes a Valid Pledge. An executed counterpart or certified copy of this Indenture delivered to and accepted by the Trustee shall constitute a valid pledge pursuant to and for all purposes of NDCC §54-17.2-17(2).

Section 14.09. Payments Due on Saturdays, Sundays and Other Non-Business Days. In any case where the principal of or interest on the Bonds shall be due on a Saturday, Sunday or other day which is not a Business Day, then payment of such principal and interest may be made on the next succeeding Business Day with the same force and effect as if made on the date due and no interest shall accrue for the intervening period.

Section 14.10. Governing Law. This Indenture shall be governed by and construed in accordance with the laws of the State.

Section 14.11. Notices to Moody's and S & P. So long as any Bonds are rated by Moody's and S & P, the Trustee and the Authority agree to give Moody's and S & P prompt written notice of any default made in the due and punctual payment of Debt Service on the Bonds, the appointment of any successor Trustee, any material amendments to this Indenture and the Leases, and the redemption or defeasance of any of the Bonds. All such notices shall be addressed as follows: (i) for Moody's, Moody's Investors Service, 99 Church Street, New York, New York 10007, Attention: Public Finance Department, State Ratings Group, and (ii) for S & P, Standard & Poor's Corporation, 55 Water Street, New York, New York 10041, Attention: Municipal Finance Group.

Section 14.12. Bondholder Consent when Bonds Held by Depository. The consent of the Holder of any Bond held by a third party depository shall be deemed to be binding upon the Holder and any successor Holder of such Bond when the consent is given by the registered Holder of the Bond as shown on the records of the depository or a depository participant at the time of the mailing of the request for such consent to the registered Holder (the "Holder of Record"); provided, however, that to be binding on successor Holders, the consent of the Holder of Record must be executed within forty-five (45) days of the date of mailing the request for consent to the Holder of Record.

Section 14.13. Reserve Fund Surety Bond. The Authority may elect while any of the Bonds are outstanding to substitute or replace all or part of the amounts held pursuant to any Reserve Fund Requirement with a comparable Credit Facility rated "A1" or better by Moody's, rated "investment grade" by S & P or provided by the Bank of North Dakota, providing security for the payment of Debt Service on the Bonds from the Reserve Fund, including but not limited to letters of credit, policies of insurance or lines of credit, to the extent that such substitution is, in the opinion of Bond Counsel, permitted by the then prevailing law and consistent with the requirements for tax exemption under federal income tax laws and regulations in effect on the date of such substitution. A comparable Credit Facility for an issue of bonds must be (i) equal in amount to any Reserve Fund balance, (ii) replenishable in the event the facility is drawn upon, and (iii) of a term equal to the longest maturity of the Bonds.

IN WITNESS WHEREOF, the parties hereto have caused this TRUST INDENTURE AND ASSIGNMENT OF LEASE RENTALS to be duly executed, and the INDUSTRIAL COMMISSION OF NORTH DAKOTA acting as the NORTH DAKOTA BUILDING AUTHORITY has caused its seal to be hereunto affixed and attested, all the date and year first above written.

INDUSTRIAL COMMISSION OF NORTH DAKOTA, acting as the
NORTH DAKOTA BUILDING AUTHORITY

By _____
John Hoeven, Governor
Chairman

ATTEST:

Karlene Fine
Executive Director and Secretary

(S E A L)

BANK OF NORTH DAKOTA
Bismarck, North Dakota, as Trustee

By _____
Title _____

Definitions

Defined Terms. Unless the context otherwise requires, the terms herein defined shall, for all purposes of this Indenture and of any indenture supplemental hereto, have the meanings herein specified. Any terms defined in the Leases, but not defined herein shall have the same meaning herein as defined in the Leases. Unless the context clearly requires otherwise such definitions to be equally applicable to both the singular and plural forms of any of the terms defined:

"Accountant" means a certified public accountant or accountants licensed by the State and employed or retained by the Authority.

"Act" means NDCC Chapter 54-17.2, as amended.

"Additional Rent" means the rent to be paid pursuant to Section 3.5 of the Leases.

"Additional Security" means any right, title, or interest in property, real, personal or mixed, not acquired by the Authority by the expenditure of the proceeds from the sale of the Bonds, that is pledged to the security of the Bonds and made a part of the Trust Estate in lieu of or in addition to the security interest in the Project or Projects as described in the Leases.

"Administration Fund" means the Administration Fund established by Section 5.06 hereof.

"Administrative Expenses" means the Authority's expenses of carrying out and administering its powers, duties and functions under the Leases and this Indenture. Such expenses shall not include (i) Debt Service on the Bonds or on any other bonds, notes or other evidences of indebtedness of the State, or (ii) the Costs of Issuance, (iii) Bond Fees, or (iv) the fees, costs or expenses of the Authority, the Commission or the State with respect to any other bonds, notes or indebtedness of the Authority, the Commission or the State.

"Agency" or **"Agencies"** means, whether one or more, the North Dakota State Board of Higher Education and the North Dakota Department of Corrections and Rehabilitation, or any other body or agency of the State which succeeds to the respective rights, responsibilities and duties of the Agency.

"Authority" means the Industrial Commission of North Dakota acting as the North Dakota Building Authority created under and pursuant to the provisions of the Act or Person succeeding to its rights or duties under this Indenture.

"Authority Certificate" means, a written request, order, certificate or consent signed in the name of the Authority by an Authorized Officer and delivered to the Trustee.

"Authorized Officer" means the person or persons at any time designated to act on behalf of the Authority in the Bond Resolution.

"Balance" when used with reference to any Fund, means the aggregate sum of all assets deposited in and standing to the credit of such Fund, including, without limitation, Permitted Investments computed at the value of Permitted Investments; and lawful money of the United States; provided, however, that the Balance of the Bond Fund shall not include amounts standing to the credit thereof which are being held therein for: (a) the payment of past due and unpaid Debt Service on the Bonds and (b) the payment of interest on and principal of Bonds that are deemed no longer Outstanding as a result of the defeasance thereof pursuant to Section 10.01.

"Bank of North Dakota" means the State doing business as the Bank of North Dakota pursuant to Chapter 6-09 of the NDCC and any other board, body, commission or agency succeeding to the functions thereof under this Indenture.

"Bank of North Dakota Base Rate" means the interest rate established by the Bank of North Dakota Investment Committee on a weekly basis.

"Basic Rent" means the rent to be paid pursuant to Section 3.3 of the Leases.

"Bond Counsel" means any Counsel of nationally recognized standing in the field of law relating to exemption from federal income taxation with respect to municipal bonds.

"Bond Fees" means the fees, costs and expenses of the Trustee and Paying Agent, Independent Accountants, Bond Counsel or Registrar incurred by the Authority including the NDBA Fee in carrying out and administering its powers, duties and functions under this Indenture and the Leases.

"Bond Fund" means the Bond Fund created under Section 5.01 hereof.

"Bond Resolution" means the General Authorization Resolution of the Authority adopted by the Authority on January 19, 2006, authorizing the issuance and sale of the Bonds, as the same may be amended, modified or supplemented by any amendments or modifications thereof.

"Bond Year" means a one (1) year period beginning on December 1 and ending on November 30 of the next succeeding calendar year, or such other dates as designated by the Authority.

"Bonds" means the "North Dakota Building Authority Lease Revenue Refunding Bonds, 2006 Series A" described in this Indenture, and any additional bonds authorized to be issued hereunder and any bonds issued to refund the Bonds in whole or in part.

"Building Authority Fund" means the Building Authority Fund established pursuant to Section 5.07 hereof.

"Business Day" means any day other than a Saturday or Sunday or legal holiday, or a day on which the Trustee is required or authorized by law to remain closed or a day on which the New York Stock Exchange is closed.

"Certificate" means a certification in writing required or permitted by the provisions of the Leases or this Indenture, signed and delivered to the Trustee or other proper person or persons. If and to the extent required by the provisions of Section 1.02 hereof, each Certificate shall include the statements provided for in Section 1.02.

"Certified Resolution" means a copy of a resolution of the Authority, certified by the Secretary to the Commission to have been duly adopted by the Authority.

"Commission" means the Industrial Commission of North Dakota created by NDCC §54-17-01, and any other board, body, commission, agency or officer succeeding to the functions thereof to which the powers and duties granted or imposed by this Indenture shall be given by law.

"Condemnation" means the taking or requisition by governmental authority or by a person, firm or corporation acting under governmental authority and a conveyance made under threat of condemnation provided such conveyance is made with the approval of the Trustee, and condemnation award shall include payment for property taken or requisitioned or conveyed under threat of condemnation.

"Costs of the Projects" means the aggregate of all Costs of the Projects set out in Section 2.1 of the Leases.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Authority and related to the authorization, sale and issuance of the Bonds and including, but not limited to printing costs, costs of preparation and reproduction of documents, filing fees, initial fees and charges of the Escrow Agent, Trustee, Registrar and Paying Agents, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of the Bonds, any bond insurance premiums, any costs associated with obtaining title opinions or title insurance with respect to the Projects, and any accrued interest paid in connection with or with respect to the initial investment of Bond proceeds, other costs incurred by the Authority in anticipation of the issuance of the Bonds and any other cost, charge or fee in connection with the issuance of the Bonds.

"Counsel" means an attorney duly admitted to practice law before the highest court of any state.

"Credit Facility" means a surety bond/agreement, letter of credit either standby or direct pay or any other financial arrangement acceptable to the Trustee meeting the rating requirements set out in Section 14.13 hereon or that will not adversely impact the rating on the Bonds.

"Debt Service" means, as of any particular date and with respect to any particular period, the aggregate of the moneys to be paid or set aside on such date or during such period for the payment of the principal of at maturity, including any sinking fund redemptions of Term Bonds, premium, if any, and interest when due on the Bonds.

"Default" means default by the Authority in the performance or observance of any of the covenants, agreements or conditions on its part contained in this Indenture, exclusive of any notice or period of grace required to constitute a default as an "Event of Default" as described in Section 7.01 hereof.

"Default in Payment" means an Event of Default described in paragraph Section 7.01(a) or Section 7.01(e) hereof.

"Escrow Account" means the 2006 Series A Refunding Escrow Account established with the Bank of North Dakota pursuant to the Escrow Agreement.

"Escrow Agent" means the Bank of North Dakota or any successor escrow agent designated in accordance herewith as a place at which principal of or interest on the Prior Bonds is payable, and, in the absence of any such designation, the Trustee.

"Escrow Agreement" means the Escrow Agreement dated as of February 15, 2006, between the Authority and the Bank of North Dakota as Trustee for the owners of the Prior Bonds.

"Event of Default" means an event of default described in Section 7.01 of this Indenture, which has not been cured.

"Event of Nonappropriation" means the failure, for whatever reason, of the Legislative Assembly of the State to appropriate sufficient moneys for the payment of Basic and Additional Rent under the Leases during any Renewal Term of the Leases, wherein Basic and Additional Rent are payable, on or before the commencement of such Renewal Term.

"Excess Earnings" means (a) investment earnings on obligations purchased with amounts deposited in any Fund created pursuant to this Indenture (other than the Bond Fund and Rebate Fund) in an amount equal to the difference between the excess of the aggregate amount earned during the Bond Year less the amount of investment earnings that would have been generated if the Yield on the investment of such amount during the Bond Year had been equal to the Bond Yield plus (b) any income attributable to the excess described in (a). The foregoing shall be interpreted and applied consistent with Section 148 of the Internal Revenue Code and Section 1.148 of the Treasury Regulations.

"Financial Journal" means any newspaper or journal of general circulation carrying financial news circulated in the English language in New York, New York.

"Fiscal Year" means the Agency's fiscal year, and shall initially mean the 12-month period commencing on the first day of July in each year.

"Fund" means any of the Funds and their respective subaccounts, if any, established by this Indenture.

"Indenture" means this Trust Indenture and Assignment of Lease Rentals, constituting a trust agreement between the Authority and the Bank of North Dakota, as Trustee, and including any indenture which amends or is supplemental hereto entered into in accordance with the provisions hereof.

"Independent" when used with respect to any specified Person, means a Person who (1) is in fact independent; (2) does not have direct financial interest or any material indirect financial interest in the Authority or State, other than the payment to be received under a contract for services to be performed by such Person; and (3) is not connected with the Authority or State as an official, officer, employee, promoter, underwriter, trustee, partner, affiliate, subsidiary, director or Person performing similar functions. Whenever it is herein provided that any Independent Person's opinion or certificate shall be furnished to the Trustee, such Person shall be appointed by the Authority or the Trustee, as the case may be, and such opinion or certificate shall state that the signer had read the definition and that the signer is Independent within the meaning hereof.

"Interest Payment Date" means a date on which interest is payable on any Bond including any date upon which interest is payable under an acceleration of maturity pursuant to Section 7.02 hereof.

"Interest Period" means any semiannual period prior to each Interest Payment Date.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder or applicable to the Bonds.

"Investment Agreement" means an agreement by and between the Authority and a bank, trust company, national banking association, insurance company or other financial institution, providing for the investment of moneys in any of the Funds.

"Leases" mean the Lease Agreement and Assignment of Rentals I, dated as of March 1, 1998, between the Authority and the North Dakota State Board of Higher Education (Minot State University – Moore Hall and North Dakota State School of Science – Bute Gymnasium), the Lease Agreement and Assignment of Rentals II, dated as of March 1, 1998, between the Authority and the North Dakota Department of Corrections and Rehabilitation (Youth Correctional Center Gymnasium), the Lease Agreement and Assignment of Rentals I, dated as of April 1, 2000, between the Authority and the North Dakota State Board of Higher Education (NDSU Animal Research Center), and the Lease Agreement and Assignment of Rentals II, dated as of April 1, 2000, between the Authority and the North Dakota Department of Corrections and Rehabilitation (Pine Cottage - Youth Correctional Center).

"Lease Term" means the duration of the leasehold estate created in the Leases as specified under Article III thereof to the date of termination including early termination provided for therein.

"Maturity" means, when used with respect to any Bond, the date on which the principal of such Bond becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee, at the written direction of the Authority.

"NDBA Fee" means the administration fee payable to the Authority, as described in Section 8.27 hereof.

"NDCC" means the North Dakota Century Code, as amended.

"Net Proceeds" when used with respect to any insurance or Condemnation award, means the proceeds from the insurance or Condemnation award remaining after payment of all expenses (including attorney's fees and any extraordinary expenses of the Trustee) incurred in the collection of such proceeds.

"Opinion of Counsel" means a written opinion of Counsel appointed by the Agency or Authority and acceptable to the Trustee or appointed by the Trustee. **"Original Purchaser"** means the original purchaser or purchasers of the Bonds as set out in Exhibit C hereto.

"Outstanding" when used as of any particular time with reference to Bonds, means all Bonds theretofore authenticated and delivered by the Trustee under the Indenture except:

- (i) Bonds canceled by the Trustee or surrendered to the Trustee for cancellation; and
- (ii) Bonds for the payment or redemption of which funds in the necessary amount shall have been deposited with the Trustee (whether upon or prior to the Stated Maturity or the Redemption Date of such Bonds), provided that if such Bonds are to be redeemed prior to the Stated Maturity thereof, notice of such redemption shall have been given pursuant to ARTICLE III of the Indenture, or provision satisfactory to the Trustee shall have been made for the giving of such notice.

"Owner" or **"Bondholder"** or **"Holder"** whenever employed herein with respect to a Bond means the person or persons in whose name such Bond shall be registered.

"Paying Agent" means the Bank of North Dakota or any successor paying agent designated in accordance herewith as a place at which principal of or interest on any Bond is payable, and, in the absence of any such designation, the Trustee.

"Permitted Encumbrances" means, as of any particular time, (i) this Indenture, (ii) utility, access and other easements and rights-of-way, mineral rights, restrictions and that the Agencies certify will not interfere with or impair the use of or operations being conducted in the Projects or elsewhere on the Sites, and (iii) such minor defects, irregularities, encumbrances, easements, and rights-of-way as normally exist with respect to properties similar in character to the Projects and as do not in the Opinion of Counsel addressed to the Trustee, materially impair the property affected thereby for the purposes for which it was acquired or is held by the Authority.

"Permitted Investments" means,

- (A) For all purposes, including defeasance investments in refunding escrow accounts, except the Debt Service Reserve Fund which may only be invested in investments that maintain a fixed principal value:
 - (1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (2) below); or
 - (2) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America.
- (B) For all purposes other than defeasance investments in refunding escrow accounts:
 - (1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
 - (a) Export-Import Bank
 - (b) Farm Credit System Financial Assistance Corporation
 - (c) Rural Economic Community Development Administration (formerly the Farmers Home Administration)
 - (d) General Services Administration
 - (e) U.S. Maritime Administration
 - (f) Small Business Administration
 - (g) Government National Mortgage Association (GNMA)
 - (h) U.S. Department of Housing & Urban Development (PHA's)
 - (i) Federal Housing Administration
 - (j) Federal Financing Bank; or
 - (2) Direct Obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:
 - (a) Senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
 - (b) Obligations of the Resolution Funding Corporation (REFCORP)

- (c) Senior debt obligations of the Federal Home Loan Bank System
 - (d) Senior debt obligations of other Government Sponsored Agencies approved by the Authority; or
 - (3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank.); or
 - (4) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase; or
 - (5) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P; or
 - (6) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local government unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and
 - (a) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P and Moody's or any successors thereto; or
 - (b) (i) which are fully secured as to principal and interest by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal and interest on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and
 - (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal and interest on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate. (Pre-refunded Municipal Obligations meeting the requirements of subsection (B) hereof may not be used as Permitted Investments for annual appropriation lease transactions without the prior written approval of S&P); or
 - (7) General obligations of States with a rating of at least "investment grade" or higher by both Moody's and S&P; or
 - (8) Investment agreements or other forms of investments approved in writing by the Authority (supported by appropriate opinions of counsel) with notice to S&P and Moody's; or
 - (9) Deposits of the Bank of North Dakota, which as provided by NDCC §6-09-10, are guaranteed by the State; or
 - (10) Any investment that will not have an adverse effect on any rating on the Bonds.
- (C) The value of the above investments shall be determined as follows: "Value", which shall be determined as of each Interest Payment Date, means that the value of any investments shall be calculated as follows:
- (1) As to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination;
 - (2) As to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;
 - (3) As to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and
 - (4) As to any investment not specified above: the value thereof established by prior agreement between the Authority and the Trustee.

"Person" means any individual, commission, partnership, joint venture, association, joint stock company, trust, incorporated organization or government or any agency or political subdivision thereof.

"Principal Office" means (i) when used with respect to the Trustee, the principal trust office of the Trustee, which office as of the date of execution of this Indenture is located at the address specified in Section 14.07 hereof, and (ii) when used with respect to any other Person, the office designated in writing to the Trustee and the Authority.

"Principal Payment Date" means the Stated Maturity of principal of any Bond and the Redemption Date of any Bonds.

"Prior Bonds" mean the bonds defined on page 1 of this Indenture.

"Prior Bonds Indentures" means the Trust Indenture and Assignment of Lease Rentals dated as of March 1, 1998, between the Authority and the Bank of North Dakota, as Trustee, relating to the 1998 Series A Bonds, and the Trust Indenture and Assignment of Lease Rentals dated as of April 1, 2000, between the Authority and the Bank of North Dakota, as Trustee, relating to the 2000 Series A Bonds.

"Project" or **"Projects"** means the interests in real or personal property, or both, acquired, constructed, or improved with the Bond proceeds from the Prior Bonds described in Exhibit A to the Leases between the Authority and the Agency.

"Rebate Fund" means the Rebate Fund created under Section 5.08 hereof.

"Record Date" means the fifteenth day of the month preceding each regular Interest Payment Date.

"Redemption Date" when used with respect to any Bond to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price" when used with respect to any Bond to be redeemed, means the price at which it is to be redeemed pursuant to Section 3.01 or Section 3.02 of this Indenture.

"Register" means the Bond register maintained by the Registrar.

"Registrar" means the Bank of North Dakota or any successor bank or banking association having trust powers or trust company serving in such capacity under the terms of this Indenture and its successor or successors and any other bank or banking association having trust powers or trust company which may at any time be substituted in its place pursuant to this Indenture.

"Renewal Term" means any two-year renewal period of the Leases as set out in the Leases.

"Repair and Replacement Fund" means the Repair and Replacement Fund established by Section 5.09 hereof.

"Reserve Fund" means the Reserve Fund established by Section 5.02 hereof.

"Reserve Fund Requirement" means that amount set out in Section 2.03(b) hereof which is an initial amount equal to the lesser of (i) the maximum annual Debt Service on the Bonds; (ii) 125% of the average annual Debt Service on the Bonds; or (iii) 10% of the stated principal amount of the Bonds. Such amount may be reduced pursuant to Section 5.02 hereof. Investment of the Reserve Fund need not be marked to market.

"S & P" means Standard and Poor's Corporation, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S & P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee, at the written direction of the Authority.

"Serial Bonds" means any Bonds designated as such in Exhibit D hereto payable in annual principal maturities as provided in Section 2.01 hereof.

"Site" or **"Sites"** means any real property or a part of the Projects described in the Leases and Exhibit B attached hereto.

"State" means the State of North Dakota.

"Stated Maturity" when used with respect to any Bond, means the date specified in such Bond as the fixed date on which principal of such Bond is due and payable.

"Tax Certificate" means the certification of the Authority dated as of the date of delivery of the Bonds to the Original Purchaser regarding compliance with the requirements of the Internal Revenue Code.

"Term Bonds" means any Bonds designated as such in any Exhibit E attached hereto and payable through sinking fund redemption in amounts set out in Section 2.01 hereof and redeemed as provided in Section 3.02(a) hereof.

"Trust Estate" means interests in the Projects and any Additional Security assigned under the Granting Clauses hereof, to include current and future deposits in and earnings from the Funds.

"Trustee" means the Bank of North Dakota, Bismarck, North Dakota, and its successor or successors and any other bank, trust company or corporation which may at any time be substituted in its place, acting in its capacity as Trustee or Registrar pursuant to this Indenture.

"Yield" means that discount rate which when computing the present worth of all payments of principal and interest to be paid on an obligation produces an amount equal to the purchase price of the obligation. With respect to the Bonds, the Yield shall be the discount rate at which the present value of payments on such Bonds is equal to the purchase price at par, less any original issue discount, plus any original issue premium plus any accrued interest, less any Bond insurance premium.

R –

NORTH DAKOTA BUILDING AUTHORITY
LEASE REVENUE REFUNDING BONDS
2006 SERIES A

Book Entry Serial Bond

Principal Amount:	Thousand Dollars (\$,000.00)		
Registered Holder:	Cede & Co.		
<u>Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>CUSIP</u>
February 15, 2006	December 1,	%	658905
<u>Interest Payment Dates</u>	<u>Initial Interest Payment Date</u>	<u>Registrar/Paying Agent</u>	
June 1 and December 1	June 1, 2006	Bank of North Dakota	

THE STATE OF NORTH DAKOTA (the "**State**"), acting by and through the Industrial Commission of North Dakota (the "**Commission**") acting as the North Dakota Building Authority (the "**Authority**"), acknowledges itself indebted and for value received hereby promises to pay to the Registered Holder on the Record Date (the 15th day of the month, whether or not a Business Day, immediately preceding each interest payment date) the Principal Amount on the Maturity Date, unless redeemed prior thereto as provided in the Trust Indenture and Assignment of Lease Rentals dated as of February 1, 2006 (the "**Indenture**") at which time interest shall cease to accrue provided money for such redemption is on deposit with the Trustee, and to pay interest on the Principal Amount at the Interest Rate specified above from the Dated Date hereof to the Initial Interest Payment Date and on each Interest Payment Date thereafter until paid in full. Interest will be payable by wire transfer to DTC.

This book-entry bond is one of a duly authorized series of bonds of the State (the "**2006 Series A Bonds**") issued by the Authority in the initial aggregate principal amount of \$10,460,000 under and pursuant to Chapter 54-17.2 of the North Dakota Century Code (the "**Act**") and the Indenture as authorized by the Bond Resolution duly adopted by the Authority on January 19, 2006. (Capitalized terms used herein, which are not specifically defined herein, shall have the same meanings given to such terms in the Indenture.) A certified copy of the Indenture is on file in the office of the Trustee, and in the office of the Commission in Bismarck, North Dakota.

The 2006 Series A Bonds:

- (i) are transferable, as provided in the Indenture;
- (ii) are subject to optional and extraordinary optional redemption prior to maturity as a whole or in part at such time or times, under such circumstances and in such manner as is set forth in the Indenture, upon notice as provided in Article III of the Indenture, or the Blanket Issuer Letter of Representations entered into between the Authority and DTC; and
- (iii) shall not be valid or obligatory for any purpose until the Trustee's Certificate of Authentication hereon shall have been signed by the Trustee.

Notwithstanding any other provisions herein set out, so long as Cede & Co. is the registered owner hereof, the provisions of the Blanket Issuer Letter of Representations entered into by and between the Authority and DTC shall be controlling as to the matters addressed therein and all the terms and provisions therein are incorporated herein as though fully set out herein.

This bond and the series of which it is one do not constitute a general obligation of the State or any agency or political subdivision of the State within the meaning of any statutory or constitutional provision. The principal or redemption price of and interest on this bond and the series of which it is one is payable solely from the revenues derived by the Authority pursuant to the Leases, as provided in the Indenture, and as provided in NDCC ch. 54-17.2. The issuance of the 2006 Series A Bonds will not directly or contingently obligate the Authority or the State to levy or pledge any form of taxation whatever or to make any appropriation for their payment.

IN WITNESS WHEREOF, the Authority has caused the 2006 Series A Bonds to be executed in the name of the State and on its behalf by the manual or facsimile signatures of the members of the Commission and the official seal of the Commission (or a facsimile thereof) to be hereunto affixed, imprinted, engraved or otherwise reproduced and attested to by the manual or facsimile signature of an Authorized Officer of the Commission.

INDUSTRIAL COMMISSION OF NORTH DAKOTA

Governor and Chairman

Attorney General

Agriculture Commissioner

Executive Director of the Commission
Authorized Officer

TRUSTEE'S CERTIFICATE OF AUTHENTICATION
This bond is one of the Bonds described in the within mentioned Indenture.
BANK OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA, AS TRUSTEE

By _____
Authorized Signature

STATEMENT OF INSURANCE

Financial Guaranty Insurance Policy No. 25022BE (the "Policy") with respect to payments due for principal of and interest on this Bond has been issued by Ambac Assurance Corporation ("Ambac Assurance"). The Policy has been delivered to The Bank of New York, New York, New York, as the Insurance Trustee under said Policy and will be held by such Insurance Trustee or any successor insurance trustee. The Policy is on file and available for inspection at the principal office of the Insurance Trustee and a copy thereof may be secured from Ambac Assurance or the Insurance Trustee. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. The owner of this Bond acknowledges and consents to the subrogation rights of Ambac Assurance as more fully set forth in the Policy.

Ambac

\$10,460,000
NORTH DAKOTA BUILDING AUTHORITY
2006 SERIES ABONDS
2005 SERIES A

We have acted as bond counsel to the Industrial Commission of North Dakota, acting as the North Dakota Building Authority, (the "Issuer") in connection with the issuance by the Issuer of \$10,460,000 North Dakota Building Authority, Lease Revenue Refunding Bonds, 2006 Series A, dated February 15, 2006, (the "Bonds"). In such capacity, we have examined such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to Chapter 54-17.2 of the North Dakota Century Code (the "Act"), a General Authorization Resolution, dated January 19, 2006, of the Issuer authorizing the issuance and sale of the Bonds, and a Trust Indenture and Assignment of Lease Rentals, dated as of the date of the sale of the Bonds, (the "Indenture") between the Issuer and the Bank of North Dakota, as Trustee. The issuance of the Bonds has been authorized for the purpose of advance refunding certain prior bonds of the Issuer that are identified in the Indenture.

The Issuer and various agencies and instrumentalities of the State of North Dakota, which are identified in the Indenture and defined there in as the "Agencies," have entered into lease agreements, which are identified in the Indenture and defined therein as the "Leases", regarding the financing of certain projects, which are identified in the Indenture and defined there in as the "Projects." Under the Leases, the Agencies have covenanted to make payments of "Basic Rent", subject to biennial appropriation, to the Issuer to be used to pay their proportionate share of the principal of, premium, if any, and interest when due on the Bonds (the "Debt Service"). Under the Indenture, the Issuer has pledged and assigned the Basic Rent to the payment of Debt Service on the Bonds.

Regarding questions of fact material to our opinion, we have relied upon representations of the Issuer and the Agencies contained in the Indenture and the Leases and the certified proceedings and other certifications of public officials and others furnished to us, including certifications furnished to us by or on the behalf of the Agencies, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of opinion that, under existing law:

1. The Issuer is duly established and validly existing under the laws of the State of North Dakota with the power to adopt and to enter into and perform its obligations under the Indenture and the Leases and to issue the Bonds.
2. The Indenture has been duly adopted, authorized, executed, and delivered by the Issuer, and is a valid and binding obligation of the Issuer enforceable against the Issuer. The Indenture creates a valid lien on the Projects, Basic Rent and other funds pledged by the Indenture to the payment of Debt Service on the Bonds.
3. The Bonds have been duly authorized and executed by the Issuer and are valid and binding limited obligations of the Issuer, payable solely from the Basic Rent and other funds provided therefor in the Indenture.
4. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the Issuer and the Agencies comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Issuer and the Agencies have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.
5. Interest on the Bonds is excludable from gross income for State of North Dakota income tax purposes (other than the tax imposed on financial institutions by North Dakota Century Code, Chapter 57-35.3).

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture are limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the Official Statement or other offering material relating to the Bonds (except to the extent that such opinion is specifically stated in the Official Statement, including the section entitled Tax Matters), or regarding the perfection or priority of the lien on the Basic Rent, other funds pledged by the Indenture to the payment of Debt Service on the Bonds, or any other accounts or subaccounts created by the Indenture. Further, we express no opinion regarding the tax consequences arising with respect to the Bonds other than as expressly set forth herein.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully Submitted,
Cook Wegner & Wike PLLP

I hereby certify that the foregoing is a full and correct copy of the text of the legal opinion of bond counsel on the issue of the Bonds of the North Dakota Building Authority which includes the within Bond, rendered as of the date of the delivery of and payment for the Bonds.

Karlene Fine, Executive Director of the Commission
Authorized Officer

\$10,460,000
 NORTH DAKOTA BUILDING AUTHORITY
 LEASE REVENUE REFUNDING BONDS
 2006 SERIES A

Legal Descriptions of Sites

Minot State University - Moore Hall

Commencing at a point on the Northeast Corner of Block One, Subdivision of Block 14, North Minot, Ward County, North Dakota; thence N99°00'00"E, a distance of 627.79 feet; thence S00°00'00"E, a distance of 40.91 feet, to the true point of beginning; thence N90°00'00"E, a distance of 120.41 feet; thence S00°00'00"E, a distance of 248.40 feet; thence S90°00'00"W, a distance of 146.04 feet; thence N00°00'00"E, a distance of 135.82 feet; thence N90°00'00"E, a distance of 25.63 feet; thence N00°00'00"E, a distance of 112.58 feet to the true point of beginning.

North Dakota State School of Science – Bute Gymnasium

All that Part of Block 4, State School of Science Addition, Wahpeton, Richland County, North Dakota described as follows:

Commencing at the Southeast Corner of Block 16, Tyler's Addition to the City of Wahpeton; thence on an assumed bearing of North 0 degrees 56 minutes 50 seconds West on and along the east line of said Block 16, and continuing along the east line of said Block 4 (Being also the west line of 4th Street) a distance of 816.74 feet to the point of beginning; thence North 89 degrees 54 minutes 48 seconds West a distance of 186.67 feet; thence North 0 degrees 01 minutes 20 seconds West a distance of 195.16 feet; thence South 89 degrees 53 minutes 50 seconds East a distance of 183.52 feet to the said east line of Block 4; thence South 0 degrees 56 minutes 50 seconds West on and along said east line of Block 4 a distance of 195.14 feet to the point of beginning.

The above described tract contains 36,118 square feet more or less.

Department of Corrections and Rehabilitation - Youth Correctional Center Gymnasium

A Tract of Land Lying in the NW1/4 of Section 33, Township 139 North, Range 81 West of the Fifth (5th) Principal Meridian, More Fully Described as Follows:

Beginning at the Northeast Corner of Section 33, Township 139 North, Range 81 West; Thence South 89 Degrees 15'00" West along the Section Line a Distance of 2663.14 Feet to the Northeast Corner of the NW-1/4 of Section 33; Thence South 20 Degrees 08'42" West a Distance of 1262.27 Feet to the True Point of Beginning. Thence South 01 Degrees 50'49" East a Distance of 224.46 Feet; Thence South 88 Degrees 01'52" West a Distance of 120.34 Feet; Thence North 00 Degrees 28'01" West a Distance of 224.74 Feet; Thence North 88 Degrees 08'02" East a Distance of 114.93 Feet to the True Point of Beginning. Said Tract of Land Containing .61 Acres, More or less.

North Dakota State Board of Higher Education - NDSU Animal Research Center

A tract of land situated in Northwest quarter of Section 36, Township 140 North, Range 49 West of the Fifth Principal Meridian, in the City of Fargo, Cass County, North Dakota more particularly described as follows:

Commencing at the south quarter corner of said Section 36, thence North 01 degrees 43 minutes 20 seconds West on an assumed bearing along the East line of the Southwest quarter of said Section 36, a distance of 2635.00 feet to the Southeast corner of said Northwest quarter, thence South 87 degrees 35 minutes 06 seconds West along the South line of said Northwest quarter a distance of 85.69 feet to the West right of way of 18th Street North and also the point of beginning, thence continuing South 87 degrees 35 minutes 06 seconds West along said South line a distance of 481.71 feet, thence North 01 degrees 43 minutes 20 seconds west 503.78 feet, thence North 87 degrees 35 minutes 06 seconds East 78.16 feet, thence North 01 degrees 43 minutes 20 seconds West 44.02 feet, thence North 87 degrees 35 minutes 06 seconds East 398.84 feet to said West right of way of 18th Street North, thence South 02 degrees 08 minutes 12 seconds East along said West right of way a distance of 492.36 feet, thence South 02 degrees 55 minutes 05 seconds East along said West right of way a distance of 55.40 feet to the point of beginning.

Said tract contains 5.95 acres more or less.

North Dakota Department of Corrections and Rehabilitation - Youth Correctional Center Pine Cottage

EXHIBIT C

\$10,460,000
NORTH DAKOTA BUILDING AUTHORITY
LEASE REVENUE REFUNDING BONDS
2006 SERIES A

ORIGINAL PURCHASER

RBC Capital Markets

\$10,460,000
STATE OF NORTH DAKOTA
NORTH DAKOTA BUILDING AUTHORITY
LEASE REVENUE REFUNDING BONDS
2006 SERIES A

Serial Bond Interest Rate Schedule

<u>Maturity</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2006	\$ 710,000	4.00%
2007	645,000	4.00%
2008	675,000	4.00%
2009	535,000	4.00%
2010	565,000	4.00%
2011	750,000	4.00%
2012	780,000	4.00%
2013	815,000	4.00%
2014	845,000	4.00%
2015	880,000	4.00%
2016	920,000	4.00%
2017	960,000	4.00%
2018	1,010,000	4.00%
2019	370,000	4.00%

**LEASE AGREEMENT
AND
ASSIGNMENT OF RENTALS I**

between

**INDUSTRIAL COMMISSION OF NORTH DAKOTA
acting in its capacity as the
NORTH DAKOTA BUILDING AUTHORITY**

and

**NORTH DAKOTA STATE BOARD
OF HIGHER EDUCATION**

Dated as of April 1, 2000

***Beauclair & Cook
Kirkwood Office Tower - Suite 207
919 South 7th Street
Bismarck, ND 58504-5835
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Fax: 701-255-6325
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APPENDIX A - Definitions

- EXHIBIT A - Description of the Project
- EXHIBIT B - Legal Description
- EXHIBIT C - Additional Security

LEASE AGREEMENT

THIS LEASE AGREEMENT AND ASSIGNMENT OF RENTALS I (the "**Lease**") made and entered into as of April 1, 2000, by and between the Industrial Commission of North Dakota acting in its capacity as the NORTH DAKOTA BUILDING AUTHORITY, a governmental agency created, organized and existing under the authority of NDCC Chapter 54-17.2, (the "**Authority**"), and the NORTH DAKOTA STATE BOARD OF HIGHER EDUCATION (the "**Agency**");

WITNESSETH:

WHEREAS, the Authority has been established under and in pursuance of the provisions of the Act (this capitalized term and all other capitalized terms used herein shall have the meaning given to such terms in Article I hereof) for the purpose of promoting the general welfare of the citizens of the State by providing public service facilities through acquiring, constructing, furnishing, equipping, owning, improving, enlarging, operating, repairing and maintaining buildings, for the use of the State, including making any improvements to those buildings and providing equipment necessary to the use of those buildings in the provision of services to the public; and

WHEREAS, the Authority acquired the Project and any Additional Security and hereby leases the same to the Agency; and

WHEREAS, the execution and delivery of this Lease has been in all respects duly and validly authorized and approved by the Authority and by the Agency;

NOW, THEREFORE, in consideration of the premises and of the covenants and undertakings herein expressed, the parties hereto agree as follows:

ARTICLE I DEFINITIONS, REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 1.1. Definitions. Definitions used herein are defined in Appendix A hereto.

Section 1.2. Representations, Warranties, and Covenants of the Agency. The Agency represents, warrants, and covenants as follows:

(a) The Agency is an agency of the State duly organized and existing as such under the Constitution and laws of the State.

(b) The Agency is authorized to enter into the transactions contemplated by this Lease and to carry out its obligations hereunder. The Agency has been duly authorized to execute and deliver this Lease and covenants that it will do or cause to be done all things necessary to preserve and keep its existence in full force and effect.

(c) The Agency has entered into this Lease not only for the benefit of the Agency and the Authority but also for the benefit of the Trustee and all Owners of the Bonds issued for the purpose of financing the Project and other costs of the financing pursuant to the Indenture, and the provisions of this Lease may be enforced, to the extent and in the manner allowed under the Indenture, not only by the parties hereto but also by the Trustee.

(d) The Agency, at all times when Bonds are Outstanding, (i) will maintain and abide by this Lease with the Authority, and (ii) anything in any other agreement entered into by the Agency to the contrary notwithstanding, will not terminate or suspend this Lease in a manner that affects the Project prior to such termination or suspension.

(e) The execution, delivery and performance by the Agency of this Lease will not (i) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award as currently in effect to which it is subject; (ii) result in a breach of or constitute a default under the provisions of any indenture, loan or credit agreement or any other agreement, lease or instrument to which the Agency is subject or by which it, or its property, is bound; and (iii) the Agency is not in default under any such law, rule, regulation, order, writ, judgment, injunction, decree, determination or award or any such indenture, agreement, lease or instrument.

(f) There is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body pending or, to the knowledge of the Agency threatened against or affecting the Agency (i) wherein an unfavorable decision, ruling or finding would materially adversely affect the transactions contemplated by, or the validity of, this Lease to which it is a party, or any agreement or instrument to which the Agency is a party and which is in use or contemplated for use in the consummation of the transactions contemplated by this Lease or (ii) which in any way contests the existence, organization or powers of the Agency or the members or officers of the Agency to their respective offices.

Section 1.3. Representations, Warranties, and Covenants of the Authority. The Authority represents, warrants, and covenants as follows:

(a) The Authority is a governmental agency of the State duly organized and existing as such under the constitution and laws of the State.

(b) The Authority has the authority to enter into the transactions contemplated by this Lease and to carry out its obligations hereunder. The Authority has the authority to execute and deliver this Lease and agrees that it will do or cause to be done all things necessary to preserve and keep in full force and effect its existence.

(c) The Authority has entered into this Lease not only for the benefit of the Agency and the Authority, but also for the benefit of the Trustee and all Owners of Bonds, and the provisions of this Lease may be enforced, to the extent and in the manner allowed under the Indenture, not only by the parties hereto but also by the Trustee.

(d) The Authority will diligently and reasonably exercise for the benefit of the Agency and the Owners of the Bonds, any and all rights that it or they may have under the Indenture and this Lease for the financing and use of the Project.

(e) The execution and delivery of the Lease will not (i) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award as currently in effect to which the Authority is subject; (ii) result in a breach of or constitute a default under the provisions of any indenture, loan or credit agreement or any other agreement, lease or instrument to which the Authority may be or is subject or by which it, or its property, is bound; and (iii) the Authority is not in default under any such law, rule, regulation, order, writ, judgment, injunction, decree, determination or award or any such indenture, agreement, lease or instrument.

ARTICLE II ACQUISITION AND COMPLETION OF PROJECT

Section 2.1. Acquisition of Project and Plans. The Agency estimates the Costs of the Project in the amount of \$2,207,500. The Agency estimates the total Project costs in the amount of \$4,415,000.

(a) The Agency may make changes or modifications to the Plans, or deletions from or substitutions or additions to the Project, without the prior consent of the Authority if such changes or modifications to the Plans, or deletions from or substitutions or additions to the Project will not, in the written opinion of the Agent filed with the Authority, (i) materially alter the Project, (ii) cause a material delay in the completion date of the Project as provided in Section 2.6 of this Lease, (iii) cause the estimated Costs of the Project to exceed the amount of the Costs of the Project approved by the State Legislature and such other legally available funds, (iv) materially affect the structural integrity and utility of the Project or impair the usefulness or character of the Project, or (v) violate the requirements of any licensing authority or the Act. No change of use of the Project shall be made without the prior written opinion of Bond Counsel stating that such change in use will not cause the interest payable on the Bonds to be includable in an Owner's gross income for federal tax purposes.

(b) The Agency hereby covenants and agrees that no changes, modifications, substitutions, deletions or additions to the Project increasing the Cost of the Project from the amount estimated herein shall be made unless there shall be on deposit with the Agency adequate moneys therefor, and the availability of such moneys shall be certified in writing by the Agency to the Authority and the Trustee.

Section 2.2. Conveyance of Project to Authority. The Authority shall, if real property is involved, acquire by deed the Project, for the price, the amount and the manner of payment as provided in Section 2.3 hereof.

Contemporaneously with the delivery of this Lease, the Authority does hereby, pursuant to the Indenture, assign its rights in, and pledge any moneys receivable under this Lease (other than administrative costs and indemnity payments to be paid to the Authority, if any) to the Trustee as security for the payment of certain obligations of the Authority or to any insurer, guarantor, or payer of said obligations. The Agency hereby consents to the assignments.

From time to time during any construction period the Agency will execute and deliver to the Authority such instruments or Opinions of Counsel acceptable to the Authority and the Trustee as may be necessary to maintain the mortgage lien or the security interest in the Project granted by the Indenture and as necessary to evidence the title or leasehold interest of the Authority in the completed Project.

Section 2.3. Price and Manner of Payment by Authority for Acquisition of Project. The Authority shall pay as the acquisition price for the Project the amount paid or incurred, as the case may be, for the Costs of the Project, which shall include amounts paid pursuant to this Section and monies previously paid for the Project, but the total amount paid by the

Authority for acquisition of the Project shall not exceed the amounts set out in Section 2.1 hereof. The acquisition price for the Project shall be paid on behalf of the Authority by the Trustee from time to time from moneys in the Construction Fund upon presentation of the vouchers (which shall constitute warranties of the Agency to the Authority and the Trustee) to which reference is made in Section 2.5 hereof.

Section 2.4. Construction Contracts. To the extent necessary, the Agency has entered or will enter into construction contracts to assure completion of the Project, executed copies of which are or will be filed with the Agency and the Agency represents and warrants that the Project can be completed with the amount of funds available therefor in the Construction Fund and other funds to be made available by the Agency. As evidence of the sufficiency of the construction contracts, the Agency will furnish the Authority and the Trustee, at the time of delivery of the Bonds or within 30 days of the execution of such construction contracts, whichever date is later, the following:

(a) A detailed breakdown, certified by the Agency, itemizing by major category, of all costs necessary and sufficient for the construction of the Project.

(b) Copies of performance and payment bonds written by a surety company satisfactory to the Authority, payable to the Authority, assuring completion of the Project or a certificate in form and substance satisfactory to the Authority evidencing such insurance, as the Authority shall direct.

(c) A copy of builders risk insurance policies issued by financially responsible, recognized and qualified insurers, insuring all contractors and the Agency in form and amount satisfactory to the Authority or a certificate in form and substance satisfactory to the Authority evidencing such insurance, as the Authority shall direct.

Except as expressly permitted by this Lease pursuant to Section 2.1, the Agency shall not agree or consent to any amendments to any of the construction contracts, whether by change order or otherwise, which increase the Costs of the Project or materially alter the scope, character or function of the Project, or materially extend the Construction Period, unless it shall have first obtained the prior written approval of the Authority.

Section 2.5. Disbursement from Construction Fund. The Authority, in the Indenture, has authorized the Trustee to make payments from the Construction Fund to pay the Costs of the Project upon receipt of a voucher signed by the Agent certifying, with respect to each payment to be made:

(a) The purpose and amount of such payment, and the name of the person to whom each such payment is due, or, if such payment is made as reimbursement to the Agency, to whom such payment was made by the Agency;

(b) That the Costs of the Project in the aggregate amount stated in such voucher (i) has been paid or incurred and is then due and payable, (ii) was necessary for the acquisition, construction or equipping of the Project, and (iii) if such Costs of the Project was paid or incurred for construction or equipping of the Project, was made or incurred in accordance with the Plans;

(c) That no part of the Costs of the Project stated in such voucher was included in any voucher request previously filed with the Trustee; and

(d) That the balance remaining in the Construction Fund, after disbursement of moneys therefrom in accordance with such request, together with any other moneys available to the Agency, will be at least sufficient to pay the remaining Costs of the Project in accordance with the Plans.

The Agency shall also provide the Authority and the Trustee with sworn statements upon request and an itemization of the Costs of the Project in sufficient detail to evidence the incurring of such cost for the payment of which application has been or is then being made. Prior to the final disbursement from the Construction Fund, the Agency shall deliver to the Trustee an express lien waiver from the contractor and each subcontractor through the date of such final disbursement. The Agency shall permit the Authority and the Trustee, upon request, to inspect the records of the Agency relating to the Costs of the Project.

Section 2.6. Completion of Project. The Agency hereby covenants to complete the work on and for the Project on or before October 31, 2001 in accordance with the Plans at a cost not in excess of the amount as provided in Section 2.1. If at any time the amount remaining in the Construction Fund is insufficient to complete the construction and acquisition of the Project in accordance with the Plans and the Authority and the Agency each certify that they decline or are unable to provide additional funds therefor, the Agency shall revise the Plans, subject to the requirement of Section 2.1 hereof, in such a manner so that the Project may be completed within the amount of funds available therefor.

Section 2.7. Abandonment of Construction. If the Agency, at any time prior to the completion of the Project, abandons the Project or ceases work thereon and fails to resume work thereon within 30 days after written notice from the

Authority or the Trustee to the Agency requesting that work on the Project be resumed (except where such cessation in work is caused by causes beyond the Agency's control, including, but not limited to labor disputes, fire, unusual delay in transportation or unavoidable casualties), or fails to complete the Project substantially in accordance with the Plans, or makes changes in the Plans without first securing written approval when required by Sections 2.1 and 2.4 hereof, or if the Authority determines the Agency is not using its best efforts to complete the Project in accordance with the Plans on or before the date given for such completion in Section 2.6 hereof, and at a cost within the amount of funds available in the Construction Fund therefor, then, after consultation with the Agency, the Authority may, with the consent of the Trustee, enter into and take possession of the Project and perform any and all work and labor necessary to complete the Project substantially according to the Plans and may proceed in so doing with the Trustee or an assignee. For this purpose, the Agency hereby constitutes and appoints the Authority or its assignee its true and lawful attorney-in-fact, with full power of substitution in the premises, to complete the Project in the name of the Agency, and with the following specific authority:

(a) to use any available funds in the Construction Fund for the purpose of completing the Project in the manner called for by the Plans;

(b) to make such additions, changes and corrections in the Plans as shall be necessary or desirable to complete the Project in the manner contemplated by the Plans, or as provided in Section 2.6 of this Lease if the amount in the Construction Fund is not sufficient to complete the construction and acquisition of the Project in accordance with the Plans;

(c) to employ such contractors, subcontractors, agents, architects and inspectors as shall be required for such purpose;

(d) to pay, settle or compromise all existing bills and claims which may be liens against the Site, or as may be necessary or desirable for the completion of the Project, or for clearance of title;

(e) to execute all applications and certificates which may be required by this Lease or any construction contract; and

(f) to prosecute and defend all actions or proceedings in connection with the construction of the Project and to take such action and require such performance as it deems necessary under the performance and payment bonds and the builders' risk insurance specified in Section 2.4 hereof.

Section 2.8. Certificate of Occupancy. The Completion Date of the Project and the payment of the entire Costs of the Project shall be evidenced to the Trustee, the Authority, and the Agency by Certificate of Occupancy signed by the Agent to the effect that, except for any Costs of the Project not then due and payable, or the liability for payment of which is being contested or disputed by the Agency, construction of the Project has been completed in accordance with the Plans and all Costs of the Project have been paid. Notwithstanding the foregoing, such certificate shall state that it is given without prejudice to any rights against third parties which exist at the date of such certificate or which may subsequently come into being. Upon filing of the Certificate of Occupancy, the Agency shall occupy the entire Project for the purpose herein specified.

ARTICLE III LEASE OF PROJECT

Section 3.1. Term of this Lease. The term of this Lease shall commence on the date of its execution and shall continue for the original term ending June 30, 2001, with an automatic extension of the term of the Lease, unless specifically rejected by the Legislative Assembly of the State, as allowed under the Act, for a Renewal Term of two years from the expiration of the original term of the Lease and for two years from the expiration of each Renewal Term of the Lease, until the original term of the Lease has been extended through December 2, 2019.

Section 3.2. Lease of Project. In consideration of the Rent and other terms and conditions herein specified, the Authority does hereby let and lease the Project to the Agency and the Agency does hereby let and lease the Project from the Authority for the term of this Lease as stated in Section 3.1 hereof.

Section 3.3. Basic Rent. During the term of this Lease, and subject to any credits referred to in Section 3.10 hereof, the Agency agrees to pay and shall pay as Basic Rent for the use of the Project on or before a date which is five Business Days prior to December 1, 2001, and semiannually thereafter on a date which is five Business Days prior to each June 1 and December 1, in immediately available funds (i) an amount equal to the amount payable as interest on the Bonds on such Interest Payment Date, plus (ii) an amount which is equal to the amount payable as principal of the Bonds due on such Principal Payment Date, and (iii) the amount which is equal to the principal, if any, which shall be payable by call for redemption or acceleration of maturity pursuant to the Indenture and premium, if any, due on the Bonds on such date.

Section 3.4. Place of Payment of Basic Rent. The Basic Rent provided for in Section 3.3 shall be paid directly to the Trustee at its office for the account of the Authority for deposit in the Bond Fund as provided in the Indenture. The Agency shall furnish to the Authority, at its office, if the Authority so requests, advice of the transmittal of Basic Rent to the Trustee at the time of transmittal.

Section 3.5. Additional Rent. During the term of this Lease, the Agency shall pay as Additional Rent:

(a) To the Trustee, for itself or for remittance to the Paying Agent, promptly after being billed, its proportionate share of the amount of (i) the annual fee of the Trustee as trustee, for the ordinary services of the Trustee rendered and its ordinary expenses incurred under the Indenture during the preceding billing period, (ii) the annual NDBA Fee payable under the Indenture during the preceding billing period, (iii) the reasonable fees and charges of the Paying Agent and Registrar on the Bonds for acting as Paying Agent and Registrar as provided in the Indenture, as and when the same become due and (iv) the reasonable fees and charges of the Trustee for necessary extraordinary services rendered by it and extraordinary expenses incurred by it under the Indenture, as and when the same become due, other than the fees and charges which were required by reason of the negligence or willful misconduct of the Trustee under the Indenture; provided, that the Agency may, without creating a default hereunder, contest in good faith the necessity for any such extraordinary services and extraordinary expenses and the reasonableness of any such fees, charges or expenses; and

(b) To the Trustee, (i) upon demand, amounts advanced by the Trustee for the account of the Agency or the Authority in case the Authority or the Agency shall fail reasonably to pay or to cause to be paid any tax, assessments, or governmental or other charge upon any part of the Project, to the extent, if any, that the Authority or the Agency may be liable for the same, without prejudice, however, to any rights of the Trustee or the Bondholders hereunder arising in consequence of such failure; and any amount at any time so paid under this Section, with interest thereon from the date of payment at the rate of interest equal to the base rate of the Bank of North Dakota, shall be repaid by the Agency upon demand, and shall become so much Additional Rent, but the Trustee shall be under no obligation to make any such payment unless it shall have been requested to do so by the Owners of at least twenty-five percent (25%) of the aggregate principal amount of the Bonds then Outstanding under the Indenture, and shall have been provided with adequate funds for the purpose of such payment; (ii) amounts for reasonable compensation, expenses, advances and Counsel fees incurred by the Trustee in and about the execution of the trusts created by the Indenture related to the Project and exercise and performance of the powers and duties of the Trustee under the Indenture related to the Project; and (iii) the cost and expense incurred by the Trustee in defending against any liability in the Project of any character whatsoever (unless such liability shall have resulted from the negligence or willful misconduct of the Trustee); and (iv) the cost and expense incurred by the Trustee in calculating the amount of any rebate required to be made to the United States and the amount of such rebate unless moneys are available from some other source to make such rebate payment. The Agency hereby covenants and agrees to pay or cause to be paid all advances, Counsel fees and other expenses reasonably made or incurred by the Trustee in and about the execution of the trusts created by the Indenture related to the Project; and

(c) To the Trustee upon demand, amounts advanced by the Trustee for the account of the Agency in the event the Agency shall fail to maintain or repair, rebuild or restore the Project, or shall fail to maintain any insurance as required by the provisions of this Lease, or to do any other thing or make any other payment required to be done or made by any other provision of this Lease; whereby the Trustee, in its own discretion, may upon indemnification of the Trustee satisfactory to it, do or cause to be done any such thing or make or cause to be made any such payment at the expense or as an advance for the account of the Agency, including all costs and expenses so incurred and advances so made, with interest at the rate equal to the base rate of the Bank of North Dakota; and

(d) To the Trustee on or before the next regularly scheduled Interest Payment Date, following written notice from the Trustee, in the event the Balance in the Reserve Fund is less than the Reserve Fund Requirement due to (i) the Agency's failure to pay Additional Rent as required by the Lease or to pay Basic Rent pursuant to the Lease or (ii) a reduction in the Value of Permitted Investments credited to the Reserve Fund, an amount sufficient to bring the amount on deposit in the Reserve Fund up to the Reserve Fund Requirement.

Section 3.6. Net Lease. This is a net lease, and the Authority shall not be required to make any expenditures whatsoever in connection with this Lease or the Project (except as otherwise provided in this Lease and the Indenture from proceeds of the Bonds), or to make any repairs to or to maintain the Project, including any costs and expenses incurred by the Agency in the operation of the Project, or arising in connection therewith, including but not limited to any or all government charges or taxes, if any, levied on the Project or the operation thereof, and all charges for services including utility services supplied to, or used in the operation of the Project. The obligations of the Agency to make the payments of the Basic Rent and Additional Rent required in Sections 3.3 and 3.5 hereof and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional and shall not be subject to abatement for any reason; and until such time as the principal, premium (if any) and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, the Agency (i) will not,

subject to the provisions of Sections 3.8 and 3.9 hereof suspend or discontinue any payments of the Basic Rent and Additional Rent provided for in Sections 3.3 and 3.5 hereof, (ii) will perform and observe all of its other agreements contained in this Lease, and (iii) except as provided in Article VI, will not terminate this Lease for any cause, including, without limiting the generality of each of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, frustration of purpose, any change in the tax or other laws or administrative rulings of or administrative actions by the United States of America or the State, or any failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Lease or the Indenture. Nothing contained in this Section shall be construed to release the Authority from the performance of any of the agreements on its part contained in this Lease; and in the event the Authority should fail to perform any such agreement on its part, the Agency may institute such action against the Authority as the Agency may deem necessary, so long as no judgment or court order sought or obtained in such action shall interfere with the prompt and full payment of the Basic Rent and Additional Rent as contemplated hereby. Neither the Rent payable under this Article nor this Lease or any obligation of the Agency shall be subject to setoff by the Authority.

Section 3.7. Interest on Unpaid Rent. In the event the Agency shall fail to make any payment of Basic Rent or Additional Rent under Sections 3.3 or 3.5 hereof, the item or installment so in default shall continue as an obligation of the Agency until the amount in default shall have been fully paid. The Agency agrees to pay interest on any Basic Rent in default at the rate or rates of interest payable on the Bonds as specified in Article II of the Indenture. The Agency agrees to pay interest on any Additional Rent in default at the rate or rates of interest equal to the base rate of the Bank of North Dakota.

Section 3.8. Prepayment of Rents; Redemption of Bonds. There is expressly reserved to the Agency the right, and the Agency is authorized and permitted, at any time it may choose, to prepay all Rent in an amount equal to the Discharge Price pursuant to Section 6.2 hereof or any part of the Basic Rent payable under Section 3.3 hereof or the Additional Rent payable under Section 3.5 hereof, and the Authority agrees that the Trustee may accept such prepayment of Rents when the same are tendered by the Agency. All Rents so prepaid shall be credited to the Basic Rent or Additional Rent payments specified in Sections 3.3 or 3.5 hereof respectively, in a manner determined by the Authority in compliance with the requirements of the Indenture.

The Agency with the consent of the Authority and the Trustee also may at any time deliver to the Trustee moneys in addition to the Rents required under this Lease with instructions to the Trustee to deposit such funds in the Bond Fund and to use such moneys for the purpose of purchasing any of the Outstanding Bonds or to call for redemption any of the Bonds in accordance with the provisions of the Indenture.

Section 3.9. Agency Entitled to Basic Rent Abatement if Bonds Paid Prior to Maturity. If at any time the aggregate moneys in the Bond Fund and the Reserve Fund shall be sufficient to retire, in accordance with the provisions of the Indenture, all of the Bonds at the time Outstanding, and fees and charges of the Trustee, the Registrar and Paying Agent due or to become due through the date on which the last of the Bonds is retired, under circumstances not resulting in termination of this Lease, and if the Agency is not at the time in default hereunder, the Agency shall be entitled to use and occupy the Project from the date on which such aggregate moneys are in the hands of the Trustee to the date of termination of the Lease without the payment of the Basic Rent specified in Section 3.3 hereof during that interval (but otherwise on the terms and conditions hereof).

Section 3.10. Credit Against Basic Rent. Moneys on deposit to the credit of the Bond Fund shall be invested by the Trustee pursuant to the requirements of Section 5.03 of the Indenture. Any interest accruing on and any profit realized from such investment to be credited to the Bond Fund pursuant to the Indenture and any other funds deposited to the credit of the Bond Fund pursuant to the Indenture and moneys from non-general fund sources shall be credited against the amount of Basic Rent required to be deposited in the Bond Fund under Section 3.3 prior to the next Interest Payment Date. The Agency shall be liable for any loss resulting from any such investment and from failure to preserve rights against endorsers or other prior parties to instruments evidencing any such investment; provided, however, that any loss resulting from the failure by the Trustee to invest such moneys in accordance with Section 5.03 of the Indenture, shall be borne by the Trustee.

Section 3.11. Event of Nonappropriation. Failure, for whatever reason, of the Legislative Assembly of the State to make the required appropriation of monies for the payment of Rent as requested pursuant to Section 3.13 hereof in an amount sufficient to allow the Agency to pay the Rent as it shall come due during the next Renewal Term of this Lease prior to the commencement of such Renewal Term shall constitute an Event of Nonappropriation. The Agency shall notify the Trustee and the Authority in writing of the Event of Nonappropriation.

Section 3.12. Tax Certificate. The Agency shall take no action authorized to be taken under this Lease which shall in any manner violate or otherwise contradict or cause to be violated the requirements of the Tax Certificate or otherwise cause the Trustee or Authority to violate or in any way fail to maintain compliance with the Tax Certificate. The Agency shall not (i) use the Project for any purpose, or (ii) otherwise sublease or assign any rights under this Lease for any private business use, which would cause the interest payable on the Bonds to be includable in the gross income of the Owners for federal income tax purposes.

Section 3.13. Appropriation Request. The Agency shall include in its submission to the Governor for inclusion by the Governor in the biennial executive budget of the State for each year of the respective biennium during any Renewal Term of this Lease an amount fully sufficient to pay the Basic Rent required to be paid in each year of the biennium, Additional Rent estimated to be payable in each year of the biennium and any Additional Rent remaining unpaid less the amount, if any, from moneys from non-general fund sources. Provided that should the Governor not include in the executive budget for any reason the amounts required to be so included by the previous sentence of this Section 3.13, the Agency shall request independently that the Legislative Assembly of the State amend the executive budget appropriation so as to include such amounts. The Agency is hereby contractually obligated to provide in each year of the biennium from Legislative appropriations for such purpose, amounts sufficient to pay the Rent required hereunder when due, the same being an ordinary annual expense for each year of the biennium and a contract obligation of the Agency and the Agency will do all things lawfully within its power to obtain and maintain the funds from which the Rent may be paid.

ARTICLE IV OPERATION, MAINTENANCE AND INSURANCE OF PROJECT

Section 4.1. Operation of Project. The Agency intends to use the Project for the purpose of providing for the carrying out of the normal presently authorized functions of the Agency, but the Agency may use the Project for any lawful governmental purpose. The Agency may locate and use any of its personal property in the furtherance of such purpose in or on the Project and such personal property shall remain the property of the Agency and shall not become part of the Project and shall not be subject to this Lease. If the personal property of the Agency so located in or on the Project cannot be readily distinguished from the real and personal property comprising the Project by reference to Exhibit A or other records of the Authority, then such personal property of the Agency shall be and remain identified as property of the Agency by tags or other symbols attached thereto or otherwise clearly associated therewith, and any such items of personal property not so identified shall be presumed to be part of the Project, but such presumption shall not be conclusive.

Section 4.2. Maintenance and Repair of Project. The Agency shall not cause or permit any waste, damage or injury to the Project. During the term of this Lease, the Agency shall, at its expense, keep the Project in good condition and repair with reasonable wear from normal use, and damage by act of God, fire, or other causes beyond the control of the Agency, excepted. The Agency shall indemnify the Authority, its members, officers, agents or employees, against all costs, expenses, liabilities, losses, damages, suits, fines, penalties, claims and demands, including reasonable Counsel fees, arising out of the Agency's failure to comply with the foregoing covenant to the extent not prohibited by law and for which appropriations in sufficient amounts are available.

Section 4.3. Insurance. The Agency shall at its own expense keep the Project insured by the State Fire and Tornado Fund at all times during the term of this Lease. Such insurance shall be in an amount equal to the greater of (i) the Discharge Price established pursuant to Section 6.2 hereof, or (ii) one hundred percent (100%) of the full replacement costs of the Project as certified by the Agency on the effective date of this Lease and on or before the first day of July of each year thereafter.

Each policy shall include as named insured the Authority, the Agency and the Trustee, as their interests may appear. All Net Proceeds shall be payable to the Authority and used as provided in Section 4.4 in this Lease or Sections 6.11 and 6.12 of the Indenture. The Agency shall supply evidence to the Authority and the Trustee of the acquisition and maintenance of the insurance required by this Lease by filing copies of the insurance policies or certificates evidencing such insurance, as the Authority shall direct.

The Authority hereby waives any claim of liability against the Agency, its officers, agents or employees, for any loss or damage to the Project or any activities with respect thereto, whether or not such loss or damage may have been caused by or resulted from the negligence of the Agency, its officers, agents or employees, to the extent that the amount of such loss or damage is covered by such insurance and in fact recovered by the Authority. The Agency hereby waives any claim of liability against the Authority, its officers, agents or employees, for any loss or damage to property, fixtures and equipment owned, maintained, erected or installed by the Agency in and about the Project or any activities with respect thereto, whether or not such loss or damage may have been caused by or resulted from the negligence of the Authority, its officers, agents or employees, to the extent that the amount of such loss or damage is covered by insurance and in fact recovered. Any insurance policy carried by the Agency or Authority under the Lease or with respect to the Project or any part thereof shall contain a provision that any right of subrogation which the insurance company may have against either the Agency or the Authority, or their officers, agents or employees, is waived.

Section 4.4. Damage, Destruction, and Condemnation.

(a) In the event the Project or any part thereof are destroyed, damaged or taken by Condemnation, the Agency shall, within 90 days of such destruction, damage or taking, or such longer period as permitted by the Trustee, notify the Authority and the Trustee in writing of its intent to either repair or restore the Project or prepay Rent for the purposes of redeeming a portion of the Outstanding Bonds. If the Agency elects to rebuild and restore the Project, the provisions of subsection (b) of this Section 4.4 shall apply. In the event the Agency

elects to prepay Rent for the purpose of redeeming Bonds the provisions of subparagraph (c) of this Section 4.4 shall apply.

(b) If the Agency elects to repair or restore the Project, all Net Proceeds of any insurance or Condemnation award shall be paid directly to the Trustee who will: (i) apply such Net Proceeds to the payment of the costs of repair, replacement, or restoration upon such terms as it may reasonably require; and (ii) apply any balance of the Net Proceeds remaining after payment of all costs of any repair, replacement, or restoration to the reduction of the principal balance of the Bonds (including sinking fund redemption of any Term Bonds). If the Net Proceeds are not sufficient to pay the costs of repair, replacement, or restoration in full, the Agency will nonetheless complete the same and will pay that portion of the cost thereof in excess of the amount of the Net Proceeds, but only from legally available funds which are or will be available to the Agency.

(c) In the event the Agency determines not to rebuild or repair the Project, or any part thereof, all Net Proceeds of any insurance claim or Condemnation award shall be paid to the Trustee to be applied by the Trustee to the reduction of the principal balance of the Bonds.

(d) The Agency shall not, by reason of any damage, destruction or Condemnation, or the payment of any costs of repair, replacement, or restoration, be entitled to any reimbursement from the Authority or the Trustee or any abatement or diminution of the Rents payable under Article III or the other sums payable by the Agency hereunder, except to the extent of any reduction as a result of prepayment of a portion of the Bonds.

(e) All equipment and other property acquired in the repair, replacement, or restoration of the Project shall be deemed a part of the Project and available for use by the Agency without the payment of any Rent other than those provided in Article III, to the same extent as if they had been specifically described and demised in this Lease; provided that no equipment shall be acquired subject to any lien or encumbrance not approved by the Trustee.

(f) If the Project is to be replaced by a new facility which is substantially dissimilar in construction or use from the original Project, then the Project shall not be replaced unless (i) the plans and specifications are approved by the Agency and the Authority pursuant to authorization by the Legislative Assembly of the State, (ii) the Trustee determines, evidenced in writing, that replacement with such new facility will not significantly reduce the security provided to Owners of the Bonds, and (iii) the Authority has obtained an Opinion of Bond Counsel stating that the interest payable on the Bonds following such replacement will not be included in the gross income of the Owners for federal tax purposes.

Section 4.5. Improvements to the Project. The Agency may make any improvements to the Project as it deems necessary or desirable, provided that (a) all improvements to the Project constituting real property shall become the property or be included in the leasehold interest of the Authority, but subject to this Lease, immediately upon the placement thereof in the Project, and (b) the Agency shall indemnify the Authority, its members, officers, agents or employees, from any and all losses, damages, liabilities or claims arising from or in connection with the making of the improvements to the Project by the Agency to the extent not prohibited by law for which appropriations, including insurance proceeds, in sufficient amount were available.

ARTICLE V EVENTS OF DEFAULT AND REMEDIES

Section 5.1. Events of Default. The term "Events of Default" shall mean, whenever used in this Lease, any one or more of the following events:

(a) Failure to pay the Basic Rent required to be paid under Section 3.3 hereof at the times specified therein.

(b) Failure to pay Additional Rent as required to be paid under Section 3.5 hereof.

(c) An Event of Default exists under Section 7.01 of the Indenture, including an Event of Default occurring with respect to any Bonds or with respect to the Lease.

(d) Failure by the Agency to observe and perform any covenant, condition or agreement or pay any amounts specified in this Lease, other than the failure specified in subsections (a) or (b) above, which continues after a period thirty (30) days after written notice specifying such failure and requesting that it be remedied is given to the Agency, by the Authority, or the Trustee; provided, however, that if the Default shall be such that it

cannot be corrected within such period, it shall not constitute an Event of Default if in the opinion of the Authority corrective action is instituted by the Agency within such period and diligently pursued until the Default is corrected.

Section 5.2. Remedies. Whenever any Event of Default referred to in Section 5.1 hereof shall have happened and be continuing, the Trustee, or the Authority with the written consent of the Trustee, may take one or any combination of the following remedial steps:

(a) By written notice to the Agency, declare Rent in an amount equal to all amounts due and payable on the Bonds and any other amounts then due and payable under this Lease, whether by acceleration of maturity (as provided in the Indenture) or otherwise, to be immediately due and payable as liquidated damages and not as a penalty whereupon the same shall become immediately due and payable;

(b) Re-enter and take possession of the Project, enforcing the Lease or terminating the Lease, and sell or lease or sublease the Project for the account of the Agency or foreclose the lien of the Indenture in the manner afforded by law for the foreclosure of mortgages (as provided in the Indenture);

(c) Have reasonable access to and inspect, examine and make copies of the books and records and any and all accounts and data of the Agency if reasonably necessary in the opinion of Trustee; or

(d) Take whatever action at law or in equity may appear necessary or desirable to collect the Rent then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Agency under this Lease.

Any amount collected pursuant to action taken under this Section shall be applied in accordance with the provisions of the Indenture.

Section 5.3. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Lease or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice other than such notice as may be required in this Article. Such rights and remedies as are given the Authority hereunder shall also extend to the Trustee, and Trustee and the Owners of the Bonds, subject to the provisions of the Indenture, shall be entitled to the benefit of all covenants and agreements herein contained.

Section 5.4. Agreement to Pay Attorney's Fees and Expenses. If the Agency should default under any of the provisions of this Lease and the Authority or Trustee should employ attorneys or incur other expenses for the collection of Rent or the enforcement of performance or observance of any obligation or agreement on the part of the Agency herein contained, the Agency agrees that it will on demand therefor pay, but only from Additional Rents subject to appropriation, to the Authority or Trustee the reasonable fee of such attorneys and such other reasonable expenses so incurred by the Authority or Trustee.

Section 5.5. No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Lease should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE VI OPTIONS IN FAVOR OF AGENCY

Section 6.1. Option to Terminate. The Agency shall have the option to cancel or terminate the term of this Lease at any time when the Bonds shall be deemed to have been paid and discharged under the provisions of Article X of the Indenture, the other costs and expenses due under the Indenture have been paid, and when any Additional Rent payable to the Authority, Trustee, Paying Agent or Registrar due or to become due has been paid. Such option shall be exercised by giving the Authority notice in writing and such cancellation or termination shall forthwith become effective. Upon such termination any funds or investments then remaining on deposit to the credit of the Bond Fund established pursuant to the Indenture (not set aside for the payment of Bonds and interest thereon pursuant to the Indenture) and deposited therein pursuant to this Lease shall be paid over by the Trustee to the order of the Authority.

Section 6.2. Option to Acquire Project Prior to Payment of the Bonds. The Agency shall have, and is hereby granted the option to acquire the Project at any time. To exercise such option, the Agency shall give written notice to the

Authority and to the Trustee and shall specify therein the date of closing such acquisition and shall deposit the Discharge Price with the Trustee at least sixty days prior to the closing date. In the event any Bonds are then Outstanding, the Authority shall effect the redemption of such Bonds or portion thereof in accordance with the Indenture and make arrangements satisfactory to the Trustee for the giving of the required notice of redemption. The Discharge Price payable by the Agency in the event of its exercise of the option granted in this Section, shall be the sum of the following:

(a) An amount which, when added to the moneys and investments held and credited to the Bond Fund and the Reserve Fund, will be sufficient pursuant to the provisions of Article X of the Indenture (i) to pay and discharge under the Indenture, the Outstanding Bonds including interest due thereon to the Redemption Date established by the Authority under the Indenture, and (ii) pay any additional fees, costs, or expenses of the Authority incurred because of the redemption of Bonds, plus

(b) An amount of money equal to the Additional Rent payable by the Agency due or to become due on or prior to the Redemption Date of the Bonds redeemed under (a)(i).

Any payment or prepayment by the Agency shall be deemed made if sufficient cash or obligations as described in paragraph A of the definition of Permitted Investments shall have been deposited with the Trustee as provided in Article X of the Indenture; provided that notice of the exercise of the Agency's right of prepayment shall have been duly given and notice of the redemption of Bonds shall have been duly given or satisfactory arrangements made for giving such notice in case of any redemption as provided in the Indenture. Such obligations as described in paragraph A of the definition of Permitted Investments shall be sufficient only if they are not redeemable at the option of the issuer thereof prior to maturity and if in the opinion of an Independent Accountant they mature and bear interest at such times and in such amounts as will assure sufficient cash to pay such payment or prepayment when due without rendering the portion of any payment or prepayment hereunder which is allocable to interest on the Bonds to be includable in gross income of the Owner for federal income tax purposes and otherwise comply with the requirements specified in Article X of the Indenture.

In the event of the exercise of the option granted in this Section any Net Proceeds of insurance shall be paid to the Agency, notwithstanding any provision of Section 4.4 hereof, and the Authority will deliver to the Agency the documents referred to in Section 6.3 hereof.

The mutual agreements contained in this Section 6.2 are independent of, and constitute an agreement separate and distinct from, any and all provisions of this Lease and shall be unaffected by any fact or circumstance which might impair or be alleged to impair the validity of any other provisions.

Section 6.3. Conveyance on Exercise of Option to Acquire. On the exercise of any option to acquire granted herein, the Authority will, upon payment of the Discharge Price, deliver or cause to be delivered to the Agency documents terminating this Lease and granting and conveying to the Agency all of the right, title and interest of the Authority in and to the property being acquired, as such property then exists, subject to: (i) those liens and encumbrances resulting from the failure of the Agency to perform or observe any of the agreements on its part contained in this Lease; and (ii) Permitted Encumbrances other than the Indenture and this Lease.

Section 6.4. Relative Position of this Lease and Indenture. The rights and options granted to the Agency in this Lease shall be and remain subordinate to the rights of the Trustee under the Indenture and may be exercised only when no Event of Default has occurred or is continuing hereunder.

ARTICLE VII MISCELLANEOUS

Section 7.1. Assignment of Lease. The Authority has assigned its interest in this Lease to the Trustee pursuant to the Indenture and the Agency hereby consents to such assignment. The Authority and the Agency may at any time make any other assignment of their interest under this Lease for use not prohibited by the Act; provided, however, that (a) the Agency shall remain liable for all Rent and other obligations of the Agency under this Lease, and (b) the Authority and the Trustee receive an Opinion of Bond Counsel to the effect that such assignment will not cause the interest payable on the Bonds to become includable in gross income of the Owners for federal income taxes.

Section 7.2. Entry. The Authority, its agents or employees shall have the right at reasonable times to enter the Project for the purpose of inspecting the Project to determine whether all of the terms, agreements, covenants and conditions herein contained are being complied with.

Section 7.3. Amendment to Lease. Except as may otherwise be provided in this Lease, no amendment to this Lease shall be effective as to any party hereto, subsequent to the issuance of the Bonds and prior to the payment of the

Bonds in full or prior to the provision for payment thereof having been made in accordance with the provisions of the Indenture, unless and until the same is reduced to writing and executed by the duly Authorized Officers of the Authority and the Agent and consented to in writing by the Trustee, and all requirements of the Indenture and the Act respectively have been complied with.

Section 7.4. Member, Officer, and Employee Liability. The promises, covenants, agreements and obligations made or assumed by the Authority or the Agency in this Lease shall be deemed to be those of the Authority or the Agency and not of any member, officer or employee of the Authority or the Agency in his or her individual capacity, and no recourse shall be had, for the payment of the Rent or any other moneys required to be paid under this Lease or for the performance of any other duty or obligation required of the Authority or the Agency under this Lease against any member, officer or employee of the Authority or the Agency or any person executing or attesting to this Lease or the Indenture.

Section 7.5. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when mailed by registered or certified mail, postage prepaid, return receipt requested, addressed to the Authority, the Agency or the Trustee, as the case may be, or hand delivered to the above at their respective addresses. A duplicate copy of each such notice, certificate or other communication given hereunder to the Authority, the Agency or the Trustee shall also be given to the others. Until otherwise provided in writing by the respective parties, all notices and communications to the parties shall be addressed as follows:

Authority: North Dakota Building Authority
State Capitol, 10th Floor
600 East Boulevard
Bismarck, North Dakota 58505-0840
Attention: Executive Director and Secretary,
Industrial Commission

Agency: State Board of Higher Education
State Capitol, 10th Floor
600 East Boulevard
Bismarck, North Dakota 58505
Attention: Chancellor

Trustee: Bank of North Dakota
700 East Main Avenue
P.O. Box 5509
Bismarck, North Dakota 58506-5509
Attention: Trust Department

Section 7.6. Entire Agreement. This Lease contains all agreements between the parties relative to the Project and the Site and there are no other representations, warranties, promises, agreements or understandings, oral, written or inferred, between the parties relative to the Project and the Site, unless reference is made to them in this Lease. Provided, however, that all provisions contained herein shall be construed in accordance with provisions of the Act and to the extent of inconsistencies, if any, between the covenants and agreements in this Lease and the provisions of the Act, the provisions of the Act shall be deemed to be controlling and binding upon the parties hereto.

Section 7.7. Severability. If any clause, provision or section of this Lease be ruled invalid or unenforceable by any court of competent jurisdiction, the invalidity or unenforceability of such clause, provision or section shall not affect any of the remaining clauses, provisions or sections.

Section 7.8. Execution in Counterparts. This Lease may be executed in several counterparts, each of which shall be an original and all which shall constitute but one and the same instrument.

Section 7.9. Captions. The captions or headings in this Lease are for convenience only and in no way define, limit or describe the scope or intent of any provision of this Lease.

Section 7.10. Applicable Law. This Lease shall be governed in all respects, whether as to validity, construction, performance or otherwise, by the laws of the State.

Section 7.11. Quiet Enjoyment. The Authority covenants that the Agency, upon compliance with the terms of this Lease, shall and may peacefully and quietly have and hold and enjoy the Project for the term herein provided, subject to any and all rights of the Authority, or its assignees, herein granted.

Section 7.12. Title. As required by the Act, after the Bonds are paid in full or provision for the payment thereof is made as provided in the Indenture, and upon request by the Agency, the Authority shall grant and convey all of its right, title and interest in and to the Site and the Project to the Agency for consideration of the Agency's assumption of all monetary obligations and legal responsibilities for the operation and maintenance of the Project. The Authority agrees that it will not amend the Indenture in any way that would result in a delay in the conveyance of the interest in the Site and Project to the Agency without the consent of the Agency. The Authority and the Agency hereby specifically agree that the obligations of the Agency to pay the Rent and perform the other duties and obligations of each party specified in this Lease, do not depend upon the conveyance of the interest in the Project to the Agency as herein provided, and each party warrants and represents that this Lease would have been executed and delivered by each of them even though such interest would not pass. It is understood by the Authority and the Agency that the passage of such interest is merely incidental to this Lease and that the Rent is not greater than the economic or market value to the Agency for the use of the Project over and above estimated expenses of operation, maintenance and repair of the Project, not taking into account passages of such interest to the Project as provided in this Section.

Section 7.13. Binding Effect. This Lease shall inure to the benefit of and be binding upon the Authority and the Agency and their successors and assigns.

Section 7.14. Declaration of Governmental Function. The Authority and the Agency, in accordance with the Act, hereby specifically declare that the Project described herein are essential to the proper, efficient and economic operation of the Agency and are intended to serve an essential governmental function and nothing herein is to be construed to conclude a contrary intent.

Section 7.15. Continuing Disclosure Obligation of Agency. The Agency hereby acknowledges the Authority's continuing disclosure obligations under the Securities and Exchange Commission Rule 15c2-12 and agrees to provide on an ongoing basis such information as may be required as and when required by the Authority to the Authority to update the information as it relates to the Agency in the Official Statement regarding the Bonds. The Agency further agrees to furnish to the Authority on or before December 15 of each year which Bonds are outstanding a written statement of any changes to that part of the Official Statement entitled "The Project" and any changes to Appendix D of the Official Statement. The Agency further acknowledges its obligation to promptly advise the Authority of any "Material Event" as that term is defined in the Authority's Undertaking to Provide Ongoing Disclosure with regard to the Bonds, a copy of which the Agency acknowledges receipt.

IN WITNESS WHEREOF, the Authority and the Agency have caused this Lease Agreement to be executed and attested by their duly authorized officers, all as of the date first above written.

**INDUSTRIAL COMMISSION OF NORTH DAKOTA, ACTING
AS THE NORTH DAKOTA BUILDING AUTHORITY**

Edward T. Schafer, Governor and Chairman
of the Industrial Commission of North Dakota

Attest:

Karlene Fine, Executive Director
and Secretary of the Industrial
Commission of North Dakota

(SEAL)

**NORTH DAKOTA STATE BOARD
OF HIGHER EDUCATION**

By _____

Its _____

Definitions

Definitions. In addition to the (a) words and terms defined in the Indenture which shall have the same meaning in this Lease unless defined otherwise herein, and (b) words and terms defined elsewhere in this Lease, the following words and terms as used in this Lease and the preamble hereto shall have the following meanings unless the context or use indicates another or different meaning or intent:

"Act" means NDCC Chapter 54-17.2 as amended by the Legislative Assembly of the State.

"Additional Rent" means the rent to be paid pursuant to Section 3.5 hereof.

"Additional Security" means that real or personal property described in Exhibit C, if any.

"Agency" means the North Dakota State Board of Higher Education or any body or agency of the State succeeding to its rights and duties.

"Agent" means the person at any time designated to act on behalf of the Agency by written certificate of the chief administrative officer of the Agency or by his or her designee of the Agency furnished to the Authority and the Trustee.

"Authority" means the Industrial Commission of North Dakota acting in its capacity as the North Dakota Building Authority created under and pursuant to the provisions of the Act or any body succeeding to its rights and duties.

"Basic Rent" means the rent to be paid pursuant to Section 3.3 hereof.

"Bonds" means the "State of North Dakota, North Dakota Building Authority, Lease Revenue Bonds, Youth Correctional Center and NDSU Animal Research Center, 2000 Series A", and any additional Bonds authorized to be issued hereunder and any bonds issued to refund the 2000 Series A Bonds in whole or in part.

"Commission" means the Industrial Commission of North Dakota created by NDCC §54-17-01, and any other board, body, commission, agency or officer succeeding to the functions thereof to which the powers and duties granted or imposed by the Indenture shall be given by law.

"Condemnation" shall mean the taking or requisition by governmental authority or by a person, firm or corporation acting under governmental authority and a conveyance made under threat of condemnation provided such conveyance is made with the approval of the Trustee, and condemnation award shall include payment for property taken or requisitioned or conveyed under threat of condemnation.

"Costs of the Project" means the amount set out in Section 2.1 hereof to be paid from proceeds from the sale of the Bonds.

"Discharge Price" means the amount required to be paid pursuant to Section 6.2 hereof to discharge the Agency's obligation under this Lease and the Bonds.

"Governor" means the Governor of the State.

"Indenture" means the Trust Indenture constituting a trust agreement between the Authority and the Bank of North Dakota, as Trustee, dated as of April 1, 2000, authorizing issuance and sale of the Bonds and any amendments or supplements thereto.

"Lease Agreement and Assignment of Rentals I" means this Lease Agreement and Assignment of Rentals I between the Authority and the Agency with regard to the Project and any Additional Security dated as of April 1, 2000, as amended or supplemented as herein provided.

"NDCC" means the North Dakota Century Code, as amended.

"Permitted Encumbrances" means, as of any particular time, (i) the Indenture, (ii) utility, access and other easements and rights-of-way, mineral rights, restrictions and exceptions that exist as of the date of issue of the Bonds and that the Agency certifies will not interfere with or impair the use of or operations being conducted in the Project or elsewhere on the Site, and (iii) such minor defects, irregularities, encumbrances, easements, and rights-of-way with respect to properties similar in character to the Project and as do not in the aggregate, in the Opinion of Counsel addressed to the Trustee, materially impair the property affected thereby for the purposes for which it was acquired or is held by the Authority.

"Plans" means the description of the Project prepared by the Agency upon which the Agency has based its estimated Costs of the Project.

"Project" means the interest in real or personal property, or both, acquired, constructed or improved with proceeds of the Bonds and subject to this Lease as described in Exhibit A hereto attached.

"Renewal Term" means any two-year renewal period of the Lease commencing on July 1 of the years 2001, 2003, 2005, 2007, 2009, 2011, 2013, 2015 and 2017 as necessary and a final Renewal Term commencing July 1, 2019, and ending December 2, 2019.

"Rent" means the Basic Rent and Additional Rent required to be paid to the Authority by the Agency pursuant to Article III hereof.

"Site" means the real property on which the Project is located described in Exhibit B attached hereto and made a part hereof.

"State" means the State of North Dakota.

"Trustee" means the Bank of North Dakota, Bismarck, North Dakota, as designated in the Indenture, or any successor trustee at the time serving as such under the Indenture.

DESCRIPTION OF THE PROJECT***North Dakota State University***

The North Dakota Legislature authorized funding for the construction of the Animal Research Facility – Phase I. The Animal Research Facility is a multipurpose research and teaching facility where scientists can apply the latest technologies to improve animal health and production efficiency. Phase I is the livestock care and research unit which will house intensive beef, swine and sheep research programs. Phase I renovates and expands an existing complex on NDSU's Fargo campus located at 18th Street and 15th Avenue. This facility provides an area for research and surgery for sheep, beef, swine and medical projects. This renovated facility will provide space for controlled laboratory testing which will enhance field livestock studies and improve efficiency. The total cost of the project is \$4,415,000. Of this amount, \$2,207,500 will be paid with federal funds and \$2,207,500 will be paid with the proceeds of the Bonds.

\$4,430,000
NORTH DAKOTA BUILDING AUTHORITY
LEASE REVENUE BONDS
(YOUTH CORRECTIONAL CENTER AND NDSU ANIMAL RESEARCH CENTER)
2000 SERIES A

Legal Description of Sites

NORTH DAKOTA STATE BOARD OF HIGHER EDUCATION - NDSU ANIMAL RESEARCH CENTER:

A tract of land situated in Northwest quarter of Section 36, Township 140 North, Range 49 West of the Fifth Principal Meridian, in the City of Fargo, Cass County, North Dakota more particularly described as follows:

Commencing at the south quarter corner of said Section 36, thence North 01 degrees 43 minutes 20 seconds West on an assumed bearing along the East line of the Southwest quarter of said Section 36, a distance of 2635.00 feet to the Southeast corner of said Northwest quarter, thence South 87 degrees 35 minutes 06 seconds West along the South line of said Northwest quarter a distance of 85.69 feet to the West right of way of 18th Street North and also the point of beginning, thence continuing South 87 degrees 35 minutes 06 seconds West along said South line a distance of 481.71 feet, thence North 01 degrees 43 minutes 20 seconds west 503.78 feet, thence North 87 degrees 35 minutes 06 seconds East 78.16 feet, thence North 01 degrees 43 minutes 20 seconds West 44.02 feet, thence North 87 degrees 35 minutes 06 seconds East 398.84 feet to said West right of way of 18th Street North, thence South 02 degrees 08 minutes 12 seconds East along said West right of way a distance of 492.36 feet, thence South 02 degrees 55 minutes 05 seconds East along said West right of way a distance of 55.40 feet to the point of beginning.

Said tract contains 5.95 acres more or less.

ADDITIONAL SECURITY

None.

APPENDIX C

**Audited General Purpose Financial Statements
of the State of North Dakota
For the Fiscal Year Ended June 30, 2004***

* The financial statements of the State for fiscal year 2005 are anticipated to be available on the State's website, www.nd.gov, prior to February 15, 2006.

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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STATE OF NORTH DAKOTA

Statement of Net Assets

June 30, 2004

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 7,483,122	\$ 483,934,356	\$ 491,417,478	\$ 24,733,184
Investments	732,175,269	1,674,610,291	2,406,785,560	578,796,307
Accounts Receivable - Net	35,273,724	68,663,743	103,937,467	6,786,935
Taxes Receivable - Net	169,134,234	-	169,134,234	-
Interest Receivable - Net	5,940,502	31,284,866	37,225,368	3,474,222
Intergovernmental Receivable - Net	144,181,135	45,314,401	189,495,536	-
Internal Receivable	468,649,478	-	144,463,972	-
Due from Fiduciary Funds	142,183	9,933	152,116	-
Due from Component Units	-	1,388,885	1,388,885	-
Due from Primary Government	-	-	-	10,420,105
Prepaid Items	3,092,393	1,473,120	4,565,513	-
Inventory	11,234,042	19,522,191	30,756,233	622,138
Loans and Notes Receivable - Net	95,673,151	2,048,148,999	2,143,822,150	5,894,007
Unamortized Bond Financing Costs	1,075,495	9,124,101	10,199,596	1,442,357
Pension Assets	2,480,673	-	2,480,673	-
Other Assets	-	9,865,477	9,865,477	7,825,233
Capital Assets:				
Land and Construction in Progress	250,348,020	49,621,113	299,969,133	8,103,567
Infrastructure - Net	602,089,424	89,943,139	692,032,563	549,874
Buildings and Equipment - Net	297,934,446	500,979,328	798,913,774	116,006,283
Total Assets	<u>2,826,907,291</u>	<u>5,033,883,943</u>	<u>7,536,605,728</u>	<u>764,654,212</u>

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
LIABILITIES				
Accounts Payable	141,198,886	24,990,087	166,188,973	4,757,957
Accrued Payroll	28,027,464	9,146,694	37,174,158	-
Securities Lending Collateral	62,919,132	280,513,479	343,432,611	-
Interest Payable	1,793,214	14,347,400	16,140,614	1,568,000
Intergovernmental Payable	33,402,972	1,661,088	35,064,060	-
Tax Refunds Payable	40,065,704	-	40,065,704	-
Internal Payable	-	324,185,506	-	-
Due to Fiduciary Funds	2,453	26,605	29,058	-
Due to Component Units	-	298,927	298,927	-
Due to Primary Government	-	-	-	1,388,885
Contracts Payable	6,982,441	939,397	7,921,838	-
Federal Funds Purchased	-	170,097,000	170,097,000	-
Reverse Repurchase Agreements	-	20,500,000	20,500,000	-
Claimant Liability	4,569,845	-	4,569,845	1,525,000
Deposits Held for Other Funds	-	-	-	-
Other Deposits	-	487,391,365	487,391,365	-
Amounts Held in Custody for Others	-	6,306,087	6,306,087	-
Deferred Revenue	11,791,893	62,232,316	74,024,209	4,716,083
Other Liabilities	-	12,350,176	12,350,176	23,099,736
Long-Term Liabilities				
Due within one year	13,943,797	241,760,496	255,704,293	12,208,874
Due in more than one year	174,439,656	1,799,201,707	1,973,641,363	187,124,837
Total Liabilities	519,137,457	3,455,948,330	3,650,900,281	236,389,372
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	1,027,252,008	499,222,000	1,526,474,008	112,595,978
Restricted for:				
General Government	5,406,604	-	5,406,604	-
Education	12,566,822	-	12,566,822	-
Health and Human Services	47,215,292	-	47,215,292	-
Regulatory Purposes	13,059,160	-	13,059,160	-
Agriculture and Commerce	13,688,158	-	13,688,158	-
Cultural and Natural Resources	56,341,458	-	56,341,458	-
Transportation	90,462,520	-	90,462,520	-
Capital Projects	8,906,206	2,420,937	11,327,143	-
Debt Service	15,670,785	80,257,900	95,928,685	71,638,000
Loan Purposes	-	46,968,136	46,968,136	89,334,000
Pledged Assets	-	143,023,000	143,023,000	-
Unemployment Compensation	-	72,785,081	72,785,081	-
Permanent and Endowment Funds - Expendable	18,139,109	12,541,510	30,680,619	-
Permanent and Endowment Funds - Nonexpendable	645,868,206	8,888,957	654,757,163	-
Other	-	50,916	50,916	208,894,741
Unrestricted	353,193,506	711,777,176	1,064,970,682	45,802,121
Total Net Assets	\$ 2,307,769,834	\$ 1,577,935,613	\$ 3,885,705,447	\$ 528,264,840

The Accompanying Notes are an Integral Part of the Financial Statements

STATE OF NORTH DAKOTA

Statement of Activities

For the Fiscal Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 81,510,068	\$ 21,798,406	\$ 31,098,943	\$ -
Education	466,908,523	3,443,449	206,861,216	-
Health and Human Services	803,600,511	19,339,252	590,157,677	20,000
Regulatory	15,104,651	19,476,543	3,352,906	-
Public Safety and Corrections	107,036,068	5,460,128	44,740,942	-
Agriculture and Commerce	57,532,612	20,260,986	19,700,451	-
Natural Resources	63,117,591	20,873,885	11,130,354	8,647,581
Transportation	360,231,121	64,565,890	143,615,231	64,745,153
Intergovernmental - Revenue Sharing	157,200,675	-	-	-
Interest on Long Term Debt	7,372,042	-	-	-
Total Governmental Activities	<u>2,119,613,862</u>	<u>175,218,539</u>	<u>1,050,657,720</u>	<u>73,412,734</u>
Business-Type Activities:				
Bank of North Dakota	58,865,964	88,549,000	-	-
Housing Finance	49,646,082	39,327,000	12,689,000	-
Loan Programs	13,846,154	16,980,295	460,486	-
Mill and Elevator	92,261,275	97,914,279	17,902	-
State Fair	4,323,777	3,201,041	310,541	-
Unemployment Compensation	49,327,620	64,644,433	3,046,308	-
University System	656,811,533	270,650,811	194,827,531	9,405,153
Workforce Safety and Insurance	125,727,859	99,083,053	95,416,258	-
Other	11,131,686	15,270,970	2,380,925	-
Total Business-Type Activities	<u>1,061,941,950</u>	<u>695,620,882</u>	<u>309,148,951</u>	<u>9,405,153</u>
Total Primary Government	<u>\$ 3,181,555,812</u>	<u>\$ 870,839,421</u>	<u>\$ 1,359,806,671</u>	<u>\$ 82,817,887</u>
Component Units:	<u>\$ 61,110,043</u>	<u>\$ 27,969,195</u>	<u>\$ 178,441,401</u>	<u>\$ -</u>

General Revenues:

Taxes:

Individual and Corporate Income Taxes

Sales and Use Taxes

Oil, Gas and Coal Taxes

Business and Other Taxes

Unrestricted Investment Earnings

Tobacco Settlement

Miscellaneous

Payment from State of North Dakota

Contributions to Permanent Fund Principal

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets, Beginning of Year, as Restated

Net Assets, Ending

Net (Expense) Revenue and Change in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-Type Activities	Total	
\$ (28,612,719)		\$ (28,612,719)	
(256,603,858)		(256,603,858)	
(194,083,582)		(194,083,582)	
7,724,798		7,724,798	
(56,834,998)		(56,834,998)	
(17,571,175)		(17,571,175)	
(22,465,771)		(22,465,771)	
(87,304,847)		(87,304,847)	
(157,200,675)		(157,200,675)	
(7,372,042)		(7,372,042)	
<u>(820,324,869)</u>		<u>(820,324,869)</u>	
	\$ 29,683,036	29,683,036	
	2,369,918	2,369,918	
	3,594,627	3,594,627	
	5,670,906	5,670,906	
	(812,195)	(812,195)	
	18,363,121	18,363,121	
	(181,928,038)	(181,928,038)	
	68,771,452	68,771,452	
	6,520,209	6,520,209	
<u>-</u>	<u>(47,766,964)</u>	<u>(47,766,964)</u>	
<u>(820,324,869)</u>	<u>(47,766,964)</u>	<u>(868,091,833)</u>	
			\$ <u>145,300,553</u>
266,252,580	-	266,252,580	-
599,064,637	-	599,064,637	-
112,454,541	-	112,454,541	-
61,395,792	-	61,395,792	-
1,103,625	-	1,103,625	-
12,640,791	-	12,640,791	-
10,528,733	-	10,528,733	-
-	-	-	-
11,262,038	-	11,262,038	10,051,576
(152,421,836)	155,342,786	2,920,950	1,550,000
<u>922,280,901</u>	<u>155,342,786</u>	<u>1,077,623,687</u>	<u>11,601,576</u>
101,956,032	107,575,822	209,531,854	156,902,129
2,205,813,802	1,470,359,791	3,676,173,593	371,362,711
<u>\$ 2,307,769,834</u>	<u>\$ 1,577,935,613</u>	<u>\$ 3,885,705,447</u>	<u>\$ 528,264,840</u>

The Accompanying Notes are an Integral Part of the Financial Statements

STATE OF NORTH DAKOTA

Balance Sheet Governmental Funds June 30, 2004

	General	Federal	School Permanent Trust Fund	Other Governmental Funds	Total
ASSETS					
Cash Deposits at the Bank of ND	\$ 72,958,642	\$ 50,736,770	\$ 3,299,894	\$ 260,230,283	\$ 387,225,589
Cash and Cash Equivalents	1,245,959	68,346	-	6,165,067	7,479,372
Investments at the Bank of ND	-	-	-	53,095,985	53,095,985
Investments	-	-	672,695,870	52,933,276	725,629,146
Accounts Receivable - Net	3,174,549	5,759,119	5,191,210	21,088,265	35,213,143
Taxes Receivable - Net	124,571,690	-	219,583	44,342,961	169,134,234
Interest Receivable - Net	2,798	45	4,669,904	1,214,777	5,887,524
Intergovernmental Receivable - Net	541,704	138,039,333	-	5,402,539	143,983,576
Due from Other Funds	90,052,858	12,301,571	5,554,445	22,777,329	130,686,203
Prepaid Items	360,385	904,560	-	1,824,249	3,089,194
Inventory	701,822	3,059,510	-	4,431,196	8,192,528
Loans and Notes Receivable - Net	94,904	-	24,020,190	71,558,057	95,673,151
Total Assets	\$ 293,705,311	\$ 210,869,254	\$ 715,651,096	\$ 545,063,984	\$ 1,765,289,645
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 23,223,249	\$ 92,690,943	\$ 282,094	\$ 23,960,237	\$ 140,156,523
Accrued Payroll	14,188,598	5,897,934	-	6,743,776	26,830,308
Securities Lending Collateral	-	-	46,744,450	14,995,575	61,740,025
Interest Payable	36,867	-	-	3,117	39,984
Intergovernmental Payable	373,580	1,632,685	-	31,396,107	33,402,372
Tax Refunds Payable	39,722,869	-	-	342,835	40,065,704
Due to Other Funds	16,453,526	72,875,154	47,392	22,487,340	111,863,412
Contracts Payable	2,991	5,623,061	-	1,356,389	6,982,441
Claims/Judgments Payable	-	-	4,569,845	-	4,569,845
Deferred Revenue	2,948,718	12,249,776	-	10,091,756	25,290,250
Total Liabilities	96,950,398	190,969,553	51,643,781	111,377,132	450,940,864
Fund Balances:					
Reserved for:					
Inventory	701,822	207,013	-	4,431,196	5,340,031
Long - Term Receivables	46,650	-	-	66,218,812	66,265,462
Capital Projects	-	-	-	8,906,206	8,906,206
Debt Service	-	-	-	16,885,869	16,885,869
Prepaid Expenditures	360,385	904,560	-	1,824,249	3,089,194
Legal Requirements	-	-	-	9,318,192	9,318,192
Undistributed Revenue	-	-	10,596,616	-	10,596,616
Permanent Trust Fund	-	-	653,410,699	-	653,410,699
Unreserved, Reported in :					
General Fund	195,646,056	-	-	-	195,646,056
Special Revenue Funds	-	18,788,128	-	326,102,328	344,890,456
Total Fund Balances	196,754,913	19,899,701	664,007,315	433,686,852	1,314,348,781
Total Liabilities and Fund Balances	\$ 293,705,311	\$ 210,869,254	\$ 715,651,096	\$ 545,063,984	\$ 1,765,289,645

STATE OF NORTH DAKOTA

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

June 30, 2004

Total Fund Balances-Governmental Funds \$ 1,314,348,781

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$3,594,797,294 and the accumulated depreciation is \$2,501,413,162. 1,093,384,132

Some of the state's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. 16,625,032

Internal service funds are used to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 57,270,835

Bonds issued by the State have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the statement of net assets. 1,009,000

The pension assets resulting from contributions in excess of annual required contribution are not financial resources and, therefore, are not reported in the funds. 2,480,673

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Those liabilities consist of:

Bonds Payable	(140,422,602)	
Notes Payable	(5,021,590)	
Accrued Interest on Long-Term Liabilities	(1,746,171)	
Compensated Absences	(27,437,572)	
Intergovernmental Payable	(668,248)	
Capital Leases	(1,052,436)	
Claims and Judgments	(1,000,000)	
Total Long-Term Liabilities		<u>(177,348,619)</u>

Net Assets of Governmental Activities \$ 2,307,769,834

STATE OF NORTH DAKOTA

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2004

	General	Federal	School Permanent Trust Fund	Other Governmental Funds	Total
REVENUES					
Individual and Corporate Income Taxes	\$ 258,325,963	\$ -	\$ -	\$ 7,581,394	\$ 265,907,357
Sales and Use Taxes	442,915,770	-	-	156,491,595	599,407,365
Oil, Gas, and Coal Taxes	67,302,408	-	2,550,592	42,601,541	112,454,541
Business Taxes	42,892,875	-	-	18,502,917	61,395,792
Licenses, Permits and Fees	11,824,190	15,595	-	88,662,710	100,502,495
Intergovernmental	25,444,241	984,518,807	-	1,370,882	1,011,333,930
Sales and Services	2,293,692	2,682,441	-	39,453,332	44,429,465
Royalties and Rents	6,356,596	-	16,125,279	2,998,201	25,480,076
Fines and Forfeits	7,379,437	-	919,573	7,056,736	15,355,746
Interest and Investment Income	956,020	14,308	76,645,977	6,679,062	84,295,367
Tobacco Settlement	-	-	10,342,465	12,640,791	22,983,256
Commodity Assessments	-	-	-	11,897,001	11,897,001
Miscellaneous	1,196,937	21,233	-	4,192,843	5,411,013
Total Revenues	866,888,129	987,252,384	106,583,886	400,129,005	2,360,853,404
EXPENDITURES					
Current:					
General Government	61,905,844	5,050,639	-	7,256,257	74,212,740
Education	310,471,873	109,194,718	2,835,685	39,289,107	461,791,383
Health and Human Services	206,303,706	554,114,922	-	34,593,959	795,012,587
Regulatory	7,105,914	2,412,473	-	5,429,917	14,948,304
Public Safety and Corrections	60,953,820	37,346,805	-	3,974,618	102,275,243
Agriculture and Commerce	12,182,156	20,416,859	-	24,877,124	57,476,139
Natural Resources	11,346,360	11,625,474	-	34,565,140	57,536,974
Transportation	522,500	142,889,814	-	96,631,326	240,043,640
Intergovernmental - Revenue Sharing	-	-	-	157,200,675	157,200,675
Capital Outlay	4,005,247	82,787,847	-	38,738,123	125,531,217
Debt Service:					
Principal	59,782	20,528	-	8,301,460	8,381,770
Interest and Other Charges	-	-	-	6,962,225	6,962,225
Total Expenditures	674,857,202	965,860,079	2,835,685	457,819,931	2,101,372,897
Revenues over (under) Expenditures	192,030,927	21,392,305	103,748,201	(57,690,926)	259,480,507
OTHER FINANCING SOURCES (USES)					
Bonds and Notes Issued	1,869,275	2,501,493	-	1,500,243	5,871,011
Capital Lease Acquisitions	156,018	31,265	-	-	187,283
Sale of Capital Assets	13,409	-	-	567,641	581,050
Other	(18,083)	-	-	10,221	(7,862)
Transfers In	97,345,371	156,087	-	109,978,536	207,479,994
Transfers Out	(221,558,208)	(29,928,242)	(32,287,952)	(76,563,592)	(360,337,994)
Total Other Financing Sources (Uses)	(122,192,218)	(27,239,397)	(32,287,952)	35,493,049	(146,226,518)
Net Change in Fund Balances	69,838,709	(5,847,092)	71,460,249	(22,197,877)	113,253,989
Fund Balances - Beginning of Year, as Adjusted	126,916,204	25,746,793	592,547,066	455,884,729	1,201,094,792
Fund Balances - End of Year	\$ 196,754,913	\$ 19,899,701	\$ 664,007,315	\$ 433,686,852	\$ 1,314,348,781

The Accompanying Notes are an Integral Part of the Financial Statements

STATE OF NORTH DAKOTA

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances-Total Governmental Funds \$ 113,253,989

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital Outlay	125,537,567	
Depreciation Expense	<u>(138,080,083)</u>	
Excess of capital outlay over depreciation expense		(12,542,516)

In the statement of activities, only the *gain(loss)* on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the assets sold. (4,735,345)

Donations of capital assets increase net assets in the statement of activities but do not appear in the governmental funds because they are not financial resources. 440,745

Some of the assets acquired this year were financed through capital leases. The amount financed is reported in the governmental funds as a source of financing. However, capital leases are reported as long-term liabilities in the statement of net assets. (187,283)

Based on receipt dates, some revenues are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased/decreased by this amount this year. (235,068)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of internal service funds is reported with governmental activities 3,999,987

Bonds proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. (1,500,243)

Notes payable proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. (4,370,768)

The pension assets resulting from contributions in excess of annual required contribution are not financial resources and, therefore, are not reported in the funds. (90,966)

Repayment of long-term debt is reported as an expenditure in governmental funds but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	7,746,210	
Note payments	338,372	
Capital lease payments	<u>1,391,882</u>	
Total long-term debt repayment		9,476,464

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. These activities consist of:

Net increase/decrease in accrued interest	76,920	
Net increase/decrease in compensated absences	(1,358,333)	
Net increase/decrease in claims and judgments	<u>(271,551)</u>	
Total additional expenditures		<u>(1,552,964)</u>

Change in Net Assets of Governmental Activities \$ 101,956,032

STATE OF NORTH DAKOTA

Statement of Net Assets Proprietary Funds June 30, 2004

	Business-Type Activities - Enterprise Funds					Governmental Activities						
	Bank of North Dakota	Housing Finance	University System	Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds					
ASSETS												
Current Assets:												
Cash Deposits at the Bank of ND	\$	1,451,000	\$	56,767,546	\$	1,748,242	\$	29,813,163	\$	89,779,951	\$	8,204,218
Cash and Cash Equivalents		35,000		4,767,609		-		58,213,623		63,016,232		3,750
Investments at the Bank of ND		-		52,052,392		44,012,071		3,203,348		99,267,811		-
Investments		4,164,000		110,653		1,303,048,697		25,624,406		1,332,947,756		6,546,123
Accounts Receivable - Net		504,000		12,036,189		18,887,646		37,235,908		68,663,743		60,581
Interest Receivable - Net		239,000		9,840		7,618,804		2,784,354		10,651,998		52,978
Intergovernmental Receivable - Net		349,000		42,114,563		-		2,850,838		45,314,401		197,559
Due from Other Funds		41,000		6,871,428		33,710		177,424		7,123,562		4,084,144
Due from Fiduciary Funds		-		-		-		9,933		9,933		142,183
Due from Component Units		-		1,388,885		-		-		1,388,885		-
Prepaid Items		30,000		-		24,520		1,418,600		1,473,120		3,199
Inventory		-		7,051,335		-		12,470,856		19,522,191		110,991
Loans and Notes Receivable - Net		-		5,736,528		-		13,217,704		18,954,232		-
Other Current Assets		-		1,883,639		-		-		1,883,639		-
Restricted Cash at the Bank of ND		5,473,000		-		-		6,019,901		11,492,901		1,648,029
Restricted Cash and Cash Equivalents		140,182,000		-		-		-		140,182,000		-
Restricted Investments at the Bank of ND		-		-		-		37,022,150		37,022,150		-
Restricted Interest Receivable - Net		2,532,000		-		-		2,995,868		5,527,868		-
Restricted Loans Receivable - Net		9,851,000		-		-		26,234,000		36,085,000		-
Total Current Assets		164,851,000		190,790,607		1,375,373,690		259,292,076		1,990,307,373		21,053,755
Noncurrent Assets:												
Restricted Cash at the Bank of ND		-		9,562,767		-		-		9,562,767		-
Restricted Cash and Cash Equivalents		-		3,811,781		-		257,343		4,069,124		-
Investments at the Bank of ND		-		6,909,325		-		-		6,909,325		-
Investments		-		13,796,996		-		-		13,796,996		-
Restricted Investments at the Bank of ND		-		26,022,850		-		-		26,022,850		-
Restricted Investments		26,583,000		16,807,276		-		222,263		43,612,539		-
Loans and Notes Receivable - Net		-		37,432,753		-		54,873,014		92,305,767		-
Restricted Loans Receivable - Net		493,315,000		-		-		86,374,000		579,689,000		-
Unamortized Bond Issuance Costs		5,840,000		2,319,865		-		964,236		9,124,101		66,495
Other Noncurrent Assets		1,891,000		163,287		-		1,629,551		3,683,838		-
Capital Assets:												
Land and Construction in Progress		-		47,247,582		901,974		799,557		48,949,113		3,595,766
Infrastructure - Net		-		88,689,107		-		1,254,032		89,943,139		-
Buildings and Equipment -Net		35,000		443,368,288		11,203,614		42,235,426		496,842,328		53,391,992
Total Noncurrent Assets		527,664,000		696,131,877		12,105,588		188,609,422		1,424,510,887		57,054,253
Bank Related Assets:												
Cash and Cash Equivalents	\$	276,667,000								276,667,000		
Investments		284,253,000								284,253,000		
Interest Receivable - Net		15,105,000								15,105,000		
Due from Other Funds		46,912,000								46,912,000		
Loans and Notes Receivable - Net		1,321,115,000								1,321,115,000		
Other Assets		4,298,000								4,298,000		
Capital Assets:												
Land and Construction in Progress		672,000								672,000		
Buildings and Equipment - Net		4,137,000								4,137,000		
Total Bank Related Assets		1,953,159,000								1,953,159,000		
Total Assets		1,953,159,000		692,515,000		886,922,484		1,387,479,278		447,901,498		5,367,977,260
												78,108,008

STATE OF NORTH DAKOTA

Statement of Net Assets Proprietary Funds June 30, 2004

	Business-Type Activities - Enterprise Funds					Governmental	
	Bank of North Dakota	Housing Finance	University System	Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds
LIABILITIES							
Current Liabilities:							
Accounts Payable		622,000	17,432,187	2,082,393	4,853,507	24,990,087	1,042,363
Accrued Payroll		-	8,628,381	-	518,313	9,146,694	1,197,156
Securities Lending Collateral		-	-	275,839,175	4,674,304	280,513,479	1,179,107
Interest Payable	13,318,000		51,374	-	381,876	13,751,250	7,059
Intergovernmental Payable	1,267,000		131,275	-	1,427,088	2,825,363	600
Due to Other Funds	13,138,000		11,613,542	90,727	41,752,424	66,594,693	2,248,305
Due to Fiduciary Funds			-	-	26,605	26,605	2,453
Due to Component Units			298,927	-	-	298,927	-
Contracts Payable			939,397	-	-	939,397	-
Other Deposits			7,333,618	-	-	7,333,618	-
Amounts Held in Custody for Others	5,473,000		-	-	833,087	6,306,087	-
Claims/Judgments Payable			-	70,000,000	558,406	70,558,406	2,420,299
Compensated Absences Payable	110,000		845,540	549,000	92,805	1,597,345	53,089
Notes Payable			917,738	-	-	917,738	289,673
Capital Leases Payable			4,904,808	-	29,384	4,934,192	24,711
Bonds Payable	8,870,000		5,474,540	-	205,000	14,549,540	-
Deferred Revenue	65,000		15,760,654	45,969,560	437,102	62,232,316	196,152
Other Current Liabilities			-	-	7,000	7,000	-
Total Current Liabilities		42,863,000	74,331,981	394,530,855	55,796,901	567,522,737	8,660,967
Noncurrent Liabilities:							
Intergovernmental Payable		1,885,000	1,332,638	-	6,682,195	9,899,833	-
Claims/Judgments Payable			-	534,100,000	142,173	534,242,173	2,638,658
Compensated Absences Payable		38,000	17,614,210	96,742	832,689	18,581,641	1,195,393
Notes Payable			8,539,917	-	-	8,539,917	143,729
Capital Leases Payable			29,144,183	-	52,089	29,196,272	54,377
Bonds Payable	576,662,000		117,217,364	-	127,106,507	820,985,871	5,961,076
Other Noncurrent Liabilities			467,396	-	3,354,780	3,822,176	-
Total Noncurrent Liabilities		578,585,000	174,315,708	534,196,742	138,170,433	1,425,267,883	9,993,233
Bank Related Liabilities:							
Interest Payable	285,000					285,000	
Due to Other Funds	16,850,000					16,850,000	
Federal Funds Purchased	170,097,000					170,097,000	
Reverse Repurchase Agreements	20,500,000					20,500,000	
Deposits Held for Other Funds	617,894,502					617,894,502	
Other Deposits	439,491,498					439,491,498	
Other Liabilities	8,521,000					8,521,000	
Long Term Liabilities:							
Due within one year	148,039,000					148,039,000	
Due in more than one year	377,756,000					377,756,000	
Total Bank Related Liabilities	1,799,434,000					1,799,434,000	
Total Liabilities	1,799,434,000	621,448,000	248,647,689	928,727,597	193,967,334	3,792,224,620	18,654,200
NET ASSETS							
Invested in Capital Assets, Net of Related Debt	4,809,000	35,000	439,983,819	12,105,588	42,288,593	499,222,000	56,536,881
Restricted for:							
Capital Projects	-	-	2,414,351	-	6,586	2,420,937	-
Debt Service	-	45,457,000	10,718,880	-	24,082,020	80,257,900	-
Loan Purposes	-	-	45,891,192	-	1,076,944	46,968,136	-
Pledged Assets	124,986,000	18,037,000	-	-	-	143,023,000	-
Unemployment Compensation	-	-	-	-	72,785,081	72,785,081	-
Endowment Funds-Nonexpendable	-	-	12,541,510	-	-	12,541,510	-
Endowment Funds-Expendable	-	-	8,888,957	-	-	8,888,957	-
Other	-	-	50,916	-	-	50,916	-
Unrestricted	23,930,000	7,538,000	117,785,170	446,646,093	113,694,940	709,594,203	2,916,927
Total Net Assets	\$ 153,725,000	\$ 71,067,000	\$ 638,274,795	\$ 458,751,681	\$ 253,934,164	\$ 1,575,752,640	\$ 59,453,808

Reconciliation of the Proprietary Funds Statement of Net Assets to the Statement of Net Assets June 30, 2004

Total Net Assets - Enterprise Funds \$ 1,575,752,640

Amounts reported for business-type activities in the statement of net assets are different because:

Prior year net assets restatement and reduction of current year expenses
based on the allocation of internal service fund's net income 2,182,973

Net Assets of Business-Type Activities \$ 1,577,935,613

STATE OF NORTH DAKOTA

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds For the Fiscal Year Ended June 30, 2004

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Bank of North Dakota	Housing Finance	University System	Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES							
Sales and Services	\$ 11,474,000	\$ 1,499,000	\$ 41,112,550	\$ 98,218,452	\$ 184,288,123	\$ 336,592,125	\$ 59,259,451
Auxiliary Sales Pledged for Bonds	-	-	73,281,170	-	-	73,281,170	-
Tuition and Fees	-	-	151,024,776	-	-	151,024,776	-
Grants and Contributions	-	-	173,617,246	-	-	173,617,246	-
Royalties and Rents	-	-	-	-	11,970	11,970	-
Fines and Forfeits	-	-	-	864,601	-	864,601	-
Interest and Investment Income	77,075,000	37,828,000	-	-	13,333,703	128,236,703	-
Miscellaneous	-	-	1,365,786	-	26,106	1,391,892	88,703
Total Operating Revenues	88,549,000	39,327,000	440,401,528	99,083,053	197,659,902	865,020,483	59,348,154
OPERATING EXPENSES							
Cost of Sales and Services	-	-	34,374,369	-	89,281,198	123,655,567	965,818
Salaries and Benefits	7,648,000	1,796,000	408,190,474	11,150,352	4,546,510	433,331,336	14,605,597
Operating	8,600,000	4,927,000	154,630,394	4,922,861	20,420,415	193,500,670	27,518,985
Claims	-	-	-	105,131,905	49,715,730	154,847,635	2,916,715
Scholarships and Fellowships	-	-	19,413,864	-	-	19,413,864	-
Interest	41,755,000	29,615,000	-	-	2,349,329	73,719,329	-
Depreciation	940,000	21,000	33,870,398	515,556	3,765,673	39,112,627	8,108,308
Miscellaneous	-	-	-	-	5,111	5,111	-
Total Operating Expenses	58,943,000	36,359,000	650,479,499	121,720,674	170,083,966	1,037,586,139	54,115,423
Operating Income (Loss)	29,606,000	2,968,000	(210,077,971)	(22,637,621)	27,575,936	(172,565,656)	5,232,731
NONOPERATING REVENUES (EXPENSES)							
Grants and Contracts	-	-	178,588	-	303,681	482,269	-
Gifts	-	-	15,471,472	-	-	15,471,472	-
Interest and Investment Income	-	12,689,000	5,560,225	95,416,258	5,912,481	119,577,964	339,809
Interest Expense	-	(13,289,000)	(5,886,436)	(4,026,250)	(398,692)	(23,600,378)	(249,139)
Loss on Sale of Capital Assets	-	-	(1,336,258)	(32,106)	(5,028)	(1,373,392)	(705,509)
Other	-	-	3,866,529	-	(80,851)	3,785,678	(4,143)
Total Nonoperating Revenues (Expenses)	-	(600,000)	17,854,120	91,357,902	5,731,591	114,343,613	(618,982)
Income (Loss) Before Contributions and Transfers	29,606,000	2,368,000	(192,223,851)	68,720,281	33,307,527	(58,222,043)	4,613,749
Capital Grants and Contributions	-	-	9,405,153	-	-	9,405,153	-
Transfers In	-	-	216,149,823	-	6,283,825	222,433,648	791,917
Transfer Out	(25,284,000)	(49,000)	(6,059,350)	-	(35,698,512)	(67,090,862)	(355,753)
Change in Net Assets	4,322,000	2,319,000	27,271,775	68,720,281	3,892,840	106,525,896	5,049,913
Total Net Assets - Beginning of Year, as Adjusted	149,403,000	68,748,000	611,003,020	390,031,400	250,041,324	1,469,226,744	54,403,895
Total Net Assets - End of Year	\$ 153,725,000	\$ 71,067,000	\$ 638,274,795	\$ 458,751,681	\$ 253,934,164	\$ 1,575,752,640	\$ 59,453,808

Reconciliation of Statement of Revenues, Expenses and Changes in Fund Net Assets of Proprietary Funds to the Statement of Activities For the Fiscal Year Ended June 30, 2004

Net Change in Net Assets-Total Enterprise Funds	\$ 106,525,896
Amounts reported for business-type activities in the statement of activities are different because:	
Expenses were reduced based on the allocation of internal service fund's net income	1,049,926
Change in Net Assets of Business-Type Activities	<u>\$ 107,575,822</u>

**Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2004**

	Business-Type Activities - Enterprise Funds						Governmental
	Bank of North Dakota	Housing Finance	University System	Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds
Cash Flows from Operating Activities:							
Receipts from Customers and Users	\$ 11,160,000	\$ 191,196,000	\$ 112,818,312	\$ 110,298,129	\$ 370,077,016	\$ 795,549,457	\$ 59,098,713
Receipts from Tuition and Fees	-	-	152,495,218	-	-	152,495,218	-
Interest Income on Loans	-	-	-	-	500,580	500,580	-
Receipts from Loan Principal Repayments	-	-	8,385,652	-	15,797,466	24,183,118	-
Receipts from Federal and Local Agencies	-	-	5,585,261	-	-	5,585,261	10
Receipts from Other Funds	-	-	-	-	89	89	1,445,663
Receipts from Grants and Contracts	-	-	163,245,154	-	-	163,245,154	-
Receipts from Others	-	-	1,901,162	1,730,924	167,700	3,799,786	2,472
Payments for Loan Funds	-	-	(10,137,759)	-	(13,392,634)	(23,530,393)	-
Payments for Scholarships and Fellowships	-	-	(19,413,864)	-	-	(19,413,864)	-
Payments to Suppliers	(7,241,000)	(103,988,000)	(187,879,256)	(2,952,389)	(319,544,717)	(621,605,362)	(27,456,740)
Payments to Employees	(7,663,000)	(1,793,000)	(406,850,472)	(8,460,068)	(10,228,777)	(434,995,317)	(13,644,090)
Claim Payments	-	-	-	(85,595,326)	(38,782,122)	(124,377,448)	(2,489,185)
Payments to Others	-	(1,601,000)	-	(8,021,295)	(94,182)	(9,716,477)	(1,316,534)
Net Cash Provided by (Used for) Operating Activities	(3,744,000)	83,814,000	(179,850,592)	6,999,975	4,500,419	(88,280,198)	15,640,309
Cash Flows from Noncapital Financing Activities:							
Proceeds from Bonds	-	101,634,000	-	-	-	101,634,000	-
Proceeds from Sale of Notes and Other Borrowings	1,210,000,000	-	-	-	11,800,000	1,221,800,000	-
Principal Payments - Bonds	-	-	-	-	(1,000,000)	(1,000,000)	-
Principal Payments - Notes and Other Borrowings	(1,105,270,000)	(177,594,000)	-	-	(13,300,000)	(1,296,164,000)	-
Interest Payments - Bonds	-	(33,115,000)	-	-	(1,750,000)	(34,865,000)	-
Interest Payments - Notes and Other Borrowings	(24,112,000)	-	-	-	(431,789)	(24,543,789)	(34,683)
Payment of Bond Issue Costs	-	(990,000)	-	-	-	(990,000)	-
Transfers In	-	-	-	-	6,283,825	6,283,825	791,917
Transfers Out	(34,337,000)	(49,000)	(6,059,350)	-	(7,869,001)	(48,314,351)	(355,753)
Net Increase in Non-Interest Bearing Deposits	5,163,000	-	-	-	-	5,163,000	-
Net Decrease in Interest Bearing Deposits	(18,571,000)	-	-	-	-	(18,571,000)	-
Payments of Interest on Deposits	(16,209,000)	-	-	-	-	(16,209,000)	-
Interest Paid on Federal Funds and Reverse Repurchase Agreements	(2,802,000)	-	-	-	-	(2,802,000)	-
Net Decrease in Federal Funds and Reverse Repurchase Agreements	(106,091,000)	-	-	-	-	(106,091,000)	-
Principal Payments on Due To Other Funds	-	-	(720,800)	-	(859,664)	(1,580,464)	-
Grants and Gifts Received for Other than Capital Purposes	-	-	16,181,315	-	303,681	16,484,996	-
State Appropriations	-	-	206,534,562	-	-	206,534,562	-
Agency Fund Cash Increase	-	-	910,233	-	-	910,233	-
Grants Given for Other than Capital Purposes	-	-	(1,001,848)	-	-	(1,001,848)	-
Disbursements for Loans and Loan Purchases	-	-	-	-	(703,538)	(703,538)	-
Other	-	-	3,516,702	-	(404,762)	3,111,940	207
Net Cash Provided by (Used for) Noncapital Financing Activities	(92,229,000)	(110,114,000)	219,360,814	-	(7,931,248)	9,086,566	401,688
Cash Flows from Capital and Related Financing Activities:							
Acquisition and Construction of Capital Assets	(608,000)	-	(77,769,136)	(414,224)	(1,490,722)	(80,282,082)	(15,834,522)
Proceeds from Sale of Capital Assets	-	-	756,787	50	17,115	773,952	1,516,623
Proceeds from Bonds	-	-	-	-	-	-	5,961,076
Proceeds from Sale of Notes and Other Borrowings	-	-	44,718,830	-	-	44,718,830	433,402
Principal Payments - Bonds	-	-	-	-	(210,000)	(210,000)	-
Principal Payments - Notes and Other Borrowings	-	-	(13,216,076)	-	(2,139,245)	(15,355,321)	(1,607,092)
Interest Payments - Bonds	-	-	-	-	(83,597)	(83,597)	-
Interest Payments - Notes and Other Borrowings	-	-	(5,508,951)	-	(6,406)	(5,515,357)	(384,453)
Capital Appropriations	-	-	4,919,358	-	-	4,919,358	-
Payment on Capital Leases	-	-	-	-	(36,791)	(36,791)	(11,933)
Interest Payments - Capital Leases	-	-	-	-	-	-	(4,541)
Capital Grants and Gifts Received	-	-	10,091,380	-	-	10,091,380	-
Insurance Proceeds	-	-	1,405,064	-	-	1,405,064	-
Net Cash Used for Capital and Related Financing Activities	(608,000)	-	(34,602,744)	(414,174)	(3,949,646)	(39,574,564)	(9,931,440)
Cash Flows from Investing Activities:							
Proceeds from Sale and Maturities of Investment Securities	288,047,000	264,000	69,003,654	16,502,809	102,454,186	476,271,649	-
Purchase of Investment Securities	(341,067,000)	-	(90,279,525)	(21,767,114)	(106,180,803)	(559,294,442)	(3,436,975)
Interest and Dividends on Investments	11,432,000	(600,000)	4,844,703	-	5,681,645	21,358,348	370,820
Proceeds from Sale of Other Real Estate	621,000	-	-	-	-	621,000	-
Net Decrease in Loans	(66,827,000)	-	-	-	-	(66,827,000)	-
Disbursements for Loans and Loan Purchases	-	-	-	-	(1,175,000)	(1,175,000)	-
Receipt of Loan Principal Repayments	-	-	-	-	1,991,932	1,991,932	-
Proceeds from Collection of Loans and Notes Receivable	-	-	-	-	1,964,660	1,964,660	-
Loan Income Received	72,448,000	-	-	-	758,469	73,206,469	-
Net Cash Provided by (Used for) Investing Activities	(35,346,000)	(336,000)	(16,431,168)	(5,264,305)	5,495,089	(51,882,384)	(3,066,155)

STATE OF NORTH DAKOTA

Statement of Cash Flows Proprietary Funds (Continued) For the Fiscal Year Ended June 30, 2004

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Bank of North Dakota	Housing Finance	University System	Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds
Net Change In Cash:							
Net Increase (Decrease) in Cash and Cash Equivalents	(131,927,000)	(26,636,000)	(11,523,690)	1,321,496	(1,885,386)	(170,650,580)	3,044,402
Cash and Cash Equivalents at June 30, 2003	408,594,000	173,777,000	86,433,393	426,746	96,189,416	765,420,555	6,811,595
Cash and Cash Equivalents at June 30, 2004	<u>\$ 276,667,000</u>	<u>\$ 147,141,000</u>	<u>\$ 74,909,703</u>	<u>\$ 1,748,242</u>	<u>\$ 94,304,030</u>	<u>\$ 594,769,975</u>	<u>\$ 9,855,997</u>
Reconciliation:							
Current:							
Cash Deposits at the Bank of North Dakota	\$ -	\$ 1,451,000	\$ 56,767,546	\$ 1,748,242	\$ 29,813,163	\$ 89,779,951	\$ 8,204,218
Cash and Cash Equivalents	276,667,000	35,000	4,767,609	-	58,213,623	339,683,232	3,750
Restricted Cash Deposits at the Bank of North Dakota	-	5,473,000	-	-	6,019,901	11,492,901	1,648,029
Restricted Cash and Cash Equivalents	-	140,182,000	-	-	-	140,182,000	-
Noncurrent:							
Restricted Cash Deposits At The Bank of North Dakota	-	-	9,562,767	-	-	9,562,767	-
Restricted Cash and Cash Equivalents	-	-	3,811,781	-	257,343	4,069,124	-
Cash and Cash Equivalents	<u>\$ 276,667,000</u>	<u>\$ 147,141,000</u>	<u>\$ 74,909,703</u>	<u>\$ 1,748,242</u>	<u>\$ 94,304,030</u>	<u>\$ 594,769,975</u>	<u>\$ 9,855,997</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used for) Operating Activities:							
Operating Income (Loss)	\$ 29,606,000	\$ 2,968,000	\$ (210,077,971)	\$ (22,637,621)	\$ 27,575,936	\$ (172,565,656)	\$ 5,232,731
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:							
Depreciation	940,000	21,000	33,870,398	515,556	3,765,673	39,112,627	8,108,308
Amortization/Accretion	(59,000)	1,485,000	-	-	492,000	1,918,000	-
Reclassification of Interest Revenue/Expense	(39,742,000)	(2,554,000)	-	-	(10,890,898)	(53,186,898)	-
Gain on Sale of Student Loans	(96,000)	-	-	-	-	(96,000)	-
Gain on Sale of Real Estate	(69,000)	-	-	-	-	(69,000)	-
Net Increase in Fair Value of Investments	4,422,000	2,405,000	-	-	-	6,827,000	-
Interest Received on Program Loans	-	32,616,000	-	-	9,377,000	41,993,000	-
Disbursements for Loans and Loan Purchases	-	(101,936,000)	-	-	(60,224,000)	(162,160,000)	-
Receipt of Loan Principal Repayments	-	150,145,000	-	-	37,871,000	188,016,000	-
Provision for Losses	2,000,000	-	-	-	559,000	2,559,000	-
Premiums Collected	-	-	-	-	126,339,150	126,339,150	-
Premiums Paid	-	-	-	-	(126,339,150)	(126,339,150)	-
Other	-	(1,205,000)	(198,593)	-	31,000	(1,372,593)	1,320
Change in Assets and Liabilities:							
(Increase) Decrease in Accounts Receivable	-	(20,000)	(1,078,208)	(11,428)	(4,028,564)	(5,138,200)	40,801
(Increase) Decrease in Interest Receivable	-	-	-	-	77,657	77,657	(4,134)
(Increase) Decrease in Due From	(237,000)	37,000	-	39,021	(91,414)	(252,393)	606,813
Decrease in Due From Fiduciary Funds	-	-	-	-	22,419	22,419	-
(Increase) Decrease in Intergovernmental Receivable	-	7,000	(4,378,705)	-	974,218	(3,397,487)	(44,806)
(Increase) Decrease in Notes Receivable	-	-	(856,035)	-	619,475	(236,560)	-
(Increase) Decrease in Prepaid Items	-	(17,000)	-	31,298	(324,987)	(310,689)	8,099
(Increase) Decrease in Inventories	-	-	(372,862)	-	(1,944,557)	(2,317,419)	6,075
(Increase) Decrease in Other Assets	143,000	-	576,123	-	(4,330)	714,793	-
Increase (Decrease) in Accounts Payable	-	69,000	85,314	(624,392)	1,228,265	758,187	185,158
Increase In Interest Payable	-	-	-	-	-	-	6,094
Increase (Decrease) in Claims/Judgments Payable	-	-	-	26,600,000	(1,116,384)	25,483,616	729,939
Increase (Decrease) in Intergovernmental Payable	-	11,000	-	-	(589,144)	(578,144)	600
Increase in Accrued Payroll	-	-	166,760	-	75,549	242,309	54,478
Increase in Compensated Absences Payable	-	-	1,173,243	52,983	79,206	1,305,432	55,172
Increase (Decrease) in Amounts Held for Others	-	(221,000)	-	-	46,398	(174,602)	-
Decrease in Other Deposits	-	-	(479,309)	-	-	(479,309)	-
Increase (Decrease) in Due To Other Funds	(2,000)	16,000	-	34,902	159,349	208,251	1,120,698
Increase (Decrease) in Deferred Revenue	-	(13,000)	1,719,253	2,999,656	373,717	5,079,626	(467,037)
Increase (Decrease) in Other Liabilities	(650,000)	-	-	-	386,835	(263,165)	-
Total Adjustments	(33,350,000)	80,846,000	30,227,379	29,637,596	(23,075,517)	84,285,458	10,407,578
Net Cash Provided by (Used for) Operating Activities	<u>\$ (3,744,000)</u>	<u>\$ 83,814,000</u>	<u>\$ (179,850,592)</u>	<u>\$ 6,999,975</u>	<u>\$ 4,500,419</u>	<u>\$ (88,280,198)</u>	<u>\$ 15,640,309</u>
Noncash Transactions:							
Net Increase (Decrease) in Fair Value of Investments	\$ -	\$ -	\$ -	\$ 59,516,744	\$ 363,910	\$ 59,880,654	\$ (54,091)
Real estate and Property Owned Acquired in Exchange for Loans	3,568,000	-	-	-	-	3,568,000	-
Change in Securities Lending Collateral	-	-	-	145,636,762	2,049,946	147,686,708	911,104
Disposal of Equipment Under Capital Lease	-	-	-	32,106	-	32,106	-
Interest on Investments	-	-	-	31,720,779	-	31,720,779	-
Amortization of Bond Discount	-	-	-	-	8,754	8,754	-
Amortization of Bond Issuance Costs	-	-	-	-	3,335	3,335	-
Acquisition of Equipment Under Capital Lease	-	-	-	-	-	-	91,021
Assets Acquired Through Capital Lease	-	-	7,319,770	-	-	7,319,770	-
Assets Acquired Through Special Assessments	-	-	111,401	-	-	111,401	-
Expenses Paid by Capital Lease	-	-	43,333	-	-	43,333	-
Gifts of Capital Assets	-	-	2,706,474	-	-	2,706,474	-
Total Noncash Transactions	<u>\$ 3,568,000</u>	<u>\$ -</u>	<u>\$ 10,180,978</u>	<u>\$ 236,906,391</u>	<u>\$ 2,425,945</u>	<u>\$ 253,081,314</u>	<u>\$ 948,034</u>

STATE OF NORTH DAKOTA

Statement of Fiduciary Net Assets Fiduciary Funds June 30, 2004

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private Purpose Trust Funds	Agency Funds
ASSETS				
Cash Deposits at the Bank of ND	\$ 10,899,669	\$ 121,818	\$ 107,056	\$ 10,128,428
Cash and Cash Equivalents	-	-	343,766	2,214,914
Receivables:				
Contributions Receivable	9,851,732	-	-	-
Accounts Receivable-Net	446,355	-	1,388,311	5,602,648
Taxes Receivable-Net	-	-	-	10,113,907
Interest Receivable - Net	9,321,153	90,066	-	175
Due from Other Funds	38,673	-	12	175
Due from Fiduciary Funds	114,976	-	-	-
Total Receivables	<u>19,772,889</u>	<u>90,066</u>	<u>1,388,323</u>	<u>15,716,905</u>
Investments, at Fair Value:				
Investments at the Bank of ND	20,520,550	368,051	18,602	8,069,758
Equity Pool	1,690,704,421	23,802,484	-	-
Fixed Income	10,219,583	-	34,804	-
Fixed Income Pool	691,364,641	19,673,226	-	2,408,793
Cash and Cash Pool	59,093,473	288,847	-	-
Real Estate Pool	170,224,891	1,432,146	-	-
Private Equity	118,961,967	575,441	-	-
Annuities	155,016	-	-	-
Mutual Funds	25,504,313	-	168,422,559	-
Total Investments	<u>2,786,748,855</u>	<u>46,140,195</u>	<u>168,475,965</u>	<u>10,478,551</u>
Invested Securities Lending Collateral	<u>178,647,461</u>	<u>5,235,676</u>	<u>-</u>	<u>-</u>
Capital Assets (Net of Depreciation)	23,656	-	-	-
Other Assets	<u>37,575</u>	<u>-</u>	<u>-</u>	<u>38,841</u>
Total Assets	<u>2,996,130,105</u>	<u>51,587,755</u>	<u>170,315,110</u>	<u>\$ 38,577,639</u>
LIABILITIES				
Accounts Payable	2,674,444	33,509	1,339,606	-
Accrued Payroll	66,260	-	-	-
Securities Lending Collateral	178,647,461	5,235,676	-	-
Intergovernmental Payable	-	-	-	22,821,204
Due to Other Funds	178,130	-	-	-
Due to Fiduciary Funds	114,976	-	-	-
Amounts Held in Custody for Others	-	-	-	15,756,435
Deferred Revenue	35,547	-	-	-
Compensated Absences Payable	75,289	-	-	-
Capital Leases Payable	6,752	-	-	-
Total Liabilities	<u>181,798,859</u>	<u>5,269,185</u>	<u>1,339,606</u>	<u>\$ 38,577,639</u>
NET ASSETS				
Net Assets Held in Trust for:				
Pension Benefits	2,813,259,883	-	-	-
Other Employee Benefits	1,071,363	-	-	-
External Investment Pool Participants	-	46,318,570	-	-
Other Purposes	-	-	168,975,504	-
Total Net Assets Held in Trust	<u>\$ 2,814,331,246</u>	<u>\$ 46,318,570</u>	<u>\$ 168,975,504</u>	<u>-</u>

The Accompanying Notes are an Integral Part of the Financial Statements

STATE OF NORTH DAKOTA

Statement of Changes in Fiduciary Net Assets Fiduciary Funds For the Fiscal Year Ended June 30, 2004

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private Purpose Trust Funds
ADDITIONS			
Contributions:			
Employer	\$ 55,565,840	\$ -	\$ -
Employee	61,185,410	-	-
From Participants	-	-	93,638,019
Transfers from Other Funds	227,274	-	-
Transfers from Other Plans	3,857,713	-	-
Donations	-	-	22,212
Total Contributions	<u>120,836,237</u>	<u>-</u>	<u>93,660,231</u>
Investment Income:			
Net Increase in Fair Value of Investments	357,975,089	4,704,518	20,317,129
Interest and Dividends	<u>73,093,535</u>	<u>1,212,809</u>	<u>2,125,030</u>
Less Investment Expense	<u>9,192,997</u>	<u>132,204</u>	<u>-</u>
Net Investment Income	<u>421,875,627</u>	<u>5,785,123</u>	<u>22,442,159</u>
Securities Lending Activity:			
Securities Lending Income	1,773,342	44,754	-
Less Securities Lending Expense	<u>1,285,627</u>	<u>36,488</u>	<u>-</u>
Net Securities Lending Income	<u>487,715</u>	<u>8,266</u>	<u>-</u>
Repurchase Service Credit	3,633,050	-	-
Miscellaneous Income	<u>459,808</u>	<u>-</u>	<u>-</u>
Total Additions	<u>547,292,437</u>	<u>5,793,389</u>	<u>116,102,390</u>
DEDUCTIONS			
Benefits Paid to Participants	135,261,327	-	-
Refunds	9,494,659	-	-
Prefunded Credit Applied	4,063,395	-	-
Transfers to Other Plans	244,861	-	-
Payments in Accordance with Trust Agreements	-	-	32,634,159
Administrative Expenses	<u>3,019,560</u>	<u>-</u>	<u>-</u>
Total Deductions	<u>152,083,802</u>	<u>-</u>	<u>32,634,159</u>
Purchase of Units at Net Asset Value of \$1.00 Per Unit	<u>-</u>	<u>1,000,000</u>	<u>-</u>
Change in Net Assets Held in Trust for:			
Pension Benefits	395,150,193	-	-
Other Employee Benefits	58,442	-	-
External Investment Pool Participants	-	6,793,389	-
Other Purposes	-	-	83,468,231
Net Assets--Beginning of Year	<u>2,419,122,611</u>	<u>39,525,181</u>	<u>85,507,273</u>
Net Assets--End of Year	<u>\$ 2,814,331,246</u>	<u>\$ 46,318,570</u>	<u>\$ 168,975,504</u>

STATE OF NORTH DAKOTA

Combining Statement of Net Assets Component Units - Proprietary Funds June 30, 2004

	BSC Foundation	CHAND	MISU Development Foundation	Municipal Bond Bank	ND Development Fund
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 193,079	\$ 2,179,597	\$ 119,308	\$ 2,429,000	\$ 1,464,383
Investments	-	-	-	-	11,550,000
Accounts Receivable - Net	538,110	-	33,109	-	-
Interest Receivable - Net	-	-	-	-	122,222
Due from Primary Government	-	-	-	-	-
Inventory	-	-	-	-	-
Loans and Notes Receivable - Net	-	-	-	-	2,289,072
Other Current Assets	59,038	-	1,570	-	-
Restricted Cash and Cash Equivalents	-	-	-	1,781,000	-
Restricted Investments	-	-	-	16,240,000	-
Restricted Interest Receivable-Net	-	-	-	3,352,000	-
Total Current Assets	790,227	2,179,597	153,987	23,802,000	15,425,677
Noncurrent Assets:					
Restricted Cash and Cash Equivalent	-	-	-	-	-
Investments	6,679,864	-	10,300,021	-	1,700,541
Restricted Investments	3,944,215	-	-	305,489,000	-
Due from Primary Government	-	-	-	-	-
Loans and Notes Receivable - Net	-	-	-	-	3,604,935
Unamortized Bond Issuance Costs	-	-	-	1,403,000	-
Other Noncurrent Assets	2,407,437	-	-	-	-
Capital Assets:					
Land and Construction in Progress	1,200,000	-	-	-	-
Infrastructure - Net	-	-	-	-	-
Buildings and Equipment -Net	129,583	-	-	-	4,271
Total Noncurrent Assets	14,361,099	-	10,300,021	306,892,000	5,309,747
Total Assets	15,151,326	2,179,597	10,454,008	330,694,000	20,735,424
LIABILITIES					
Current Liabilities:					
Accounts Payable	167,316	88,106	16,363	60,000	15,154
Interest Payable	-	-	-	1,568,000	-
Intergovernmental Payable	-	-	-	-	-
Due to Primary Government	33,668	-	-	-	-
Claims/Judgments Payable	-	1,525,000	-	-	-
Notes Payable	-	-	9,070	-	-
Capital Leases Payable	-	-	-	-	-
Bonds Payable	-	-	-	7,625,000	-
Deferred Revenue	-	198,198	-	-	-
Other Current Liabilities	-	-	-	-	-
Total Current Liabilities	200,984	1,811,304	25,433	9,253,000	15,154
Noncurrent Liabilities:					
Intergovernmental Payable	-	-	-	309,000	-
Notes Payable	-	-	21,385	6,460,000	-
Capital Leases Payable	-	-	-	-	-
Bonds Payable	-	-	-	151,276,000	-
Other Noncurrent Liabilities	1,586,700	-	62,018	-	-
Total Noncurrent Liabilities	1,586,700	-	83,403	158,045,000	-
Total Liabilities	1,787,684	1,811,304	108,836	167,298,000	15,154
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	1,329,583	-	-	-	4,271
Restricted for:					
Debt Service	-	-	-	71,638,000	-
Loan Purposes	-	-	-	89,334,000	-
Other	10,889,285	-	8,406,849	-	-
Unrestricted	1,144,774	368,293	1,938,323	2,424,000	20,715,999
Total Net Assets	\$ 13,363,642	\$ 368,293	\$ 10,345,172	\$ 163,396,000	\$ 20,720,270

The Accompanying Notes are an Integral Part of the Financial Statements

NDSU Development Foundation	NDSU Research and Technology Park	RE Arena Inc. UND Arena Services, Inc. & Affiliates	UND Aerospace Foundation	UND Alumni Association and UND Foundation	Non-Major	Total
\$ 269,588	\$ 422,382	\$ 861,092	\$ 787,419	\$ 597,351	\$ 4,200,689	\$ 13,523,888
-	-	-	-	-	-	11,550,000
359,035	282,432	1,923,541	601,963	2,551,985	496,760	6,786,935
-	-	-	-	-	-	122,222
-	-	-	-	298,927	-	298,927
-	-	502,637	119,501	-	-	622,138
-	-	-	-	-	-	2,289,072
495,890	77,816	1,873,855	33,041	13,182	381,639	2,936,031
-	-	-	-	-	-	1,781,000
-	-	-	-	-	-	16,240,000
-	-	-	-	-	-	3,352,000
1,124,513	782,630	5,161,125	1,541,924	3,461,445	5,079,088	59,502,213
5,191,539	1,257,916	2,978,841	-	-	-	9,428,296
73,702,347	-	-	567,381	84,607,005	21,323,942	198,881,101
4,928,950	-	-	-	36,970,730	792,311	352,125,206
-	-	-	1,967,627	8,153,551	-	10,121,178
-	-	-	-	-	-	3,604,935
-	-	39,357	-	-	-	1,442,357
95,356	246,167	-	-	1,970,061	170,181	4,889,202
925,866	-	4,768,427	967,649	-	241,625	8,103,567
-	510,257	-	39,617	-	-	549,874
3,511,457	38,209	101,207,397	6,821,590	3,472,546	821,230	116,006,283
88,355,515	2,052,549	108,994,022	10,363,864	135,173,893	23,349,289	705,151,999
89,480,028	2,835,179	114,155,147	11,905,788	138,635,338	28,428,377	764,654,212
1,420,974	1,641	869,882	803,016	399,362	916,143	4,757,957
-	-	-	-	-	-	1,568,000
-	22,000	-	-	-	-	22,000
205,425	-	260,078	48,056	536,698	304,960	1,388,885
-	-	-	-	-	-	1,525,000
3,002,830	-	-	608,012	159,814	89,430	3,869,156
-	-	-	32,373	-	-	32,373
77,723	-	250,000	-	332,622	-	8,285,345
368,874	-	3,680,267	468,744	-	-	4,716,083
514,125	-	-	-	-	750	514,875
5,589,951	23,641	5,060,227	1,960,201	1,428,496	1,311,283	26,679,674
-	398,375	-	-	-	-	707,375
25,673	-	-	3,601,743	713,551	944,186	11,766,538
-	-	-	1,967,627	-	-	1,967,627
1,551,629	-	7,250,000	-	12,605,668	-	172,683,297
4,354,148	-	-	-	16,021,171	560,824	22,584,861
5,931,450	398,375	7,250,000	5,569,370	29,340,390	1,505,010	209,709,698
11,521,401	422,016	12,310,227	7,529,571	30,768,886	2,816,293	236,389,372
4,437,323	128,091	98,725,824	3,619,101	3,472,546	879,239	112,595,978
-	-	-	-	-	-	71,638,000
-	-	-	-	-	-	89,334,000
72,196,561	1,632,677	2,978,841	-	91,233,464	21,557,064	208,894,741
1,324,743	652,395	140,255	757,116	13,160,442	3,175,781	45,802,121
\$ 77,958,627	\$ 2,413,163	\$ 101,844,920	\$ 4,376,217	\$ 107,866,452	\$ 25,612,084	\$ 528,264,840

The Accompanying Notes are an Integral Part of the Financial Statements

STATE OF NORTH DAKOTA

Combining Statement of Activities Component Units-Proprietary Funds For the Fiscal Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
BSC Foundation	\$ 728,338	\$ 195,419	\$ 3,704,856	\$ 3,171,937
CHAND	8,370,255	9,050,020	4,450	684,215
MISU Development Foundation	987,117	-	1,541,119	554,002
Municipal Bond Bank	9,348,000	984,000	32,105,000	23,741,000
ND Development Fund	2,861,044	661,803	117,499	(2,081,742)
NDSU Development Foundation	8,006,742	658,247	15,458,943	8,110,448
NDSU Research and Technology Park	253,163	2,289,503	20,944	2,057,284
RE Arena, Inc., UND Areana Services & Affiliates	7,920,707	5,628,329	103,500,000	101,207,622
UND Areospace Foundation	5,983,665	6,544,314	17,837	578,486
UND Alumni Association & UND Foundation	10,008,103	1,251,939	14,885,447	6,129,283
Nonmajor Component Units	6,642,909	705,621	7,085,306	# 1,148,018
Total Component Units	\$ 61,110,043	\$ 27,969,195	\$ 178,441,401	\$ 145,300,553

<u>General Revenues</u> <u>Payments from</u> <u>State of</u> <u>North Dakota</u>	<u>Additions to</u> <u>Permanent</u> <u>Endowments</u>	<u>Change</u> <u>in</u> <u>Net Assets</u>	<u>Net Assets</u> <u>Beginning</u> <u>of Year</u>	<u>Net Assets</u> <u>End</u> <u>of Year</u>
\$ -	\$ 1,239,362	\$ 4,411,299	\$ 8,952,343	\$ 13,363,642
-	-	684,215	(315,922)	368,293
-	455,050	1,009,052	9,336,120	10,345,172
-	-	23,741,000	139,655,000	163,396,000
1,550,000	-	(531,742)	21,252,012	20,720,270
-	4,098,764	12,209,212	65,749,415	77,958,627
-	-	2,057,284	355,879	2,413,163
-	-	101,207,622	637,298	101,844,920
-	-	578,486	3,797,731	4,376,217
-	3,923,317	10,052,600	97,813,852	107,866,452
-	335,083	1,483,101	24,128,983	25,612,084
<u>\$ 1,550,000</u>	<u>\$ 10,051,576</u>	<u>\$ 156,902,129</u>	<u>\$ 371,362,711</u>	<u>\$ 528,264,840</u>

The Accompanying Notes are an Integral Part of the Financial Statements

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NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The primary authority for the State's accounting and reporting requirements is the Office of Management and Budget. The Office of Management and Budget has adopted the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the State's accounting policies are as follows:

A. REPORTING ENTITY

For financial reporting purposes, the State of North Dakota has included all funds, organizations, agencies, boards and commissions that make up its legal entity. The State has also included all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State.

As required by accounting principles generally accepted in the United States of America, these financial statements present the State of North Dakota (the primary government) and its component units. The component units are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

BLENDED COMPONENT UNITS

These component units are entities that are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State. They are reported as part of the State and blended into the appropriate fund types.

Building Authority (Debt Service Fund and Capital Projects Fund) - The Building Authority was created by the Legislature as a separate instrumentality of the State. Its purpose is to promote the general welfare of the citizens of the State by providing financing for use by the State in altering, repairing, maintaining or constructing buildings and making any improvements connected to State buildings. The Industrial Commission, which consists of the governor, the attorney general, and the commissioner of agriculture, is

the governing board of the Building Authority. The funds and account groups of the Building Authority were audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated August 5, 2004, has been previously issued under a separate cover.

The **North Dakota University System Foundation** is considered a blended component unit. Although it is a legally separate nonprofit 501(c)(3) organization from the North Dakota University System, the North Dakota University System Foundation is reported as if it were part of the primary government because its sole purpose is to support the North Dakota University System. The members of the State Board of Higher Education serve as the Board of Trustees for the North Dakota University System Foundation.

The **NDSU Research Foundation** is considered a blended component unit. Although it is a legally separate, nonprofit 501(c)(3) organization from the North Dakota University System, the NDSU Research Foundation is reported as if it were part of the primary government because its sole purpose is to provide support to NDSU in its missions by enabling NDSU faculty to enhance their involvement in research, technology transfer, and business endeavors. Through linkages with public and private businesses and industries, the Foundation facilitates the commercialization of research technologies developed by NDSU faculty and staff. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated September 30, 2004, has been previously issued under a separate cover.

DISCRETELY PRESENTED COMPONENT UNITS

These component units are entities that are legally separate from the State, but are financially accountable to the State. The component units' columns of government-wide financial statements include the financial data of these entities.

MAJOR COMPONENT UNITS

Comprehensive Health Association (Proprietary Fund Type) - The Association was established by the Legislature with participating membership consisting of those insurance companies, licensed or authorized to do business in the State. It provides low cost access to health insurance coverage for residents of the State who are denied adequate health insurance and are considered uninsurable. The Association is governed by a board of eight members of which five are representatives of the State and is regulated by the State Insurance Department. The Association was audited by other independent auditors for the calendar year ended December 31, 2003, and their report dated February 24, 2004, has been previously issued under a separate cover.

Municipal Bond Bank (Proprietary Fund Type) - The Bond Bank was created by the Legislature as a separate agency of the State. The purpose of the Bond Bank 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 Bond Bank has been granted all powers required in order to accomplish this purpose and is under the control and management of the Industrial Commission. The Fund was audited by other independent auditors for the calendar year ended December 31, 2003, and their report dated January 30, 2004, has been previously issued under a separate cover.

North Dakota Development Fund, Inc. (Proprietary Fund Type) - The Development Fund was established as a statewide nonprofit development corporation with the authority to take equity positions in; to provide loans to; or to use other innovative financing mechanisms to provide capital for new or expanding businesses in North Dakota or relocating businesses to North Dakota. A board of directors consisting of eight members, all of whom are appointed by the governor, manages the corporation. The deputy director of the Department of Commerce (a State agency) is the corporation's chief executive officer. The director of the Department of Commerce (governor-appointed cabinet position) is responsible for developing rules, subject to the approval of the board of directors, necessary to implement the administration of the corporation. The Fund was audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated August 13, 2004, has been previously issued under a separate cover.

The **NDSU Research and Technology Park, Inc.** is a nonprofit organization developed to promote an economic environment dedicated to applied research and technology discovery for the benefit of NDSU, its faculty and staff, students, and the citizens of North Dakota. Its facilities are located on the campus of NDSU in Fargo, North Dakota. The organization was established in 1999 and is exempt from federal and state income taxes as it is organized under Section 501(c)(3) of the Internal Revenue Code. The majority of the Park's board of directors (six of nine) consists of people who work in private industry. Vacancies are filled by a majority vote of the board. Officers of NDSU fill three of the nine positions on the Park's board. The president of NDSU serves as president of the board of directors. The status of the Park as a discretely presented component unit is primarily due to the control by the NDSU president over the final building plans for any new building at the Park. This control is based on feedback from the Legislative Budget Section and is required by the land lease between the State Board of Higher Education and the Park, as well as NDUS policy. The Park was audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated September 30, 2004, has been previously issued under separate cover.

The **UND Aerospace Foundation** is a North Dakota nonprofit organization organized in 1985 to encourage and develop the University of North Dakota's John D. Odegard School of Aerospace Sciences. The Foundation's principal activities consist of developing and conducting training programs, research and development, and consulting services related to the aerospace industry. The Foundation is managed by a board of directors consisting of five to seven members, including two or more persons who are active in the aerospace industry and/or graduates of UND with an interest in the aerospace industry, elected by the board; a senior manager of the Foundation, elected by the board; the dean of the Odegard School of Aerospace Sciences; and the president of the university. The Foundation benefits the university, financially and otherwise, through its promotion of the Odegard School and its programs and in the sharing of resources. The Foundation is reported as a discretely presented component unit as UND has voting members on the board of directors and because of the extent of the financial relationship between the entities. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated September 15, 2004, has been previously issued under separate cover.

The **Bismarck State College Foundation** is a legally separate, tax-exempt organization providing support and recognition to BSC through a variety of programs. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college. The Foundation is managed by a 75-member board of directors comprised of leading citizens, both alumni and friends of the college, as well as seven ex-officio members that are officers/employees of BSC. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated August 15, 2004, has been previously issued under separate cover.

Minot State University Development Foundation was incorporated in 1978 exclusively for the benefit of Minot State University (MiSU). Its purpose is to establish, promote and stimulate voluntary financial support for the benefit of the university, especially in the building of endowment and in addressing the long-term priorities of the university. The Foundation is managed by a board of directors comprising 13 voting members, two of whom are ex-officio appointments from the Board of Regents and the Alumni Association, and three ex-officio members who are employees of MiSU. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated October 15, 2004, has been previously issued under separate cover.

North Dakota State University Development Foundation is an incorporated, nonprofit organization developed solely for the benefit of NDSU. The Foundation is approved by the IRS as a charitable, tax-exempt organization and designated by the university as

STATE OF NORTH DAKOTA

the repository for private giving to the university. Their purpose is to raise, manage, and disburse contributions for the benefit of NDSU. The Foundation is managed by a 61-member board of trustees comprised of leading citizens, both alumni and friends of the university, as well as three ex-officio members: the president of NDSU and the president and vice president of the Alumni Association. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated November 30, 2004, has been previously issued under separate cover.

Alumni Association of the University of North Dakota and UND Foundation - The Alumni Association of the University of North Dakota was incorporated in 1915 for the purpose of (1) keeping classmates in contact with each other, (2) keeping graduates and former students informed of happenings at UND, and (3) involving the graduates, former students, and special friends in the ongoing growth and development of UND. UND Foundation was incorporated in 1978 to replace the Alumni Association Development Fund and is the umbrella organization for alumni and private support for the total University of North Dakota. These two legally separate nonprofit corporations have the same board of directors and the same executive vice president, but different board presidents and vice presidents. The board of directors consists of 21 voting members who are alumni of UND and three ex-officio members that are officers of UND. The Alumni Association and the Foundation were audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated October 1, 2004, has been previously issued under separate cover.

RE Arena, Inc., UND Arena Services, Inc., Arena Holdings Charitable LLC and Affiliates are related organizations with common board of directors and management organized in 2003 for the benefit of UND. These organizations operate and maintain a multipurpose sports and entertainment arena in Grand Forks, ND. The arena is used primarily for UND athletics and activities. UND Sports Facilities, Inc. is the sole member of Arena Holdings Charitable LLC. RE Arena, Inc. conducts the day-to-day operations of the arena as an agent for Arena Holdings. Affiliates of RE Arena market products and services and operate the 2005 World Juniors Hockey Tournament. UND Arena Services, Inc. is the legal manager of Arena Holdings. These organizations were audited by other independent auditors for the fiscal year ended May 31, 2004, and their combined report dated November 15, 2004, has been previously issued under separate cover.

NONMAJOR COMPONENT UNITS

Dickinson State University Foundation, Inc. was organized in 1952 as a nonprofit corporation to provide an avenue through which alumni and friends of the university may contribute financially to the university. Gifts, grants, and bequests to the Foundation benefit present and future students by providing scholarship

assistance and the funding of special projects not available through other funding sources. The Foundation is managed by a 26-member board of directors comprised of leading citizens, both alumni and friends of DSU, as well as two ex-officio members that are officers/employees of DSU. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated August 15, 2004, has been previously issued under separate cover.

Lake Region Community College Foundation was established in 1959 to provide a permanent structure through which support for Lake Region State College could be channeled. The work and the resources of the Foundation are managed by a 27-member board of directors elected by the Foundation membership to serve three-year terms. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated October 15, 2004, has been previously issued under separate cover.

Mayville State University Foundation was established to act primarily as a fund-raising organization to supplement the resources that are available to Mayville State University (MaSU). The Foundation is managed by a 29-member board of directors comprised of leading citizens, both alumni and friends of the university, as well as three ex-officio members that are officers/employees of MaSU. The **Comet Athletic Club**, a legally separate nonprofit organization, operates as an entity within the Foundation. The Club's purpose is to promote, support, and encourage interest and participation in MaSU sports. Their financial activity is reflected in the Foundation's financial statements.

Minot State University-Bottineau Development Foundation and Logrollers are separate legal entities that were established to act primarily as fund-raising organizations to supplement the resources that are available to MISU-B. The Foundation and Logrollers are managed by the same eight-member board of directors comprised of leading citizens, both alumni and friends of the college, as well as one ex-officio member that is an officer of MISU-B. However, each entity has separate committees that direct each organization's activities. The Foundation and Logrollers were audited by other independent auditors for the fiscal year ended June 30, 2004, and their combined report dated October 15, 2004, has been previously issued under separate cover.

North Dakota State College of Science Foundation was established to act primarily as a fund-raising organization to supplement the resources that are available to NDSCS. The Foundation is managed by a 13-member board of directors comprised of leading citizens, both alumni and friends of the college, as well as three ex-officio members that are officers/employees of NDSCS. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated October 31, 2004, has been previously issued under separate cover.

Valley City State University Foundation was established to support Valley City State University by involving alumni and friends of the university in activities and private giving that meet the university's needs and advance its welfare. The Foundation is managed by a 14-member board of directors comprised of leading citizens, both alumni and friends of the university, and one director each from the Alumni Association, V500, Booster Board and Regents, as well as two ex-officio members that are officers of VCSU.

Williston State College Foundation was established to act primarily as a fund-raising organization to supplement the resources that are available to WSC. The Foundation is managed by an 11-member board of directors comprised of leading citizens, both alumni and friends of the college. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated November 1, 2004, has been previously issued under separate cover.

Complete financial statements for each of these individual component units may be obtained at the entity's administrative offices as follows:

Building Authority
600 E. Boulevard Ave., 14th Floor
Bismarck, ND 58505-0310

North Dakota University System Foundation
600 E. Boulevard Ave., Dept. 215
Bismarck, ND 58505-0230

North Dakota State University Research Foundation
1735 NDSU Research Park Drive
Fargo, ND 58105-5014

Comprehensive Health Association
4510 13th Avenue SW
Fargo, ND 58108

Municipal Bond Bank
700 East Main Avenue
Bismarck, ND 58501

North Dakota Development Fund, Inc.
1833 E. Bismarck Expressway
Bismarck, ND 58504

North Dakota State University Research and
Technology Park, Inc.
1735 NDSU Research Park Drive
Fargo, ND 58105-5014

University of North Dakota Aerospace Foundation
PO Box 9023
Grand Forks, ND 58202-9023

Bismarck State College Foundation
PO Box 5587
Bismarck, ND 58506-5587

Minot State University Development Foundation
500 University Avenue West
Minot, ND 58707

North Dakota State University Development
Foundation
PO Box 5144
Fargo, ND 58105

Alumni Association of the University of North Dakota
PO Box 8157
Grand Forks, ND 58202

Ralph Engelstad Arena, Inc., UND Arena Services,
Inc., Arena Holdings Charitable LLC and Affiliates
One Ralph Engelstad Arena Drive
Grand Forks, ND 58203

Dickinson State University Foundation, Inc.
Dickinson State University
Dickinson, ND 58601

Lake Region Community College Foundation
1801 College Drive North
Devils Lake, ND 58301-1598

Mayville State University Foundation
330 3rd Street NE
Mayville, ND 58257

Minot State University-Bottineau Development
Foundation and Logrollers
105 Simrall Boulevard
Bottineau, ND 58318

North Dakota State College of Science Foundation
800 Sixth Street North
Wahpeton, ND 58076-0002

Valley City State University Foundation
101 College Street SW
Valley City, ND 58072

Williston State College Foundation
PO Box 1286
Williston, ND 58802-1286

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary

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government activities are distinguished between governmental and business-type activities.

Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. Net assets restricted by enabling legislation are subject to change by a majority vote of the Legislative Assembly.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue.

FUND FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide statements are reported using the economic resources management focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

The State follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing accounting principles generally accepted in the United States of America for governmental entities. In accordance with Governmental Accounting Standards Board Statement 20, the State's enterprise funds, with the exception of the Bank of North Dakota, follows all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements. The Bank of North Dakota follows all applicable FASB pronouncements unless they conflict with the GASB pronouncements.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period.

Major revenues that are determined to be susceptible to accrual include interest, federal grants-in-aid, and taxpayer-assessed taxes such as income, sales, corporate, excise, motor fuel taxes and unemployment compensation contributions. All revenues are determined to be available if collected within one year of fiscal year end. Revenues earned under the terms of reimbursement agreements with other governments or private sources are recorded at the time the related expenditures are made if other eligibility requirements have been met. Sales and use taxes are accrued based upon filings received and an estimate of filings due by June 30. Net income taxes from individuals and corporations are accrued based on current income earned by the taxpayer before June 30. Quarterly filings, withholding statements, and other historical data are used to estimate income. The revenue is accrued net of an allowance for uncollectible taxes. Deferred revenue is recorded for receivables that are measurable but not available at year-end.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However,

expenditures related to debt service, compensated absences, and claims and judgments, are recorded only when payment is due and payable.

FINANCIAL STATEMENT PRESENTATION

The State reports the following major governmental funds:

The General Fund is the principal operating fund of the State. It is used to account for all financial resources that are not accounted for in other funds. Included are transactions for services such as education, general government, health services, legal and judiciary, natural resources, public safety, regulatory services, agriculture and commerce, and social services.

The Federal Fund accounts for all the financial resources from the federal government.

The School Permanent Trust Fund accounts for moneys belonging to common schools and other public institutions derived from the sale of or leasing of lands owned by the State.

The State reports the following major enterprise funds:

The Bank of North Dakota Fund finances economic development throughout the state, participates in loans with North Dakota financial institutions and holds interest-bearing deposit accounts for state and political subdivisions of North Dakota.

The Housing Finance Agency Fund is authorized to issue bonds to make loans to mortgage lenders for qualified residential mortgage loans and to make mortgage and construction loans for multi-family housing within the State of North Dakota.

The University System Fund accounts for all financial transactions of the colleges and universities that compose the University System of North Dakota.

The Workforce Safety & Insurance Fund is financed entirely by premiums assessed to the employers of North Dakota and provides no-fault medical and disability insurance to all North Dakota employees.

Additionally, the State reports the following fund types:

GOVERNMENTAL FUND TYPES

Special Revenue Funds account for specific revenue sources that are legally restricted to expenditures for specified purposes. Examples include transportation, regulatory, and other activities.

Debt Service Funds account for resources obtained and used for the payment of interest and principal on revenue bonds that are funded primarily through taxes.

Capital Projects Funds account for resources obtained and used for the acquisition, construction or improvement of certain capital facilities (except those financed by non-governmental funds). Such resources are derived principally from proceeds of revenue bonds.

Permanent Funds report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry, such as the common schools within the state.

PROPRIETARY FUND TYPES

Enterprise Funds account for those business-like State activities that provide goods/services to the public, financed primarily through user charges. They are also used to account for operations where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability and other purposes. The State's loan programs, Mill and Elevator, and Fair are reported in this type.

Internal Service Funds account for the financing of goods and/or services provided by one department or agency to another department or agency of a government, or to other governments, on a cost-reimbursement basis. These goods and services include motor pool services; printing, reproduction and mailing services; information technology; risk management; and investment administration services. In the government-wide statements, internal service funds are included with governmental activities.

FIDUCIARY FUND TYPES

Pension and Other Employee Benefits Trust Funds account for resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit pension plans, defined contribution plan, deferred compensation plan, flexcomp plan, and other post-employment benefit plans.

Investment Trust Funds account for the transactions, assets, liabilities, and fund equity of the external pool participants (City of Bismarck, ND Association of Counties, and City of Fargo Fargodome RIO Investments). The State Investment Board (SIB) provides administrative services for the external pool participants. SIB issues a publicly available financial report that may be obtained by writing to the Retirement and Investment Office, 1930 Burnt Boat Drive, Bismarck, North Dakota 58503. Investment Trust Funds are accounted for in essentially the same manner as Proprietary Funds.

Private Purpose Trust Funds account for resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other

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governments. Examples include student donations and the State's college savings plan.

Agency Funds account for assets held by the State as an agent for other governmental units, or other organizations, and do not involve measurement of results of operations.

D. GENERAL BUDGETARY POLICIES AND PROCEDURES

The State operates through a biennial appropriation that represents departmental appropriations recommended by the governor and presented to the Legislative Assembly at the beginning of each legislative session. The Legislative Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. The governor has line item veto powers over all appropriations subject to legislative override.

Once passed and signed, the appropriation bill becomes the departments' financial plan for the next two years. Changes to the appropriation are limited to Emergency Commission authorization, initiative, allotment, or referendum action. The Emergency Commission can authorize receipt of federal or other moneys not appropriated by the Assembly if the Assembly did not indicate intent to reject the money. The Emergency Commission may authorize pass-through federal funds from one state agency to another. The Emergency Commission may authorize the transfer of expenditure authority between appropriated line items. The Legislature has also passed appropriation laws that authorize directors of certain state agencies to transfer appropriation authority among the various divisions of their specific agency, subject to the Budget Section of the North Dakota Legislative Council's approval. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under the North Dakota Century Code (NDCC) section 54-44.1-11 and the University System's unexpended general fund appropriation authority.

The State's biennial budget is prepared primarily on a cash basis. The State does not use encumbrance accounting. The legal level of budgetary control is at the agency, appropriation, funding source and expenditure line item level, with administrative controls established at lower levels of detail in certain instances. The State does not formally budget revenues, and it does not budget by fund. The State appropriation is defined through the use of specific expenditure line items. Capital appropriations are generally made at the agency and project level.

North Dakota's Appropriation Act does not present budgets by GAAP fund. Instead, it authorizes General Fund appropriation authority by agency and Other Budgeted Income appropriation authority by agency. Other budgeted income includes all budgeted resources, other than the General Fund, and includes some governmental, proprietary, and fiduciary fund activities.

During 2004, the first year of the 2003-2005 biennium, there were general and federal fund supplemental appropriations of \$97,079,415.

E. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for reporting purposes includes cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes investments with original maturity of three months or less. Also cash, as reported, may be under the control of the State Treasurer or by other administrative bodies as determined by law. Cash and cash equivalents are presented on the fund balance sheets as "Cash Deposits at the Bank of North Dakota" and "Cash and Cash Equivalents" to present the unique nature of the relationship between the Bank of North Dakota, an enterprise fund, and other state agencies.

Cash Deposits at the Bank of North Dakota. State agency cash balances, as required by law, are pooled by the State Treasurer and deposited in the Bank of North Dakota, an enterprise fund. These cash balances, in addition to other agency cash deposited at the Bank of North Dakota, are included on the fund balance sheets as "Cash Deposits at the Bank of North Dakota". For purposes of the Government-wide Statement of Net Assets, these amounts have been reclassified to internal balances.

Cash and Cash Equivalents. All cash and cash equivalents, (other than cash deposits at the Bank of North Dakota), as permitted by the North Dakota Century Code, are included on the Government-wide Statement of Net Assets as "Cash and Cash Equivalents".

The State had no cash overdrafts from pooled cash and investments at June 30, 2004.

All interest revenue is allocated to the General Fund unless state law (as outlined in the North Dakota Century Code) requires allocations of interest to other funds.

F. INVESTMENTS

All funds of the State record their investments in accordance with Government Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments." Investments are recorded at fair value determined by reference to published market data for publicly traded securities and through the use of independent valuation services and appraisals for other investments. The net change in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year.

Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment sold. Unrealized increases or decreases are computed based on changes in the fair value of investments between years. Security transactions are currently accounted for on a trade date basis. Interest income is recorded when earned. Dividend income is recorded on the ex-dividend date. Equity investments of the North Dakota Development Fund, Inc. (component unit of the State) are stated at estimated value in absence of a readily ascertainable market value. The Fund's board of directors estimates these values. Among the factors considered by the Fund's Directors in determining the fair value of investments, are the cost of the investment, developments since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Fund's Directors, in making their evaluation, have relied on financial data of the investee and, in many instances, on estimates of the investee as to the potential effect of future developments. Total equity investments in the North Dakota Development Fund, Inc. are valued at \$1,700,541 at June 30, 2004. All investments are maintained separately by fund.

Purchases of other state funds' debt issues by the Bank of North Dakota have been recorded as normal business transactions if they are the result of arms-length transactions.

Investments are presented on the fund balance sheets as "Investments at the Bank of North Dakota" and "Investments" to present the unique nature of the relationship between the Bank of North Dakota, an enterprise fund, and other state agencies.

Investments at the Bank of North Dakota. State agency investments, primarily certificates of deposits of the Bank of North Dakota, are included on the fund balance sheets as "Investments at the Bank of North Dakota." For purposes of the Government-wide Statement of Net Assets, these amounts have been reclassified to internal balances.

Investments. State agency investments invested at financial institutions other than the Bank of North Dakota are included on the Government-wide Statement of Net Assets as "Investments."

Differences on the Fund Balance Sheets between the assets, "Cash at the Bank of North Dakota" and "Investments at the Bank of North Dakota," and the liability, "Deposits Held For Other Funds," is attributable to timing differences resulting from the Bank of North Dakota having a different fiscal year end than many of the other state agencies.

G. SECURITIES LENDING

GASB Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions," establishes accounting and financial reporting standards for securities lending transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets. Cash received as collateral and investments made with that cash must also be reported as assets. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them.

Securities are loaned versus collateral that may include cash, U.S. government securities, and irrevocable letters of credit. U.S. securities are loaned versus collateral valued at 102 percent of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105 percent of the market value of the securities plus any accrued interest.

Non-cash collateral cannot be pledged or sold unless the borrower defaults.

All securities loans can be terminated on demand by either the lender or borrower. The average term of overall loans is ninety-eight days; however, the average term of loans for the Land Department is fifty-five days.

Cash open collateral is invested in a short-term investment pool, the Core USA Collateral Section, which had an interest sensitivity of twenty-four days as of this statement date. Cash collateral may also be invested separately in "term loans," in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower.

There were no significant violations of legal or contractual provisions, and no borrower or lending agent default losses known to the securities lending agent.

There are no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month.

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and Northern Trust (custodian of investments) has failed to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending. Northern Trust indemnifies the State if the borrower fails to return the securities (and if the collateral is inadequate to replace

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the securities lent) or fails to pay income distributions on them.

For securities loaned at year end, the State has no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State.

H. INTERFUND ACTIVITY AND BALANCES

INTERFUND ACTIVITY

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets (such as goods or cash) without equivalent flows of assets in return or a requirement for repayment. Residual transfer amounts exist in the Government-wide Statement of Activities due to different fiscal year ends of various agencies included in business-type activities.

INTERFUND BALANCES

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

I. INVENTORIES AND PREPAID ITEMS

Inventories of Governmental Funds are valued at cost and are recognized principally using the average cost method. Generally, the cost of Governmental Funds' inventories is recorded as an expenditure when consumed rather than when purchased.

Inventories of Proprietary Funds consist primarily of grain inventories from the North Dakota Mill and Elevator Association. Grain inventories are valued at the June 30 Minneapolis grain market values less freight costs to Minneapolis. Grain committed to production is valued at cost, and grain committed to sale is valued at net commitment price. Flour, feed and resale inventories are valued at ingredient cost plus manufacturing costs incurred in their production. Proprietary Funds expense the cost of consumable supplies when used.

Generally, inventories of University System Funds are valued at the lower of cost or fair market value. Cost is generally determined on the first in/first out, or moving weighted average method. Inventories consist of food,

books, and other merchandise held for resale in auxiliaries and unrestricted physical plant supplies.

Federal fund inventories of commodities and vaccines totaling \$2,930,523 are recorded as inventory and deferred revenue on the Government-wide Statement of Net Assets.

The Department of Human Services has approximately \$3.0 million in food stamp inventory, which is included in the Federal Fund Inventory.

Prepaid items reflect payments for costs applicable to future accounting periods.

Other government fund inventories and prepaid items are reflected as a reservation of fund balance on the balance sheet.

J. UNAMORTIZED BOND ISSUANCE COSTS

In governmental fund types, issuance costs are recognized in the operating statements when incurred. Bond premiums, discounts and issuance costs for proprietary fund types are deferred and amortized over the term of the bonds using the bonds outstanding method, which approximates the effective interest method. The unamortized discount is shown on the balance sheet as a reduction of the bonds payable, and the amortization is included in the statement of revenues, expenses and changes in fund balance as interest expense.

K. CAPITAL ASSETS

Capital assets, which include land, buildings, equipment, construction in progress and infrastructure assets, are valued at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date of donation. Where necessary, estimates of original cost are derived by factoring price levels from the current period to the time of acquisition. Library books are not capitalized as capital assets except for the University System.

All other capital assets with an original cost of \$5,000 (\$100,000 or more for infrastructure reported by the Department of Transportation) or more per unit and an estimated useful life in excess of one year are capitalized and reported in the applicable government or business-type activities columns in the government-wide financial statements. Capital asset costs include the purchase price or construction cost, plus the costs necessary to place the asset in its intended location and condition for use. In governmental activities, interest costs on self-constructed assets are not capitalized. In business-type activities, interest costs (if material) on self-constructed assets are also included in the cost. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the

borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. Normal maintenance and repair costs that do not materially add to the value or extend the life of the asset are not capitalized.

Collections of works of art and historical treasures are not capitalized if the following three criteria are met: (1) Held for public exhibition, education, or research in furtherance of public service, rather than financial gain; (2) Protected, kept unencumbered, cared for, and preserved; (3) Subject to organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The State's non-capitalized collections include the historical artifacts at the various state museums and historical sites, and monuments and other art throughout the capital grounds. Assets that do not meet all three criteria, or that were capitalized as of June 30, 1999, are capitalized and included in the government-wide financial statements.

Infrastructure consists of major statewide public systems and items attached thereto such as freeways, freeway lighting systems, freeway drainage systems, freeway signs, bridges, bridge lighting systems, and sewer systems. Infrastructure is reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Department of Transportation uses the first-in first-out method to remove the capitalized cost of a replaced road along with corresponding accumulated depreciation.

Fixed assets in Governmental Funds are recorded as expenditures in the funds used to acquire or construct them in the governmental fund financial statements. Capital assets, along with accumulated depreciation and depreciation expense are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Land and construction in progress are not depreciated. With the exception of infrastructure reported by the Department of Transportation (which uses the composite method), other capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10-50
Infrastructure	10-50
Furniture, Automobiles, and Equipment	3-20

L. LEASE COMMITMENTS

The State leases land, office facilities, office and computer equipment, and other assets. Leases are classified according to FASB 13. Many of these leases have fiscal funding clauses; however, these clauses

have no effect on classifying these leases for accounting purposes. Leases which represent acquisitions are classified as capital leases, and the related assets and liabilities are recorded in the general purpose financial statements at the inception of the lease. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease.

M. FEDERAL FUNDS PURCHASED

Federal Funds Purchased represent federal funds borrowed by the Bank of North Dakota from member banks generally on an overnight basis at the federal funds rate.

N. CLAIMS/JUDGMENTS PAYABLE

Claims/Judgments Payable is primarily Workers Compensation Claims Incurred But Not Yet Reported (IBNR) by the claimants as well as claims related to various litigation matters.

O. COMPENSATED ABSENCES

ANNUAL LEAVE

State employees accrue vested annual leave at a variable rate based on years of service. Teachers employed by the State do not receive annual leave. In general, accrued annual leave cannot exceed 30 days at each year end, as set by the agency. The amount of annual leave earned ranges between one and two days per month, and is fixed by the employing unit per section 54-06-14 of the NDCC.

The governmental fund financial statements recognize annual leave when the liability is incurred and payable from available expendable resources. The government-wide financial statements present the cost of accumulated annual leave as a liability. Proprietary and Fiduciary Funds recognize the expense and accrued liability when the annual leave is earned.

SICK LEAVE

The North Dakota Century Code, section 54-06-14, states employees accrue sick leave at the rate of one to a maximum of one and one-half working days per month of employment without limitation on the amount that can be accumulated. Employees vest at ten years of creditable service, at which time the State is liable for ten percent of the employee's accumulated unused sick leave. The governmental fund financial statements recognize sick leave as it is incurred. The government-wide financial statements present the estimated cost of sick leave as a liability after an employee has been employed by the State for six consecutive years.

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P. DEPOSITS

The following two liability line items are presented in the Government-wide Statement of Net Assets and/or fund financial statements:

Deposits Held For Other Funds. "Deposits Held For Other Funds" are those deposits held by the Bank of North Dakota for other funds included in the reporting entity and shown on the fund financial statements. For purposes of the Government-wide Statement of Net Assets, these amounts have been reclassified to internal balances.

Other Deposits. "Other Deposits" are those deposits held by the Bank of North Dakota for non-reporting entity third parties. It also includes deposits held for students of the University System.

Differences on the fund balance sheets between the liability "Deposits Held For Other Funds" and the assets "Cash Deposits and Investments at the Bank of North Dakota" are attributable to timing differences resulting from the Bank of North Dakota having a different accounting year end than many other state agencies.

Q. DEFERRED REVENUE

In the government-wide statements and proprietary fund financial statements, deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable.

R. REVENUES AND EXPENDITURES/EXPENSES

In the Government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function for governmental activities (e.g., general government, education, health and human services, etc.). Additionally, revenues are classified between program and general revenues. Program revenues include 1) charges to customers or applicants for goods or services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

In the government-wide financial statements, revenues are reported by source and are further classified as either "general purpose" or "restricted". General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g., federal grants), available only for specified purposes. Unused restricted revenues at year-end are recorded as reservations of fund balance. When both general purpose and restricted

funds are available for use, it is the State's policy to use restricted resources first.

In the governmental fund financial statements, expenditures are reported by character: "Current," "Intergovernmental-revenue Sharing," "Capital Outlay," or "Debt Service." Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services.

Capital outlay includes expenditures for real property or infrastructure (e.g., highways). Intergovernmental-revenue sharing accounts for the distribution of certain tax revenues that are shared with local units based upon constitutional and statutory requirements. Debt service includes both interest and principal outlays related to bonds and payments on capitalized leases.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g., salaries, depreciation, and purchases for resale). Operating revenues consist of sales of goods and services, quasi-external operating transactions with other funds, grant revenues 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 that should be classified as operating. 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 otherwise not undertake. For certain loan and investment programs, revenue that would normally be classified as non-operating should be classified as operating. Examples of this would include interest and investment income. All other revenues that do not meet the above criteria should be classified as non-operating.

S. NET ASSETS/FUND BALANCE

The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements, and "Fund Balance" on governmental fund statements.

T. CHANGE IN ACCOUNTING PRINCIPLE

The State has implemented the Governmental Accounting Standards Board's Technical Bulletin No. 2004-1, "Tobacco Settlement Recognition and Financial Reporting Entity Issues." In addition to requirements not applicable to the State, the Technical Bulletin establishes an accrual period for governments to recognize tobacco settlement revenues based on the tobacco companies' agreement. The effect on the State of implementing this standard is to accrue additional receivables and revenue for estimated tobacco settlement payments for the period January through June 30.

The State has also implemented the Governmental Accounting Standards Board's Statement No. 39,

Notes To The Financial Statements

“Determining Whether Certain Organizations Are Component Units,” which is effective for fiscal year June 30, 2004. This statement requires organizations that are separate from the State, and receive or hold resources that are almost entirely for the direct benefit of the State or its component units, be evaluated for inclusion in the State’s financial statement as a potential component unit.

The North Dakota State University System’s colleges and universities have foundations that are quantitatively significant; therefore, the foundations’ resources and

activities are reported in these financial statements as component units.

NOTE 2 – RESTATEMENTS

Certain restatements have been made to beginning fund equity for a change in accounting principle discussed previously and for correction of errors. The following changes to beginning fund equity, as previously reported, are summarized in the following table (expressed in thousands):

	Government-wide Governmental Activities	Government-wide Business-type Activities	School Permanent Trust Fund	Nonmajor Governmental Funds	University System
June 30, 2003, fund balances/net assets, as previously reported	\$ 2,196,547	\$ 1,470,175	\$ 587,356	\$ 451,262	\$ 610,818
Prior period adjustments:					
Change in accounting principles:					
Tobacco settlement	11,536	-	5,191	6,345	-
Correction of errors	(2,269)	185	-	(1,722)	185
June 30, 2003, fund balances/net assets, as restated	<u>\$ 2,205,814</u>	<u>\$ 1,470,360</u>	<u>\$ 592,547</u>	<u>\$ 455,885</u>	<u>\$ 611,003</u>

	Internal Service Funds	Major Component Units
June 30, 2003, fund balances/net assets, as previously reported	\$ 54,951	\$ 139,339
Prior period adjustments:		
Changes in accounting principles:		
GASB Statement No. 39	-	207,895
Correction of errors	(547)	-
June 30, 2003, fund balances/net assets, as restated	<u>\$ 54,404</u>	<u>\$ 347,234</u>

CORRECTION OF ERRORS

The beginning net assets of the Government-wide Business-type Activities and University System were restated by \$185,276. There was an error in calculating depreciation and capitalizing special assessments, \$(12,474), and a bond payment paid from agency funds in fiscal year 2003, \$197,750.

The beginning net assets of the Government-wide Governmental Activities and Commodity Promotion Fund, a nonmajor governmental fund, were restated by \$1,722,020. There was an error in recording accounts payable for legal costs of ongoing litigation.

The beginning net assets of the Government-wide Governmental Activities and Risk Management Fund, an internal service fund, were restated by \$546,910. There was a \$116,279 error for equipment purchased in fiscal

year 2003 not capitalized, and contributions received in fiscal year 2003 not correctly reported as deferred revenue \$(663,189).

NOTE 3 - DETAILED NOTES ON ACCOUNT BALANCES

A. DEPOSITS

State law generally requires that all State funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the State shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, “[a]ll state funds . . . must be deposited in the Bank of North Dakota” or must be deposited in accordance with constitutional and statutory provisions.

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The following summary presents the amount of the State's deposits which are fully insured or collateralized with securities held by the State or by its agent in the State's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the

State's name (Category 2) and those deposits which are not collateralized or are collateralized by the pledging financial institution trust or agent, but not in the State's name (Category 3) at June 30, 2004. Funds deposited at the Bank of North Dakota are not credit risked since the Bank is part of the State's reporting entity. The amounts are expressed in thousands:

Primary Government:

	Category			Total Bank Balance	Carrying Amount
	1	2	3		
Cash Deposits	\$ 29,197	\$ 951	\$ 177,758	\$ 207,906	\$ 348,929
Certificates of Deposit					
Recorded as Investments	3,111	-	205	3,316	3,316
Total	\$ 32,308	\$ 951	\$ 177,963	\$ 211,222	\$ 352,245

Major Component Units:

	Category			Total Bank Balance	Carrying Amount
	1	2	3		
Cash Deposits	\$ 3,755	\$ -	\$ 21,267	\$ 25,022	\$ 23,896
Certificates of Deposit					
Recorded as Investments	2,010	-	-	2,010	2,010
Total	\$ 5,765	\$ -	\$ 21,267	\$ 27,032	\$ 25,906

Included in the internal receivable amount in the governmental activities column in the Statement of Net Assets is \$450,173,821 of Cash and Investments at the Bank of North Dakota for governmental activities. The internal payable amount in the business-type activities column includes \$297,270,498 of deposits the Bank has for governmental activities. Because the Bank has a different fiscal year end, these internal balances do not equal.

B. INVESTMENTS

The investment policies of the State of North Dakota are governed by NDCC 6-09-07, 15-10-12, and 21-04-02, indicating that all public funds must be deposited in the Bank of North Dakota unless there are other constitutional or statutory provisions. If there are no statutory provisions and the funds are invested outside the Bank of North Dakota, the state agency must have the permission of the North Dakota Industrial Commission.

Investments are generally managed by the State Investment Board, the North Dakota Board of University and School Lands, the Bank of North Dakota, and the North Dakota State Treasurer's Office. Management responsibilities and investment instruments as authorized by statute are as follows:

1. State Investment Board (SIB) – NDCC 21-10 designates the SIB with investment responsibilities for the Public Employees' Retirement System, Bonding Fund, Teachers' Fund for Retirement, Fire and Tornado Fund, Workforce Safety & Insurance Fund, and other specific funds. The Century Code states the SIB shall apply the prudent investor rule in investing funds under its supervision.

The State Investment Board's investment policy allows investment managers to use derivative securities. Managers are specifically permitted to use treasury futures and options, S&P 500 index future options, and currency forwards and futures to hedge portfolio risk, but not to speculate or to leverage the portfolio. Managers may use their discretion to use other derivatives to enhance returns, reduce risk, or facilitate the management of index funds. SIB's policy with respect to these derivatives is that their use may not increase the credit, market, or legal risk level associated with a fully invested portfolio of common stocks or fixed income obligations, depending on the manager's designated role.

2. North Dakota Board of University and Schools Lands – The Century Code states that the Board of University and School Lands shall apply the prudent investor rule in investing its funds. Also, NDCC 15-03-04 allows the Board to invest in first

Notes To The Financial Statements

mortgages on farmlands and improvements thereon in this state to the extent such mortgages are guaranteed or insured by the United States or any instrumentality thereof, or if not so guaranteed or insured, not exceeding in amount 80 percent of the actual value of the property on which the same may be loaned, such value to be determined by competent appraisal.

3. The Bank of North Dakota – NDCC 6-09 authorizes the Bank of North Dakota. The Bank is owned and operated by the State of North Dakota under the supervision of the North Dakota Industrial Commission. The Bank may have investments in anything that any bank lawfully may do, except what is restricted by NDCC 6-09.
4. The North Dakota State Treasurer's Office – The North Dakota Constitution and various sections of the Century Code authorize the State Treasurer to invest all State funds deposited with the State Treasury. However, the State Treasurer must invest the public funds with the Bank of North Dakota unless there is statutory authority to do otherwise. Generally, the State Treasurer pools deposits and

invests in money market accounts and Bank of North Dakota certificates of deposit.

5. University System – NDCC 15-55-05 and 15-55-06 govern the investment of proceeds of revenue bonds and revenues pledged to bondholders. Investments governed by a gift instrument are covered under NDCC 15-67-04. Subject to any limitations in the gift instrument, such funds may be invested in any real or personal property deemed advisable by the governing board.

The State's investments are categorized below per GASB Statement Three according to the level of credit risk assumed by the State. Category 1 includes investments which are insured or registered, or securities which are held by the State or the State's agent in the State's name. Category 2 includes uninsured and unregistered investments, with securities held by the counterparty or their trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments, with securities which are held by the counterparty or their trust department or agent, but not in the State's name. The amounts are expressed in thousands:

Primary Government:

	Category			Fair Value
	1	2	3	
Equity Securities				
Not on Securities Loan	\$ 1,198,032	\$ 915	\$ 9,977	\$ 1,208,924
On Securities Loan	10,108	-	-	10,108
Bonds and Notes				
Not on Securities Loan	834,492	-	32,196	866,688
On Securities Loan	6,741	-	-	6,741
U.S. Government & Agency Issues				
Not on Securities Loan	519,333	222	-	519,555
On Securities Loan	63,067	-	-	63,067
	<u>\$ 2,631,773</u>	<u>\$ 1,137</u>	<u>\$ 42,173</u>	
Investments in Real Estate Pool				179,963
Investments in Unemployment Compensation Pool				54,818
Guaranteed Investment Contract				85,966
Annuities				155
Mutual Funds				1,545,715
Private Equity				119,537
Non-Security Investments				2,000
Held By Brokers/Dealers				4,406
Investments Held By Broker-Dealer Under Securities Loans With Cash Collateral:				
Equity Securities				109,609
Bonds and Notes				127,318
U.S. Government & Agency Issues				281,023
Securities Lending Short-Term Collateral Investment Pool				527,316
Totals				<u>\$ 5,712,909</u>

STATE OF NORTH DAKOTA

Major Component Units:	Category			Fair Value
	1	2	3	
Equity Securities	\$ 400	\$ -	\$ 365	\$ 765
Bonds and Notes	9,643	-	1,495	11,138
U.S. Government & Agency Issues	106	-	-	106
Obligations of State and Political Subdivisions	1,852	175	171	2,198
	<u>\$ 12,001</u>	<u>\$ 175</u>	<u>\$ 2,031</u>	
Guaranteed Investment Contract				98,971
Non-Security Investments				196,346
Held By Brokers/Dealers				190,994
Investments in Real Estate				15,240
Totals				<u>\$ 515,758</u>

There were no violations of statutory authority or contractual provisions for investments during the year ended June 30, 2004.

C. REVERSE REPURCHASE AGREEMENTS

State statutes permit the State to enter into reverse repurchase agreements, that is, the sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in fair value of the securities. All sales of investments under these agreements are for fixed terms. In investing the proceeds of these agreements, State policy is for the term to maturity of the investment to be the same as the term of the agreement. Such matching existed at year end. These agreements are secured by Fed book-entry securities held in the State's name. At June 30, 2004, the State had reverse repurchase agreements of \$20,500,000 included in securities lending collateral on the statement of net assets. The highest month end balance for the previous year was \$37,000,000, with an average daily balance of \$14,216,000. The weighted average interest rate as of year end was .80 percent. The weighted average interest rate paid during the year was .99 percent. The fair value of these securities at June 30, 2004, was \$20,500,000.

D. RECEIVABLES

Receivables at June 30, 2004, consist of the following (expressed in thousands):

	General	Federal	School Permanent Trust Fund	Other Governmental Funds	Bank of North Dakota	Housing Finance	University System
Receivables:							
Accounts	\$ 3,640	\$ 5,759	\$ 5,191	\$ 28,619	\$ -	\$ 504	\$ 12,891
Less Allowance	(465)	-	-	(7,531)	-	-	(855)
Taxes	134,395	-	220	50,328	-	-	-
Less Allowance	(9,823)	-	-	(5,985)	-	-	-
Interest	3	-	4,670	1,839	15,105	2,771	10
Less Allowance	-	-	-	(624)	-	-	-
Current Loans and Notes	115	-	839	75,846	224,853	9,851	6,197
Less Allowance	(20)	-	-	(4,288)	-	-	(460)
Noncurrent Loans and Notes	-	-	23,181	-	1,121,596	493,315	40,442
Less Allowance	-	-	-	-	(25,334)	-	(3,009)
Net Receivables	<u>\$ 127,845</u>	<u>\$ 5,759</u>	<u>\$ 34,101</u>	<u>\$ 138,204</u>	<u>\$ 1,336,220</u>	<u>\$ 506,441</u>	<u>\$ 55,216</u>

Notes To The Financial Statements

	Workforce Safety & Insurance	Other Enterprise Funds	Internal Service Funds	Fiduciary Funds	Major Component Units	Total
Receivables (continued):						
Accounts	\$ 23,388	\$ 42,263	\$ 61	\$ 7,437	\$ 6,290	\$ 136,043
Less Allowance	(4,500)	(5,027)	-	-	-	(18,378)
Taxes	-	-	-	10,535	-	195,478
Less Allowance	-	-	-	(421)	-	(16,229)
Interest	7,619	5,780	53	9,411	3,474	50,735
Less Allowance	-	-	-	-	-	(624)
Current Loans and Notes	-	39,475	-	-	2,289	359,465
Less Allowance	-	(23)	-	-	-	(4,791)
Noncurrent Loans and Notes	-	142,886	-	-	10,166	1,831,586
Less Allowance	-	(1,639)	-	-	(6,561)	(36,543)
Net Receivables	<u>\$ 26,507</u>	<u>\$ 223,715</u>	<u>\$ 114</u>	<u>\$ 26,962</u>	<u>\$ 15,658</u>	<u>\$ 2,496,742</u>

E. INTERFUND ACCOUNTS AND TRANSFERS

\$2,983,227. This is not expected to be repaid within one year.

DUE FROM OTHER FUNDS/DUE TO OTHER FUNDS

Interfund balances at June 30, 2004, consist of the following (expressed in thousands):

Due To General Fund From:	
Federal Fund	\$ 53,997
Nonmajor Governmental Funds	7,945
Nonmajor Enterprise Funds	26,259
All Others	<u>1,852</u>
Total Due To General Fund	<u>\$ 90,053</u>
Due To Federal Fund From:	
General Fund	\$ 3,120
Nonmajor Governmental Funds	7,333
All Others	1,849
Total Due To Federal Fund	<u>\$ 12,302</u>
Due To Internal Service Funds From:	
Nonmajor Governmental Funds	\$ 2,472
All Others	1,754
Total Due To Internal Service Funds	<u>\$ 4,226</u>
Due To School Permanent Trust Fund From:	
Nonmajor Enterprise Funds	\$ 4,364
All Others	1,190
Total Due To School Permanent Trust Fund	<u>\$ 5,554</u>

Due To Nonmajor Governmental Funds From:

General Fund	\$ 2,966
Federal Fund	17,501
All Others	2,310

Total Due To Nonmajor Governmental Funds \$ 22,777

Due To Bank of North Dakota From:

General Fund	\$ 4,775
University System	10,985
Housing Finance	17,977
Nonmajor Enterprise Funds	13,025
All Others	150

Total Due To Bank of North Dakota \$ 46,912

\$10,164,854 from the University System and \$13,107,000 from the Mill and Elevator are the result of loans made by the bank. The University System is not expected to be repaid within one year, and the Mill and Elevator is a short-term loan.

Due To University System From:

General Fund	\$ 3,946
Nonmajor Governmental Funds	2,573
All Others	352

Total Due To University System \$ 6,871

Due To All Other Funds From:

All Other	<u>\$ 417</u>
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Included in the Nonmajor Enterprise Funds is an advance from the Developmentally Disabled Fund for

STATE OF NORTH DAKOTA

Included in this category are all other enterprise funds, component units, and fiduciary funds.

These balances are a result of a time lag between the dates that (1) services are provided and goods received

or reimbursable expenditures occur, (2) the payments are made, (3) the transactions are entered into the accounting system, and (4) because of transactions occurring between funds with a fiscal year other than June 30, 2004.

A reconciliation of Due From's and Due To's is presented below (expressed in thousands):

Due From's	\$ 189,112
Differences:	
Bank of ND/General Fund	16,785
Housing Finance/Bank of ND	(4,886)
Bank of ND/Mill & Elevator	(3,500)
University System/Bank of ND	71
Internal Service Funds/Bank of ND	3,958
Job Service/Bank of ND	434
Student Loan Trust/Bank of ND	(8)
Developmentally Disabled Loan Fund/ School Permanent Trust Fund	(950)
Emergency Management/Bank of ND	(3,442)
Guaranteed Student Loan/Bank of ND	453
Bank of ND/Governmental Agencies	(124)
Total Differences	<u>8,791</u>
Due To's	<u>\$ 197,903</u>

In addition, the total Internal Receivables and Internal Payables on the Government-wide Statement of Net Assets does not equal due to activity occurring between funds that have different fiscal year ends.

INTERFUND TRANSFERS

A summary of interfund transfers for the fiscal year ended June 30, 2004, follows (expressed in thousands):

	<u>Transfers In</u>					
	<u>General</u>	<u>Federal</u>	<u>Non-major Governmental</u>	<u>University System</u>	<u>Non-major Enterprise</u>	<u>Total</u>
<u>Transfers Out</u>						
General	\$ -	\$ 16	\$ 11,239	\$ 208,957	\$ 1,346	\$ 221,558
Federal	1	-	29,927	-	-	29,928
School Permanent Trust Fund	-	-	30,789	1,499	-	32,288
Non-major Governmental	38,154	106	31,933	5,338	1,033	76,564
Bank of North Dakota	24,909	-	75	-	300	25,284
Housing Finance	-	-	25	-	24	49
University System	-	34	6,025	-	-	6,059
Non-major Enterprise	31,194	-	381	356	4,123	36,054
Total	<u>\$ 94,258</u>	<u>\$ 156</u>	<u>\$ 110,394</u>	<u>\$ 216,150</u>	<u>\$ 6,826</u>	<u>\$ 427,784</u>

(Transfers In do not agree to the statements due to the timing differences noted below.)

Transfers are used for the following purposes:

- Move general fund appropriation amounts to certain agencies.
- Move revenues from the fund that statute requires to collect them to the fund authorized to spend them.
- Move certain excess revenues collected in other funds to the general fund.
- Move receipts restricted for debt service from the funds collected to the debt service funds as payments become due, and move capital project funds paying the construction costs.

Notes To The Financial Statements

For the year ended June 30, 2004, transfers of excess profits of \$30.0 million were made from the Bank of North Dakota as well as legislatively-mandated transfers of \$26.3 million, \$18.0 million, and \$1.5 million from Student Loan Trust, North Dakota Health Care Trust Fund and Bonding Fund, respectively, to the General Fund.

A reconciliation of Transfers In and Transfers Out is presented below (expressed in thousands):

Transfers In	\$ 430,705
Differences:	
General Fund/Bank of ND	(5,091)
General Fund/Developmentally Disabled Loan Fund	2,004
Human Services/ Developmentally Disabled Loan Fund	379
Industrial Commission/Bank of ND	37
Beginning Farmer/Ag PACE	(250)
Total Differences	(2,921)
Transfers Out	\$ 427,784

The above timing differences of \$2,920,859 result from transactions between agencies that have different fiscal year ends. This difference is also the total net transfers on the Government-wide Statement of Activities.

F. CAPITAL ASSETS

PRIMARY GOVERNMENT:

The following is a summary of capital assets during the fiscal year (expressed in thousands):

<u>Description</u>	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
Governmental Activities:				
Capital Assets Not Being Depreciated				
Land	\$ 39,973	\$ 3,396	\$ (89)	\$ 43,280
Construction in Progress	174,396	90,558	(57,886)	207,068
Total Capital Assets Not Being Depreciated	214,369	93,954	(57,975)	250,348
Capital Assets Being Depreciated:				
Buildings and Improvements	337,303	18,731	(1,932)	354,102
Equipment	189,058	20,946	(19,462)	190,542
Infrastructure	2,834,637	66,739	(118)	2,901,258
Total Capital Assets Being Depreciated	3,360,998	106,416	(21,512)	3,445,902
Less Accumulated Depreciation for:				
Buildings and Improvements	(141,569)	(8,226)	1,623	(148,172)
Equipment	(97,960)	(15,249)	14,671	(98,538)
Infrastructure	(2,176,534)	(122,713)	78	(2,299,169)
Total Accumulated Depreciation	(2,416,063)	(146,188)	16,372	(2,545,879)
Total Capital Assets Being Depreciated, Net	944,935	(39,772)	(5,140)	900,023
Governmental Activities Capital Assets, Net	\$ 1,159,304	\$ 54,182	\$ (63,115)	\$ 1,150,371

STATE OF NORTH DAKOTA

<u>Description</u>	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
Business-Type Activities:				
Capital Assets Not Being Depreciated				
Land	\$ 16,989	\$ 1,583	\$ (7)	\$ 18,565
Construction in Progress	35,623	26,713	(31,280)	31,056
Total Capital Assets Not Being Depreciated	<u>52,612</u>	<u>28,296</u>	<u>(31,287)</u>	<u>49,621</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	626,121	62,524	(704)	687,941
Equipment	296,529	28,445	(9,253)	315,721
Infrastructure	135,849	2,879	(623)	138,105
Total Capital Assets Being Depreciated	<u>1,058,499</u>	<u>93,848</u>	<u>(10,580)</u>	<u>1,141,767</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(294,281)	(15,852)	484	(309,649)
Equipment	(180,406)	(19,890)	7,262	(193,034)
Infrastructure	(45,008)	(3,554)	400	(48,162)
Total Accumulated Depreciation	<u>(519,695)</u>	<u>(39,296)</u>	<u>8,146</u>	<u>(550,845)</u>
Total Capital Assets Being Depreciated, Net	<u>538,804</u>	<u>54,552</u>	<u>(2,434)</u>	<u>590,922</u>
Business-Type Activities Capital Assets, Net	<u>\$ 591,416</u>	<u>\$ 82,848</u>	<u>\$ (33,721)</u>	<u>\$ 640,543</u>

<u>Description</u>	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
Major Component Units:				
Capital Assets Not Being Depreciated				
Land	\$ 2,241	\$ 1,228	\$ (375)	\$ 3,094
Construction in Progress	49	4,768	(49)	4,768
Total Capital Assets Not Being Depreciated	<u>2,290</u>	<u>5,996</u>	<u>(424)</u>	<u>7,862</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	3,581	103,480	-	107,061
Equipment	13,069	2,051	(232)	14,888
Infrastructure	1,100	65	(508)	657
Total Capital Assets Being Depreciated	<u>17,750</u>	<u>105,596</u>	<u>(740)</u>	<u>122,606</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(406)	(2,776)	-	(3,182)
Equipment	(2,231)	(1,427)	76	(3,582)
Infrastructure	(64)	(43)	-	(107)
Total Accumulated Depreciation	<u>(2,701)</u>	<u>(4,246)</u>	<u>76</u>	<u>(6,871)</u>
Total Capital Assets Being Depreciated, Net	<u>15,049</u>	<u>101,350</u>	<u>(664)</u>	<u>115,735</u>
Business-Type Activities Capital Assets, Net	<u>\$ 17,339</u>	<u>\$ 107,346</u>	<u>\$ (1,088)</u>	<u>\$ 123,597</u>

Beginning capital asset balances were adjusted for certain reclassifications.

Notes To The Financial Statements

Depreciation expense was charged to functions/programs of the primary government as follows (expressed in thousands):

Governmental Activities:	
General Government	\$ 3,446
Education	296
Health and Human Services	6,337
Regulatory	123
Public Safety & Corrections	4,923
Agriculture and Commerce	121
Natural Resources	3,681
Transportation	127,261
Total Governmental Activities Depreciation Expense	<u>\$ 146,188</u>

Construction In Progress is composed of the following (expressed in thousands):

Project Description:

<u>Governmental Activities</u>	<u>Amount Authorized</u>	<u>Amount Expended Through June 30, 2004</u>	<u>Balance Authorized</u>
Corrections	\$ 3,031	\$ 525	\$ 2,506
Job Service	437	437	-
Adjutant General	3,653	669	2,984
Department of Transportation	211,602	188,681	22,921
Human Services	2,838	1,901	937
Game and Fish	972	32	940
Health Department	5,884	4,120	1,764
ConnectND Software System	19,940	10,703	9,237
Total Governmental Activities	<u>\$ 248,357</u>	<u>\$ 207,068</u>	<u>\$ 41,289</u>

<u>Business-Type Activities</u>	<u>Amount Authorized</u>	<u>Amount Expended Through June 30, 2004</u>	<u>Balance Authorized</u>
Mill and Elevator	\$ 895	\$ 292	603
University System	98,855	30,764	68,091
Total Business-Type Activities	<u>\$ 99,750</u>	<u>\$ 31,056</u>	<u>\$ 68,694</u>

<u>Major Component Units</u>	<u>Amount Authorized</u>	<u>Amount Expended Through June 30, 2004</u>	<u>Balance Authorized</u>
RE Arena, Inc.	\$ 7,800	\$ 4,768	\$ 3,032

G. OPERATING LEASES

PAYMENTS ON OPERATING LEASES

The State is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the resulting expenditures are recognized as incurred. Lease expenditures for the year ended June 30, 2004, amounted to \$9,038,047 for governmental activities and \$6,050,111 for business-type activities.

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2004, for all fund types are as follows (expressed in thousands):

STATE OF NORTH DAKOTA

Year Ending June 30	Governmental Activities	Business-type Activities
2005	\$ 7,031	\$ 5,180
2006	1,792	2,339
2007	1,195	1,825
2008	762	920
2009	496	361
2010-2014	1,342	969
2015-2019	119	-
Total Minimum Lease Payments	<u>\$ 12,737</u>	<u>\$ 11,594</u>

H. CAPITAL LEASES

The State is obligated under certain leases accounted for as capital leases. In the government-wide and proprietary fund statements, capital assets and a corresponding liability are recorded at the inception of the lease. The liability is reduced by payments of principal, with a portion of the payment allocated to interest expense. For capital leases in governmental funds, other financing sources and expenditures are recorded at lease inception. Lease payments are recorded as debt service expenditures.

The schedule below lists the future minimum lease payments under these capital leases and the present value of the net minimum lease payments at June 30, 2004 (expressed in thousands):

Year Ending June 30	Governmental Activities	Business- type Activities	Fiduciary Funds	Major Component Units
2005	\$ 436	\$ 6,468	\$ 4	\$ 126
2006	423	5,612	2	126
2007	326	3,882	1	126
2008	31	3,583	-	126
2009	1	3,578	-	126
2010-2014	-	10,169	-	632
2015-2019	-	5,335	-	632
2020-2024	-	5,228	-	632
2025-2029	-	2,124	-	632
2030-2034	-	-	-	632
Total Minimum Lease Payments	1,217	45,979	7	3,790
Less: Amount Representing Interest	(85)	(11,849)	-	(1,790)
Present Value of Future Minimum Lease Payments	<u>\$ 1,132</u>	<u>\$ 34,130</u>	<u>\$ 7</u>	<u>\$ 2,000</u>

The historical costs of assets acquired under capital leases, and included as capital assets on the government-wide statement of net assets at June 30, 2004, is as follows (expressed in thousands):

	Governmental Activities	Business- Type Activities	Major Component Units
Infrastructure	\$ -	\$ 1,160	\$ -
Buildings	-	36,998	-
Equipment	1,809	22,101	2,000
Less: Accumulated Depreciation	(552)	(10,481)	-
Total	<u>\$ 1,257</u>	<u>\$ 49,778</u>	<u>\$ 2,000</u>

I. LONG-TERM DEBT

Debt authorized is generally limited by the state constitution. 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: (1) secured by first mortgage upon property and no further indebtedness may be incurred by the State unless evidenced by a bond issue; (2) authorized by law; (3) for a certain purpose; (4) provisioned to pay the interest semiannually; and (5) the principal is paid within 30 years. Additionally, the law authorizing the bond issue must specifically appropriate the provisions to the payment of the principal and interest of the bond.

BONDS AND NOTES PAYABLE

Bonds payable at June 30, 2004, consisted of bonds issued by the State and are accounted for by the respective state agencies in the government-wide financial statements that issued the bonds.

1. REVENUE BONDS

Current state statutes empower certain state agencies 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 such bonds shall be payable only from the applicable agency's program income.

Primary Government

BUILDING AUTHORITY

The 2002 Series C Bonds have interest payable semiannually on February 15 and August 15 of each year. The 1998 Series A, B, and C Bonds, the 2000 Series A Bonds, the 2001 Series A Bonds, the 2002 Series A, B and D Bonds, and the 2003 Series A, B, and C Bonds have interest payable semiannually on June 1 and December 1 of each year. The bonds of each series are subject to optional and/or extraordinary optional redemption prior to maturity upon the occurrence of certain events. The bonds are independently secured by the funds, certain mortgaged property, and all rights, titles, and interests of the Building Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Building Authority with respect to the lease.

All the bond agreements require the establishment and maintenance of reserve funds to be used for debt service payments if amounts in the bond funds are insufficient to make payments. Reserve funds are also required for any positive arbitrage due to the federal government.

Lignite Research

The Industrial Commission is authorized by NDCC 54-17.5 (the "Act") to provide funds and financial assistance to qualified persons for projects related to the clean use of lignite in order to insure economic growth, maintain and enhance development of North Dakota lignite and general welfare in North Dakota. The Industrial Commission is authorized and has established a program to issue and sell North Dakota Lignite Research Bonds to provide funds for the purpose stated in the Act. As of June 30, 2004, there were \$16 million of authorized and \$8,825,000 issued through the Lignite Research Fund. The Commission's intention is not to issue any bonds in the future.

The 1995 Series A Bonds have interest payable on May 15 and November 15 of each year. The bonds maturing on November 15, 2005, are subject to mandatory redemption equal to 100% of par plus accrued interest at various amounts in 2005. The bonds are also subject to extraordinary redemption upon the occurrence of certain events. Proceeds of the bonds are being used to provide a grant for funding of construction of an anhydrous ammonia plant.

Water Commission

The Water Commission is authorized by Senate Bill No. 2188 from the 1999 Legislative Session to issue bonds to finance various flood control and pipeline projects throughout the state of North Dakota. Authorized and unissued bonds totaled \$60,257,958 at June 30, 2004. Water development projects that will benefit from the financing are as follows:

Statewide Water Development Projects	\$ 60,000,000
Southwest Pipeline Project	257,958

Interest is payable semiannually on January 1 and July 1 of each year for the Series 1997 A and Series 2000 A Term Bonds, March 1 and September 1 of each year for the Series 1998 A Bonds, and February 1 and August 1 for the Series 2000 A Serial Bonds. Interest is payable annually on July 1 of each year for all other series bonds. The bonds of each series are subject to optional and/or extraordinary optional redemption prior to maturity at the option of the Water Commission or the occurrence of certain events. All redemption prices are at par plus accrued interest.

State Fair

Interest on the 2001 Series Bonds is payable semiannually on June 1 and December 1 of each year. The bonds maturing on December 1, 2011, are not subject to optional redemption prior to maturity, except under extraordinary circumstances.

STATE OF NORTH DAKOTA

Student Loan Trust

The Series C Bonds are zero coupon bonds with interest accruing monthly and the face value payable at maturity. These bonds were issued to refund a portion of the 1979 Series A and 1984 Series A Bonds and to provide funds for the acquisition of student loans from the Bank of North Dakota.

The proceeds of the 1996 Series B Bonds were used to refund the July 1, 1996, principal maturity of the 1988 Series A and B, 1989 Series B, and 1992 Series A Bonds. Interest is payable semiannually on January 1 and July 1 of each year. The 1996 Series B Bonds are variable rate bonds initially issued as auction rate certificates. The rate of interest will be determined each 35-day period. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the auction rate bonds are outlined in Schedule A of the First Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds Second General Bond Resolution. Under certain conditions, the Industrial Commission may call for early redemption of the 1996 Series B Bonds at 100% of the principal amount plus accrued interest to date of redemption.

The proceeds of the 1996 Series D Bonds were used to finance the acquisition of supplemental loans. These bonds are subject to redemption prior to maturity at the option of the Industrial Commission on July 1, 2006, at 100% of the principal amount plus accrued interest to date of redemption.

Interest is payable semiannually on January 1 and July 1 of each year for the 1997 Series B Bonds.

The proceeds of the Series 1997 Bonds were used to refund the current maturities of the 1988 Series A and B, 1989 Series B and 1992 Series A Bonds on July 1, 1997, and to current refund and redeem the remainder of the 1988 Series A Bonds at a redemption price of 103% on August 1, 1997.

The 1997 Series B Bonds are variable rate bonds initially issued as auction rate certificates. The rate of interest will be determined each 35-day period. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the auction rate bonds are outlined in Schedule A of the Second Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds Second General Bond Resolution. Under certain conditions, the Industrial Commission may call for an early redemption of the 1997 Series B Bonds at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption. The 1997 Series B Bonds are subject to mandatory redemption prior to maturity at a redemption price equal to 100% of the principal amount of \$11,600,000, plus accrued interest, on January 1, 2006.

Interest on the 1998 Series B Bonds is payable semiannually on June 1 and December 1 of each year. The proceeds of the Series 1998 Bonds were used to

refund the current maturities of the 1988 Series B Bonds and the 1989 Series B Bonds on July 1, 1998, and to call \$32,670,000 of the 1989 Series A and B Bonds at a redemption price of 103% on August 1, 1998. The 1998 Series B Bonds are variable rate bonds initially issued as auction rate certificates. The rate of interest will be determined each 35-day period. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the auction rate bonds are outlined in Schedule A of the Second Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds Second General Bond Resolution. Under certain conditions, the Industrial Commission may call for early redemption of the 1998 Series B Bonds at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

The 2000 Series A Bonds are variable rate bonds initially issued as auction rate certificates. Interest is payable semiannually on June 1 and December 1 of each year. The maximum rate of interest is 12% per annum. The proceeds of the Series 2000 Bonds were used to provide funds for the acquisition of student loans from the Bank of North Dakota. Details of the terms and provisions of the auction rate bonds are outlined in Schedule A of the Second Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds Second General Bond Resolution. The 2000 Series B Bonds are fixed rate bonds. Under certain conditions, the Industrial Commission may call for early redemption of the 2000 Series A and B Bonds at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

Interest is payable semiannually on June 1 and December 1 of each year. The 2004 Series A Bonds are variable rate bonds. The rate of interest is determined based on the one-month LIBOR plus .7%. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the variable rate bonds are outlined in Section 2.4 of the Second Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution. The Series 2004 Bonds are subject to redemption prior to maturity at the option of the Commission from any source of funds, in whole or in part, on any date at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

Housing Finance

Housing Finance Bonds were issued to provide financing to purchase mortgage loans to finance multifamily housing projects. The bonds are the direct obligation of the Housing Finance Agency and are secured by the mortgage loans purchased under the applicable resolutions; the revenues, prepayments, insurance and foreclosure proceeds received related to the mortgage loans; and certain funds and accounts established pursuant to the applicable bond resolution. The term bonds of all bond series have mandatory sinking fund requirements starting in 1998.

Major Component Units

Municipal Bond Bank

The bonds of the Municipal Bond Bank were 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 Municipal Bond Bank and are secured by municipal securities purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions.

Revenue Bonds outstanding (expressed in thousands):

Fund Type/Fund	Maturities	Interest Rates	Balance 6/30/04
Primary Government			
<u>Governmental:</u>			
Building Authority	2005-2023	2.00 – 5.60	\$ 91,451
Lignite Research	2005-2006	5.75	2,860
Water Commission	2005-2042	2.50 – 6.00	46,112
Information Technology Department	2006-2014	4.28	5,961
<u>Proprietary:</u>			
State Fair	2005-2011	3.25 – 4.60	1,924
Student Loan Trust	2006-2036	1.27 – 7.25	125,388
Housing Finance:			
Multi-Family	2005-2024	5.05 – 6.85	10,018
Single-Family	2005-2036	1.45 – 7.00	575,514
University System:			
VCSU—Valley City	2005-2033	4.30 – 7.25	3,737
Williston State College	2005-2019	0 – 4.75	1,299
Lake Region State College	2005-2017	3.00 – 5.125	1,050
UND—Grand Forks	2005-2034	0 – 4.80	43,771
NDSU—Fargo	2005-2032	0 – 5.60	46,817
NDSCS—Wahpeton	2005-2016	0 – 5.50	2,437
MiSU—Minot	2005-2013	3.00 – 4.75	4,266
MiSU—Bottineau	2005-2012	4.30 – 6.90	192
MaSU—Mayville	2005-2018	3.00 – 5.38	3,277
DSU—Dickinson	2005-2019	4.30 – 5.90	1,208
BSC—Bismarck	2005-2009	4.00 – 6.10	438
NDUS – Univ. Sys. State Office	2006-2014	4.28	14,200
Total Revenue Bonds Payable— Primary Government			<u>\$ 981,920</u>

Major Component Units

Proprietary:

Municipal Bond Bank	2005-2028	2.00 – 10.00	\$ 158,901
NDSU Development Foundation	2005-2019	5.19	1,630
Arena Holdings Charitable LLC	2005-2031	2.50 – 3.93	7,500
UND Foundation	2005-2027	2.02 – 5.95	12,938
Total Revenue Bonds Payable— Major Component Units			<u>\$ 180,969</u>

STATE OF NORTH DAKOTA

Debt service requirements to maturity on revenue bond issues for the fiscal years ending June 30 are summarized below (expressed in thousands):

Primary Government:

Governmental Activities

Fiscal Year	Principal	Interest
2005	\$ 7,960	\$ 6,880
2006	10,621	6,542
2007	9,041	6,089
2008	10,264	5,659
2009	10,195	5,187
2010-2014	40,954	19,350
2015-2019	32,316	10,454
2020-2024	17,720	3,482
2025-2029	3,021	1,383
2030-2034	1,592	847
2035-2039	1,816	424
2040-2044	740	80
Bond Premium Deferred Amount On Refunding	1,018 (874)	(1,018) 874
Total	\$ 146,384	\$ 66,233

Business-type Activities

Fiscal Year	Principal	Interest
2005	\$ 14,550	\$ 34,826
2006	62,577	34,955
2007	19,875	33,570
2008	20,118	32,703
2009	20,908	31,835
2010-2014	116,639	143,871
2015-2019	106,045	116,064
2020-2024	114,855	88,752
2025-2029	173,855	52,466
2030-2034	97,050	17,245
2035-2039	89,589	1,747
Less Bond Discount Deferred Amount On Refinancing	(263) (90)	263 90
Accrued Interest At Maturity On Zero Coupon Bonds	(172)	172
Total	\$ 835,536	\$ 588,559

Major Component Units

Fiscal Year	Principal	Interest
2005	\$ 9,020	\$ 7,913
2006	9,786	7,682
2007	10,063	7,187
2008	10,286	6,675
2009	10,480	6,197
2010-2014	53,503	23,916
2015-2019	50,608	12,054
2020-2024	22,313	3,038
2025-2029	4,409	416
2030-2034	305	10
Bond Premium	196	(196)
Total	\$ 180,969	\$ 74,892

2. NOTES PAYABLE

The following is a schedule of notes payable outstanding at June 30, 2004 (expressed in thousands):

Fund Type/Fund	Maturities	Interest Rates	Balance 6/30/04
Primary Government			
<u>Governmental:</u>			
Job Service North Dakota	2006	3.57-5.68	\$ 651
Information Technology Department	2004	4.18-6.64	434
Department of Corrections	2005 – 2015	4.59	462
Department of Human Services	2005 – 2014	4.24	3,909
<u>Proprietary:</u>			
Bank of North Dakota--Short Term (1)	2005	1.04	125,000
Bank of North Dakota--Long Term	2005 - 2022	2.98 – 7.35	400,795
University Systems	2005-2019	4.09-5.52	9,458

Notes To The Financial Statements

Major Component Units

Municipal Bond Bank (2)	2019	2.84	6,460
UND Aerospace Foundation	2005-2009	3.425-4.00	4,210
MiSU Development Foundation	2005-2008	6.00	30
NDSU Development Foundation	2005-2013	2.77 – 4.25	3,029
UND Foundation	2005-2012	1.98 – 4.31	873

- (1) The Bank of North Dakota issued short-term debt to fund loans on a short-term basis.
(2) The Municipal Bond Bank note payable is to the Bank of North Dakota, part of the primary government.

Debt service requirements to maturity for notes payable for the fiscal years ending June 30 are summarized below (expressed in thousands):

Primary Government:

Governmental Activities

Fiscal Year	Principal	Interest
2005	\$ 993	\$ 256
2006	816	195
2007	363	160
2008	395	142
2009	415	124
2010 – 2014	2,453	328
2015 – 2019	21	-
Total	<u>\$ 5,456</u>	<u>\$ 1,205</u>

Business-type Activities

Fiscal Year	Principal	Interest
2005	\$ 148,957	\$ 22,809
2006	64,904	20,834
2007	24,538	17,912
2008	15,960	16,873
2009	96,306	12,054
2010-2014	103,826	41,834
2015-2019	56,162	19,858
2020-2024	24,600	3,658
Total	<u>\$ 535,253</u>	<u>\$ 155,832</u>

Major Component Units

Fiscal Year	Principal	Interest
2005	\$ 3,780	\$ 330
2006	641	295
2007	1,352	247
2008	1,826	213
2009	400	152
2010-2014	1,738	890
2015-2019	4,120	339
2020-2024	745	10
Total	<u>\$ 14,602</u>	<u>\$ 2,476</u>

Changes in General Long-Term Liabilities

Changes in Long-Term Liabilities for the year ended June 30, 2004, are summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Notes Payable	\$ 5,671	\$ 4,804	\$ (5,020)	\$ 5,455	\$ 992
Bonds Payable	146,795	7,461	(7,872)	146,384	7,960
Capital Leases Payable	2,240	277	(1,385)	1,132	404
Intergovernmental Payable	617	72	(21)	668	41
Compensated Absences	28,382	18,780	(18,476)	28,686	1,367
Claims/Judgments Payable	5,863	2,587	(2,391)	6,059	3,180
Total Long-Term Liabilities	<u>\$ 189,568</u>	<u>\$ 33,981</u>	<u>\$ (35,165)</u>	<u>\$ 188,384</u>	<u>\$ 13,944</u>

STATE OF NORTH DAKOTA

Business-Type Activities:

Notes Payable—Short-Term	\$ 25,000	\$ 1,190,000	\$(1,090,000)	\$ 125,000	\$ 125,000
Notes Payable—Long-Term	402,683	23,567	(15,997)	410,253	23,957
Bonds Payable	886,185	145,388	(196,038)	835,535	14,550
Capital Leases Payable	31,798	9,318	(6,986)	34,130	4,934
Intergovernmental Payable	12,610	12,036	(13,582)	11,064	1,164
Compensated Absences	18,879	2,474	(1,174)	20,179	1,597
Claims/Judgments Payable	579,317	134,883	(109,399)	604,801	70,558
Total Long-Term Liabilities	\$ 1,956,472	\$ 1,517,666	\$(1,433,176)	\$ 2,040,962	\$ 241,760

Major Component Units:

Notes Payable	\$ 15,281	\$ 4,000	\$ (4,679)	\$ 14,602	\$ 3,780
Bonds Payable	149,608	60,645	(29,284)	180,969	8,285
Capital Leases Payable	-	2,000	-	2,000	32
Intergovernmental Payable	1,405	83	(759)	729	22
Total Long-Term Liabilities	\$ 166,294	\$ 66,728	\$ (34,722)	\$ 198,300	\$ 12,119

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end, \$1,248,482 of internal service fund compensated absences and \$5,058,957 of claims and judgments are included in the above amounts. Other governmental activities compensated absences generally have been liquidated by the General Fund (57%), the Highway Fund (16%), the Federal Fund (20%), and other various funds. Other governmental activities claims and judgments are generally liquidated by the Insurance Regulatory Trust Fund (78%), Highway Fund (21%), and the Petroleum Release Compensation Fund (1%).

3. DEFEASED DEBT

Primary Government

Building Authority

On July 18, 2002, the Building Authority issued \$16,425,000 Lease Revenue Refunding Bonds, 2002 Series D. The proceeds of the issue were used for an advance refunding of 1995 Series A. 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. The reacquisition price exceeded the net carrying amount of the old debt by \$999,000. This amount is 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. The current refunding was undertaken to reduce total debt service payments over the next fifteen years by \$561,000 and resulted in an economic gain of \$478,000. As of June 30, 2004, \$13,840,000 of bonds outstanding is considered defeased and the liability for those bonds is not reflected on the State's financial statements.

Housing Finance

Previous to July 1, 1999, Housing Finance defeased certain general obligation bonds by placing bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State's financial statements. At June 30, 2004, \$6,900,000 of bonds outstanding are considered defeased.

University System

Mayville State University

On July 1, 1998, Mayville State University issued \$695,000 of Student Center Refunding Revenue Bonds (Series 1998) with an average interest rate of 4.40%. These bonds were used to advance refund \$640,000 of outstanding 1989 Student Center Revenue Bonds (with an average interest rate of 7.40%). The net proceeds of \$666,673 (after payment of \$28,327 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government Securities. Those securities are deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1989 Student Center Revenue Bonds. As a result, the 1989 bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net assets. The principal amount outstanding as of June 30, 2004, of the original bonds refunded by the advance refunding of 1998 totaled \$350,000.

Minot State University

On June 2, 1992, Minot State University placed the proceeds of the \$2,620,000 Student Housing Revenue Refunding Bonds of 1992 in an irrevocable trust with an escrow agent to provide for future debt service payments of the existing revenue bonds. The purpose of the 1992 Bonds was to refund in advance of maturity the 1966 Student Union Construction and Refunding Bonds and

the 1985 Student Housing Revenue Bonds. As a result, the trust account assets and the liabilities for the defeased bonds are not included in the State's financial statements.

The principal amount outstanding as of June 30, 2004, of the original bonds refunded (considered defeased) by the advance refunding total \$100,000.

University of North Dakota

On January 1, 1998, the University of North Dakota issued \$22.6 million of Housing and Auxiliary Facilities Improvement and Refunding Revenue Bonds (Series 1998 A) with an average interest rate of 4.70%. These bonds were used to advance refund \$20.4 million of outstanding 1988 Series A and B Housing and Auxiliary Facilities Refunding Revenue Bonds (with an average interest rate of 7.50%) and to provide \$450,000 for parking lot construction at the Rural Technology Center. The principal amount outstanding as of June 30, 2004, of the original bonds refunded by the advanced refunding of 1998 totaled \$15,005,000.

Housing and Auxiliary Facilities Revenue Bonds Series I and Series J, which were included in the advance refunding of 1984 as described above, were originally issued in 1975 for the purpose of advance refunding certain outstanding bonds of the university. The principal amount outstanding as of June 30, 2004, of the original bonds refunded by the advance refunding of 1975 totaled \$555,000.

All of the refunded bonds are considered "defeased" and have debt service needs covered by U.S. Government securities which are held in a special trust administered by the Bank of North Dakota. As such, neither the assets of the trust nor the related bonds payable are included in the accompanying statement of net assets.

Certificates of Participation totaling \$20,450,000 were originally issued by UND in 1990 to: (1) reimburse the University for certain expenses incurred for capital improvements; (2) refinance the costs of certain equipment; and (3) finance the acquisition of certain equipment and real property, to fund a reserve, and to pay the costs of issuance. Subsequent to this issuance, the 1991 North Dakota Legislature, in House Bill 1003, directed the University to retire those certificates originally issued for the acquisition of certain equipment and real property and to fund a reserve. Therefore, in December 1991, \$6,025,000 in certificates were defeased. The principal amount outstanding as of June 30, 2004, of the defeased certificates totals \$2,375,000.

North Dakota State University

The North Dakota State University, pursuant to resolutions adopted by the Board of Higher Education on November 7, 1985, issued \$4,833,813 of Housing and Auxiliary Facilities Revenue Refunding Bonds (Series 1985) on December 30, 1985. The purpose of issuing

Series 1985 bonds was to refund in advance of maturity the outstanding advanced refunded bonds, which consisted of all bonds outstanding as of December 30, 1985, totaling \$7,675,000. The Series 1985 Bonds do not pay the holder interest but were sold at a discount so that principal payments will yield a return to maturity from 8.20% to 9.70%. All of the refunded bonds are considered "defeased" in accordance with Financial Accounting Standards Board Statement No. 76. As such, neither the assets of the trust nor the related bonds payable are included in the accompanying statement of net assets. The principal amount outstanding as of June 30, 2004, of the original bonds refunded by the advance refunding total \$1,045,000.

North Dakota State College of Science

On June 20, 2001, North Dakota State College of Science issued \$2,785,000 of Housing and Auxiliary Facilities Improvement and Refunding Revenue Bonds (Series 2001) with an average interest rate of 4.92%. These bonds were used to (1) refund, defease and discharge outstanding North Dakota State School of Science Married Student Housing Revenue Bonds 1970 at 7.0% and 7.25%, Dormitory Revenue Bonds of 1970 at 7.25% and Dormitory Revenue Bonds of 1972 at 6.3%. Funds were deposited in a trust account with an escrow agent to provide for all future debt service payments for the above bonds; (2) finance the cost of the construction of the parking lot and related improvements at the College; and (3) to pay certain costs associated with the issuance of the Series 2001 bonds.

As a result of this issue, trust account assets and liabilities for the defeased bonds are not included in the State's financial statements. The project costs for the parking lot and related improvements were set at \$1,000,000. The principal amount outstanding as of June 30, 2004, of the original bonds refunded is \$1,335,000.

Component Units

Municipal Bond Bank Bonds

On December 16, 2003, the Bond Bank issued \$20,455,000 of revenue bonds (Series 2003 B SRF Bonds) with an average interest rate of 4.71 percent. 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, 2003, \$19,740,000 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 \$2,129,000. 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 14 years by \$1,066,000 and resulted in an economic gain of \$842,000.

STATE OF NORTH DAKOTA

J. ARBITRAGE REBATE PAYABLE

Arbitrage as it applies to government financing refers to the ability of state governments to obtain funds at a tax-exempt rate of interest and to then invest those funds in investments which earn a higher yield, resulting in a profit to the issuer.

The arbitrage rebate rules require that any earnings from the investment of the tax-exempt bond proceeds which exceed the yield on the bonds be remitted to the federal government.

The State has an arbitrage rebate payable to the federal government of approximately \$5,802,248 at June 30, 2004. These amounts are reported in the Government-wide and Proprietary Fund Type financial statements as an intergovernmental payable.

NOTE 4 - RETIREMENT SYSTEMS

A. DESCRIPTION OF PLANS

The State of North Dakota administers four major retirement systems: North Dakota Public Employees' Retirement System, North Dakota Highway Patrolmen's Retirement System, Retirement Plan for the Employees of Job Service North Dakota and the Teachers' Fund for Retirement. The State also administers the North Dakota Defined Contribution Retirement Plan, which was established January 1, 2000. These retirement systems have implemented Governmental Accounting Standards Boards Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and Statement No. 27, Accounting for Pensions by State and Local Governmental Employers. Certain state employees may also participate in a privately administered retirement system: Teachers' Insurance Annuity Association. The following is a brief description of each plan. More detailed information can be found in the plan agreements and the related legislation.

NORTH DAKOTA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

The North Dakota Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan covering substantially all employees of the State of North Dakota, its agencies, and various participating political subdivisions (Main System). It also covers Supreme and district court judges, the National Guard Security Officers and Firefighters, and as of August 1, 2004, peace officers and correctional officers employed by political subdivisions. It is not subject to the provisions of the Employee Retirement Security Act of 1974. PERS issues a publicly available financial report that may be obtained by writing to North Dakota Public

Employees Retirement System, 400 East Broadway, Suite 505, Bismarck, North Dakota 58501.

At June 30, 2004, the number of participating local political subdivisions in PERS was:

Cities and Park Districts	68
Counties	44
School Districts	100
Other	57
Total Participating Local Political Subdivisions	269

Death and disability benefits are set by statute. If an active employee dies with less than five years (three years of service for the Main System and National Guard/Law Enforcement) of credited 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 service for the Main System and National Guard/Law Enforcement, 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 employees' 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 payable to the surviving spouse's designated beneficiary.

For judges only, the death benefit is changed to the greater of (i) lump sum payment of accumulated contributions, and (ii) 100% of the member's accrued benefit (not reduced on account of age), payable for the spouse's lifetime.

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 has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for "disabled" is set by the Board in the North Dakota Administrative Code.

For Judges only, the disability benefit formula is changed to 70% of final average salary minus social security and workers compensation benefits.

Pension benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equals or exceeds 85 or at normal retirement

age (65), equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 120 months of service, for each year of service. The plan permits early retirement at ages 55-64, with three or more years of service for the Main System and National Guard/Law Enforcement, and five or more years of service for the Supreme and district court judges. The monthly pension benefit for Supreme and district court judges at normal retirement age (65) is equal to a percentage of average monthly salary using the highest 36 consecutive months out of the last 120 months of service. The percentage is equal to 3.5% of final average monthly salary multiplied by the first 10 years of service, plus 2.80% of final average monthly salary times the second 10 years of service, plus 1.25% of final average monthly salary times years of service in excess of 20 years. The judicial retirement formula is only applied to eligible judicial service. Non-judicial service benefits are calculated using the 2.00% multiplier. The monthly pension benefit for National Guard/Law Enforcement at normal retirement age (55) is equal to 2.00 percent of their average monthly salary, using the highest 36 months out of the last 120 months of service, for each year of service.

Employees may elect to receive the pension benefits in the form of a single life, joint and survivor, level social security or term-certain annuity. Employees may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the employee's accumulated contributions plus interest.

The System is funded by employee contributions (set by statute) of 4% of regular compensation, with the exception of Supreme and district court judges' contributions, which are established at 5% of total compensation. During the 1983-1985 biennium, the State implemented the employer pickup provision of the IRS code, whereby a portion or all of the required employee contributions are made by the employer. The State is paying the full employee contribution with the exception of the Supreme and district court judges, in which the State is paying 4 of the 5% contribution. Some of the political subdivisions are paying all or part of the employee contributions. Employer contributions of 4.12% of covered compensation are set by statute. The employer contribution rate for the Supreme and district court judges is also set by statute at 14.52%, and the contribution rate for the National Guard/Law Enforcement is set by the Board at 8.33% for the National Guard, 8.31% for Law Enforcement with previous service, and 6.43% for Law Enforcement without previous service. The required contributions are determined using an entry age normal actuarial funding method.

Except for Supreme and district court judges, the employees' account balance includes the vested

employer contributions equal to the employee's contributions to an eligible deferred compensation plan.

The minimum member contribution is \$25, and the maximum may not exceed certain parameters based upon years of service.

The North Dakota Retirement Board was created by the State Legislature and is the governing authority of PERS. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code.

NORTH DAKOTA HIGHWAY PATROLMEN'S RETIREMENT SYSTEM (NDHPRS)

The North Dakota Highway Patrolmen's Retirement System is a single-employer defined benefit pension plan covering substantially all sworn officers of the Highway Patrol of the State of North Dakota. It is not subject to the provisions of the Employee Retirement Income Security Act of 1974. NDHPRS issues a publicly available financial report that may be obtained by writing to North Dakota Public Employees Retirement System, 400 East Broadway, Suite 505, Bismarck, North Dakota 58501.

Death and disability benefits are set by statute. If an active employee dies with less than 10 years of credited 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 10 years of credited service, the surviving spouse, if any, will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50 percent 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 55 the day before death occurred. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to any designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days service receive monthly disability benefits that are up to 70 percent of their final average salary, reduced by workers compensation 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 and apply for benefits within one year of termination.

Pension benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees are entitled to unreduced pension benefits after a minimum of 10 years of service upon attainment of age 55 or when the sum of age and years of credited service equals or exceeds 80. The annual pension benefit is equal to a percentage of average monthly salary using the highest 36 consecutive months out of the last 120 months of service. The percentage is equal to the sum of

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the first 25 years of service multiplied by 3.60% and 1.75% multiplied by years of service in excess of 25, if any. The plan permits early retirement at ages 50-54, with ten or more years of service.

The System is funded by employee contributions of 10.30% (of which the State is paying 4%) of total compensation and an employer contribution of 16.70%. The required contributions are determined using an entry age normal cost method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDHPRS. Benefit and contribution provisions are administered in accordance with chapter 39-03 of the North Dakota Century Code.

REFUNDS OF MEMBER CONTRIBUTIONS

Upon termination, if an employee is not vested (is not 65 or does not have five years of service [three years of service for the Main System and National Guard/Law Enforcement] credited for PERS, or is not 60 or does not have ten years of service credited for NDHPRS), they will receive the accumulated employee contributions plus interest. If an employee has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If an employee of the PERS terminated and withdrew their accumulated employee contribution and is subsequently re-employed, they have the option of repurchasing their prior service.

RETIREMENT PLAN FOR THE EMPLOYEES OF JOB SERVICE NORTH DAKOTA (JSND)

The retirement plan for employees of Job Service North Dakota is a single-employer defined benefit public employee retirement plan administered by PERS. The plan is established under NDCC 52-11-01 with benefit provisions established through the plan document, as amended. This plan document, as amended, is authorized by the Plan Administrator, who is the Executive Director of the agency.

On August 1, 2003, the administrative authority and the net assets of the Retirement Plan for Employees of Job Service North Dakota were transferred from the agency to the Public Employees Retirement System Board. This action was based on the passage of House Bill 1064 by the Fifty-eighth Legislative Assembly of North Dakota. The Retirement Plan for Employees of Job Service has an Actuarial Valuation Report produced annually. Requests to obtain or review this report should be addressed to the Executive Director, NDPERS, 400 East Broadway, Suite 505, Bismarck, North Dakota 58501.

Participation in the plan is limited to employees participating in the plan as of September 30, 1980. Employees were vested in the program after the completion of five years of credited service.

The plan provides retirement, disability and death benefits. If the death of a participant occurs prior to their annuity starting date, the surviving spouse who has been

married at least two years prior to the participant's death or, if married less than two years is a parent of a child of this marriage, then the spouse shall receive monthly benefits. The amount is the greater of the benefit had the participant retired on the day before they died and elected the Contingent Annuitant Option with 55% of their retirement benefit continued to their spouse or 55% of the smaller of 40% of the deceased participant's average monthly earnings or the deceased participant's normal retirement benefit obtained by increasing their credited service by the period of time between their date of death, and the date they would have attained age 60. Upon remarriage of the surviving spouse before age 60, the death benefit will cease.

If a participant becomes totally disabled, they will be eligible for a monthly disability benefit which shall be equal to the greater of 40% of the participant's average annual earnings or the accrued benefit determined as of their date of disability.

Employees are entitled to annual pension benefits beginning at normal retirement age (65). Employees may elect an optional retirement eligibility at age 62 with 5 years of credited service, at age 60 with 20 years of credited service, or at age 55 with 30 years of credited service. Pension benefits are calculated based on the final average earnings (basic monthly earnings averaged over the highest three consecutive years of basic earnings) of the employee multiplied by the sum of:

- 1.5% times years of credited service up to 5 plus;
- 1.75% times years of credited service between 6 and 10 plus;
- 2.0% times years of credited service in excess of 10.

The System is funded by employee contributions of 7% of retirement wages (of which 4% is paid by the employer in lieu of salary increases). The required employer contributions are determined using the frozen initial liability actuarial cost method. Benefit and contribution provisions of the JSND are administered in accordance with chapter 52-11 of the North Dakota Century Code. Effective July 1, 1999, the "scheduled contribution" will be zero as long as the Plan's actuarial value of assets exceeds the actuarial present value of projected benefits.

TEACHERS' FUND FOR RETIREMENT (TFFR)

The North Dakota Teachers' Fund for Retirement is a cost-sharing multiple-employer defined benefit pension plan covering employees for all public and certain college, State and non-public teachers of the State who meet certain requirements of age, period of productive service and employment. TFFR provides for pension, survivor and disability benefits. Teachers' Fund for Retirement issues a publicly available financial report that may be obtained by writing to the Retirement and Investment Office, 1930 Burnt Boat Drive, Bismarck, North Dakota 58503.

Notes To The Financial Statements

At June 30, 2004, the number of participating employer units in TFFR was:

<u>Type</u>	<u>Number</u>
Special Education Units	19
Vocational Education Units	4
Public School Districts	211
County Superintendents	15
Other	17
Total	266

A member is entitled to receive full benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten- or twenty-year term certain annuity, partial lump sum option, or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas and may be eligible for legislative increases in monthly benefits.

Survivor benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are determined by the member's vesting status prior to death. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting twelve months or more does not allow the continuation of teaching, (b) the member has accumulated one year of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC 15-39.1-10 without consideration of age and assuming the member has a minimum of 20 years of credited service. There is no actuarial reduction for reason of disability retirement.

Assessments and contributions paid to TFFR are set by NDCC 15-39.1-09. Every eligible teacher in the state of North Dakota is required to be a member of TFFR and is assessed at a rate of 7.75% of salary as defined by

NDCC 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 7.75% of the teacher's salary.

A vested member who terminates covered employment may elect a refund of assessments paid or defer payment until eligible for pension benefits. A nonvested member who terminates covered employment must claim a refund of assessments paid unless that member submits a valid waiver of this refund to the Board of Trustees of TFFR. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

The following table summarizes membership information by plan at the actuarial valuation date:

	<u>PERS</u>	<u>NDHPRS</u>	<u>JSND</u>	<u>TFFR</u>
Retirees and Beneficiaries Currently Receiving Benefits:	5,634	90	213	5,373
Special Prior Service Retirees:	74	-	-	-
Terminated Employees:				
Vested	986	2	5	1,346
Nonvested	3,133	3	-	175
Total Terminated Employees	4,119	5	5	1,521
Active Employees:				
Vested	13,402	65	60	8,658
Nonvested	4,234	67	-	1,168
Total Active Employees	17,636	132	60	9,826
Date of Annual Valuation	July 1, 2004	July 1, 2004	July 1, 2004	July 1, 2004

The above table includes retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

BASIS OF ACCOUNTING

The public employee retirement systems described above are considered part of the State of North Dakota's reporting entity and are included in the State's financial statements as pension trust funds. The financial statements of these systems are prepared using the accrual basis of accounting. Employee contributions are recognized as revenues in the period in which they are due. Employer contributions are recognized when due and the employer has made a formal commitment to

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provide the contribution. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

METHOD USED TO DETERMINE EMPLOYER CONTRIBUTIONS

Employer contributions for the PERS and NDHPRS were determined by an actuarial formula identified as entry age normal cost method. The formula determines the amount of contributions necessary to fund: (a) the current service cost, which represents the estimated amount necessary to pay for benefits earned by employees during the current service year and, (b) the prior service cost, which represents the amount necessary to pay for benefits earned prior to the effective date of the plan.

METHOD USED TO VALUE INVESTMENTS

Investments are recorded at fair value determined by reference to published market data for publicly traded securities and through the use of independent valuation services and appraisals for other investments. The net increase in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment. Unrealized increases or decreases are computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

During the current year, there were no investments in the stock or bonds of any commercial or industrial organization whose fair value represented five percent or more of the net assets available for benefits. Additionally, there were no securities of the employers or related parties included in the assets of the pension trust funds.

Investments of PERS and NDHPRS are commingled and invested. Earnings on the investments and expenses relating to administering the plans are allocated to each plan based upon their percentage of ownership or number of participants.

On March 14, 1994, the Plan Administrator/Trustee for the Retirement Plan for Employees of Job Service North Dakota entered into an investment management agreement with the North Dakota State Investment Board. This agreement provided for investment management services for pension fund assets.

C. FUNDING STATUS AND PROGRESS

The actuarial methods and assumptions together with the schedule of funding progress is presented by the retirement systems in their separately presented financial reports based upon the actuary reports generated by the studies conducted by the Segal Company and Gabriel, Roeder, Smith and Company. The actuarial value of assets is based on a five-year smoothed fair value basis. Under this method, realized and unrealized gains and losses on investments are smoothed over five years. Below is listed the various actuarial methods and significant assumptions used to determine the annual required contributions, together with the schedule of funding progress.

	PERS NDHPRS	JSND	TFFR
Valuation Date	July 1, 2004	July 1, 2004	July 1, 2004
Actuarial Cost Method	Entry Age Normal	Frozen Entry Age**	Entry Age Normal
Amortization Method	Level Percent Open	Level Dollar Closed	Level Payment Open
Remaining Amortization Period	20 years	15 years	20 years
Asset Valuation Method	5-year smoothed market	5-year smoothed market	5-year smoothed market
Actuarial Assumptions:			
Investment rate of return	8.0%	8.0%	8.0%
Projected salary increase	4.5%*	5.0%	4.0% to 13.0%
Includes inflation at	4.5%	5.0%	3.0%
Post retirement cost-of-living adjustment	None	5.0%	None

* Inflation together with wage increases attributable to seniority, merit and "standard of living" increases.

** As of July 1, 2004, the actuarial value of assets exceeds the present value of projected benefits; therefore, the unfunded actuarial accrued liability is currently zero.

Notes To The Financial Statements

Schedule Of Funding Progress (Dollars In Millions)						
Actuarial Valuation Date	Actuarial Value Of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (Funded Excess)	Funded Ratio	Annual Covered Payroll	UAAL (Funded Excess) As A Percentage Of Annual Covered Payroll
PERS						
July 1, 1999	\$ 917.0	\$ 842.7	\$ (74.3)	108.8%	\$ 397.7	(18.7)%
July 1, 2000	1,027.0	891.9	(135.1)	115.1%	409.0	(33.0)%
July 1, 2001	1,115.3	1,008.6	(106.7)	110.6%	433.3	(24.6)%
July 1, 2002	1,150.0	1,103.5	(46.5)	104.2%	461.3	(10.1)%
July 1, 2003	1,166.5	1,188.8	22.3	98.1%	479.5	4.7%
July 1, 2004	1,196.5	1,272.9	76.4	94.0%	501.0	15.3%
NDHPRS						
July 1, 1999	\$ 32.0	\$ 32.2	\$.2	99.4%	\$ 4.5	4.4%
July 1, 2000	35.9	34.0	(1.9)	105.6%	4.7	(40.4)%
July 1, 2001	38.8	38.1	(0.7)	101.8%	4.9	(14.3)%
July 1, 2002	39.5	40.5	1.0	97.4%	5.1	19.6%
July 1, 2003	39.6	42.4	2.8	93.4%	5.4	51.9%
July 1, 2004	40.0	44.5	4.5	89.9%	5.4	83.3%
JSND						
July 1, 1999	\$ 66.6	N/A*	\$ -	N/A	\$ 4.0	0.0%
July 1, 2000	71.0	N/A	-	N/A	3.7	0.0%
July 1, 2001	70.8	N/A	-	N/A	3.5	0.0%
July 1, 2002	67.6	N/A	-	N/A	3.2	0.0%
July 1, 2003	66.0	N/A	-	N/A	2.9	0.0%
July 1, 2004	67.5	N/A	-	N/A	2.5	0.0%
TFFR						
July 1, 1999	\$ 1,053.1	\$ 1,188.4	\$ 135.3	88.6%	\$ 314.6	43.0%
July 1, 2000	1,308.5	1,287.9	(20.6)	101.6%	323.0	(6.4)%
July 1, 2001	1,414.7	1,467.7	53.0	96.4%	342.2	15.5%
July 1, 2002	1,443.5	1,575.8	132.3	91.6%	348.1	38.0%
July 1, 2003	1,438.4	1,690.3	251.9	85.1%	367.9	68.5%
July 1, 2004	1,445.6	1,800.4	354.8	80.3%	376.5	94.2%

*The Frozen Initial Liability method does not directly identify an Actuarial Accrued Liability.

D. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Employer contribution rates for PERS and NDHPRS are set by state statute using the entry age normal actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost, (2) the amount for amortization of the unfunded accrued liability over a period of 20 years for PERS and NDHPRS, and (3) the amount necessary to provide for operating expenses. Contribution rates for the Job Service Retirement Plan are established in the plan document, as amended, actuarially determined using the frozen initial liability actuarial cost method.

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The contribution rate is not actuarially determined for TFFR; it is set by statutory law under the North Dakota Century Code 15-39.1-09. It is required that every eligible teacher be a member of the Fund and assessed at a rate of 7.75 percent of gross salary and that every governmental body employing a teacher pay into the plan a sum equal to 7.75 percent of the teacher's salary.

The following schedule presents, by retirement system, annual required contributions and the percentage contributed:

Schedule of Employer Contributions		
	Annual Required Contribution	Percentage Contributed
PERS		
2002	\$ 16,811,296	100.0%
2003	20,644,235	93.0%
2004	26,704,376	74.0%
TFFR		
2002	\$ 27,243,542	100.0%
2003	28,850,725	100.0%
2004	29,635,584	86.7%

For NDHPRS and JSND, sole employer plans, the following schedule represents the annual pension costs and net pension obligations for the year ended June 30, 2004:

	NDHPRS	JSND
Annual required contributions	\$ 940,629	\$ -
Interest on net pension obligations	(71,944)	(133,787)
Adjustment to annual required contributions	62,763	137,546
Annual pension costs	931,448	3,759
Contributions made	844,241	-
Increase in net pension obligations	87,207	3,759
Net pension obligations, beginning of year	(899,304)	(1,672,335)
(Assets in excess of) net pension obligations, end of year	\$ (812,097)	\$ (1,668,576)

The following schedule presents the annual pension costs, the percentages contributed, and the net pension obligations:

	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligations
NDHPRS			
2002	\$ 591,235	138%	(806,653)
2003	748,658	111%	(899,304)
2004	940,629	90%	(812,097)
JSND			
2002	\$ 3,776	0%	(1,676,102)
2003	3,767	0%	(1,672,335)
2004	3,759	0%	(1,668,576)

E. DEFINED CONTRIBUTION PLAN

The North Dakota Defined Contribution Retirement Plan was established on January 1, 2000, and is administered in accordance with chapter 54-52.6 of the North Dakota

Century Code. The Defined Contribution Plan covers state employees who are in positions not classified by the central personnel division of the State. Employees of the judicial branch or the Board of Higher Education and state institutions under the jurisdiction of the Board of

Higher Education are not eligible to participate in the Defined Contribution Plan. The Defined Contribution Plan had 295 participants as of June 30, 2004.

Upon the death of a participating employee or former participating employee, the vested account balance of that deceased participant is available to the participant's designated beneficiary(ies). An employee who becomes totally and permanently disabled while employed by the State is eligible to receive a distribution of the vested account balance. To qualify under this section, the employee must meet the criteria established by the System for being totally disabled.

Employees are entitled to their vested account balance. A participating employee is immediately 100% vested in the employee's contributions. A participating employee vests in the employer contributions made on the employee's behalf as follows:

Upon completion of two years of service	50%
Upon completion of three years of service	75%
Upon completion of four years of service	100%

Employees may elect to receive their account balance in a lump sum, lump sum direct rollover, or periodic distribution.

Contributions are set by state statute and are a percentage of salaries and wages. Employee contributions are established at 4%, and employer contributions are established at 4.12% of regular compensation. Employer and employee contributions totaled \$498,224 and \$483,713 respectively, for the fiscal year ended June 30, 2004.

The Board, or vendors contracted by the Board, have exclusive authority to invest and manage the assets of the Defined Contribution Retirement Plan. State statute allows each participating employee to direct the investment of the individual's employer and employee contributions and earnings to one or more investment options within the available categories of investment as established by the Board. The following investments represent 5% or more of net plan assets at June 30, 2004:

Fidelity Managed Income Portfolio Mutual Fund	21.57%
Fidelity Growth Company Mutual Fund	13.51%
Fidelity Freedom 2020 Mutual Fund	10.63%
Fidelity Equity Income	7.30%
Fidelity Spartan U.S. Equity Index	6.60%
PIMCO Total Return Admin. Mutual Fund	5.00%
Fidelity Diversified International Mutual Fund	7.14%

F. TEACHERS' INSURANCE ANNUITY ASSOCIATION

The Teachers' Insurance and Annuity Association (TIAA-CREF), a privately-administered defined contribution retirement plan, provides individual retirement fund contracts for eligible employees as defined by the Board of Higher Education in its approved TIAA-CREF retirement resolution. All benefits vest immediately to the participant. Further information can be obtained by writing to TIAA-CREF, Denver Regional Office, 1700 Broadway, Suite 770, Denver, Colorado 80290 or by calling 800-842-2009.

Employees are eligible for retirement benefits after attaining the age of 65, which is payable periodically for life. All benefits vest immediately to the participant. The plan requires employee and employer contributions be based on a classification system and years of service based on the schedule shown below.

Employment Class	Years Of Service	By The Participant	By The Institution	Total
I and III	0 thru 10	1.50%	9.50%	11.00%
	over 10	2.00%	10.00%	12.00%
II	0 thru 2	0.50%	4.50%	5.00%
	3 thru 10	1.50%	9.50%	11.00%
IV	over 10	2.00%	10.00%	12.00%
	0	1.00%	9.00%	10.00%

Plan contributions are made on a tax-deferred basis in accordance with section 414(h)(2) of the Internal Revenue Code. All contributions are applied as premiums to retirement annuity contracts owned by the participant. The State has no further liability once annual contributions are made. The State contributed \$17,962,691 to TIAA-CREF during the fiscal year ending June 30, 2004.

NOTE 5 - POST-RETIREMENT BENEFITS

The Retiree Health Insurance Credit Fund is administered by the North Dakota Retirement Board (the Board) to provide members receiving retirement benefits from the Public Employees Retirement System (which includes judges retired under NDCC 27-17), the Highway Patrolmen's Retirement System, the Defined Contribution Retirement Plan, and the Retirement Plan for employees of Job Service North Dakota a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

The employer contribution for the Public Employees Retirement System, the Highway Patrolmen's Retirement System, and the Defined Contribution

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Retirement Plan is set by state statute on an actuarially determined basis at one percent of covered compensation. The employer contribution for the Supreme and district court judges is one percent of covered compensation in order to extend this benefit to judges retired under NDCC 27-17. The employer contribution for non-teaching employees of the Office of the Superintendent of Public Instruction is 3.1 percent of covered compensation beginning in the month following the transfer under chapter 54-92-02.13 of the North Dakota Century Code and continuing thereafter for a period of eight years. Job Service North Dakota reimburses the Retiree Health Insurance Credit Fund monthly for credit received by members of the retirement program for employees of Job Service North Dakota. Employees participating in the retirement plan as part-time/temporary members are required to contribute one percent of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund.

Retiree health benefits are set by state statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the Public Employees Retirement System (which includes judges retired under NDCC 27-17), the Highway Patrolmen's Retirement System, the Defined Contribution Retirement Plan, or the Retirement Plan for employees of Job Service North Dakota, are eligible to receive credit toward their monthly health insurance premium under the state health plan. The benefits are equal to \$4.50 for each of the employee's years of credited service not to exceed the premium in effect for selected coverage. Total Job Service expenditures for their pay-as-you-go plan was \$207,779 for the period

ending June 30, 2004. The number of employees from Job Service using the credit was 154 at June 30, 2004. The retiree health benefit is also available for early retirement with reduced benefits.

Death and disability benefits are set by state statute. An employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit, are eligible to receive a credit toward their monthly health insurance premium under the state health plan. The benefits are equal to \$4.50 for each of the employee's or deceased employee's years of credited service, not to exceed the premium in effect for selected coverage.

Actuarial valuations of the Fund were done as of June 30, 2004. The actuarial cost method used is the Projected Unit Actuarial Credit Cost Method. The significant actuarial assumptions used to determine funding requirements are (a) a rate of return on the investment of present and future assets of 8.0 percent, (b) inflation at 4.50 percent per annum, (c) pre- and post-mortality life expectancies of participants based upon 1983 Group Annuity Mortality Tables and the PBGC's Disabled Life Mortality Tables, (d) rates of withdrawal from active service before retirement for reasons other than death, rates of disability, and expected retirement ages developed on the basis of actual plan experience, and (e) administrative expenses of \$65,000 per year. Plan assets are valued, for actuarial purposes, using a five-year smoothed market method.

The following are the changes in actuarial assumptions, asset method and plan experience and the effect on the employee's contribution rates expressed as a percent of covered payroll, and the dollar effect on the actuarial accrued liability:

	As a Percentage of Covered Payroll	Dollar Effect
Changes in plan experience during the year	(.01)%	\$ (51,852)

Employer contributions totaling \$4,854,949 were made for the year ended June 30, 2004. The actuarially required employer contribution of \$5,139,793 for the year ended June 30, 2004, is 0.99 percent of the covered payroll and reflects the fact that the statutory rate of one percent is sufficient to cover future costs of the Fund. At June 30, 2004, the cost of benefits incurred for the fund was \$4,063,395.

Employee membership is as follows:

Retirees receiving benefit	3,607
Active participants	18,017
Total Membership	<u>21,624</u>

According to the Projected Unit Credit Cost Method, the actuarial accrued liability and the unfunded actuarial accrued liability of the Retiree Health Insurance Credit Fund are as follows:

Actuarial accrued liability	\$ 74,589,006
Net assets available for benefits, at actuarial value	<u>(28,949,717)</u>
"Unfunded" accrued liability	<u>\$ 45,639,287</u>

The fair value of the net assets available for benefits at June 30, 2004, is \$30,163,400.

NOTE 6 - DEFERRED COMPENSATION PLAN

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits them to defer a portion of their current salary until future years. Participation in the plan is optional. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

All compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are held in trust for the exclusive use of the employee or their beneficiary.

The related assets of the plan, held in trust, are reported at fair value as follows (expressed in thousands):

Plan Participation By:		
State of North Dakota	\$	11,684
Other Jurisdictions		2,605
Total Value	\$	<u>14,289</u>

NOTE 7 - PERS UNIFORM GROUP INSURANCE PROGRAM

The PERS Uniform Group Insurance Program, an enterprise fund, contracts with Blue Cross Blue Shield of North Dakota (BCBS) to provide health care insurance to the employees of the State of North Dakota, or any of its political subdivisions, institutions, departments or agencies. The contract provides for an accounting of

premiums paid and claims incurred during the biennium. In accordance with the term of the contract for the 2001-2003 biennium, the system is to deposit a total of \$3 million with BCBS. These surplus funds are to be used to pay any claims in excess of the premiums collected. At the end of the contract period, the system receives the remaining surplus funds plus interest. This amount will be determined as of June 30, 2005. The System has entered into a similar contract with BCBS for the 2003-2005 biennium. The accumulated surplus and other invested funds in the amount of \$3,267,756 are shown as cash on the state's financial statements. These funds are being held by BCBS.

Similarly, the PERS Uniform Group Insurance Program contracts with ReliaStar Life Insurance Company to provide life insurance to the employees of the State of North Dakota or any of its political subdivisions, institutions, departments or agencies. The contract provides for an accounting of premiums paid and claims incurred during the biennium, with any surplus shared according to a formula outlined in the contract.

NOTE 8 - SEGMENT INFORMATION

North Dakota Housing Finance Agency maintains three separate funds which account for general agency operations and provide loans to finance construction of rental residential housing and single-family ownership. The three funds are accounted for in a single fund, but investors in the multi-family and home ownership bonds rely solely on the revenue generated by the mortgage loans and assets acquired for repayment. Segment information for the year ended June 30, 2004, was as follows (expressed in thousands):

Condensed Statement of Net Assets

Current assets – other
 Noncurrent assets – other
 Total Assets

Current liabilities – other
 Noncurrent liabilities – other
 Total Liabilities

Net assets – restricted
 Total Net Assets

	Multi-family Bond Funds	Home- Ownership Bond Funds
	\$ 2,194	\$ 154,914
	8,372	499,315
	<u>10,566</u>	<u>654,229</u>
	478	27,206
	9,703	581,951
	<u>10,181</u>	<u>609,157</u>
	385	45,072
	<u>\$ 385</u>	<u>\$ 45,072</u>

Condensed Statement of Revenues, Expenses and Change in Fund Net Assets

Operating revenues
 Operating expenses
 Operating income (loss)
 Change in net assets
 Total net assets, beginning of year
 Total net assets, end of year

	\$ 663	\$ 36,661
	667	33,797
	(4)	2,864
	(4)	2,864
	389	39,825
	<u>385</u>	<u>45,072</u>

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	Multi-family Bond Funds	Home- Ownership Bond Funds
Condensed Statement of Cash Flows		
Net cash from operating activities	2,390	79,686
Net cash used for noncapital financing activities	(889)	(106,685)
Net cash from investing activities	246	1
Net change in cash and cash equivalents	1,747	(26,998)
Cash and cash equivalents, beginning of year	403	165,030
Cash and cash equivalents, end of year	2,150	138,032

NOTE 9 - MAJOR COMPONENT UNIT TRANSACTIONS

NORTH DAKOTA STATE UNIVERSITY AND NDSU RESEARCH AND TECHNOLOGY PARK, INC.

On December 30, 1999, North Dakota State University, through the State of North Dakota and North Dakota State Board of Higher Education, entered into a ground lease, whereby the NDSU Research and Technology Park, Inc. leases 40 acres of land for \$1 per year for the next seventy-five years.

On November 1, 2000, NDSU Research and Technology Park, Inc. (RTP) entered into a \$6.5 million lease agreement with the City of Fargo to finance the construction of laboratory and research facilities and all equipment and furnishings located on Lot 1, Block 2, Research and Technology Park First Addition to the City of Fargo (Research Building #1). Article IV, Section 4.12 of that agreement assigned to NDSU all of NDSU Research and Technology Park's obligations under the lease, including but not limited to the payment of all basic rent and additional rent, maintenance of all insurance required under the lease, and restrictions of use of the project set forth in the lease. Under the terms of Exhibit B, Assignment of Lease to the aforementioned lease agreement, ". . . that upon payment of all the Bonds, title to the Facility will revert to the Company." (Company is defined in the lease as NDSU Research and Technology Park, Inc.) Because of the lease assignment, NDSU accounted for this as a capital lease in fiscal year 2002. Beginning in fiscal year 2003, NDSU converted the classification of the debt to bonds payable.

ON August 1, 2002, essentially the same legal and financial structure used to construct Research Building #1 was used to construct a second research building. The new lease agreement was for \$20,450,000. NDSU is reporting the related assets and debt in its fiscal year 2004 financial statements.

The audited financial statements for fiscal years 2003 and 2004 of the RTP report these transactions as an operating lease and report the related capital assets and related debt as assets and debt of RTP. Since the RTP is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and

debt for Research Buildings 1 and 2, fiscal year 2004 beginning balances are restated and an elimination entry is made to ending balances in the component unit's consolidating financial statements to avoid duplication.

NDSU and RTP have entered into an operating agreement, whereby NDSU leases Research Building #1 for an annual rent of \$628,943 and Research Building #2 for \$165,370 (through June 2005, then annual rent of \$1,525,963 through July 2013) plus utilities and insurance. Total payments under these agreements in fiscal year 2004 were approximately \$1,047,405. These agreements are subject to funding and legislative appropriations. A receivable from NDSU for \$282,432 is recorded at June 30, 2004, for amounts due under these agreements.

NORTH DAKOTA STATE UNIVERSITY AND NDSU DEVELOPMENT FOUNDATION

NDSU Equine Science Center

Effective January 1, 2003, NDSU and the NDSU Development Foundation entered into a ten-year lease agreement with an option for an additional ten-year term to facilitate the building of an Equine Science Center. Under the agreement, NDSU will pay rent to NDSU Development Foundation for use of the premises. The amount of the rent is tied to the debt service retirement plus necessary insurance and taxes incurred by the Development Foundation. NDSU paid the Development Foundation \$178,576 in fiscal year 2004 and has a payable of \$11,678 at June 30, 2004, under this agreement.

As of June 30, 2004, construction of the facility was complete, and the facility is included in capital assets and the debt is included in long-term liabilities on the financial reports of the NDSU Development Foundation. NDSU has also recorded a capital asset and a capital lease payable of \$4,355,000 as of June 30, 2004. Since the Development Foundation is a discretely presented component unit of the North Dakota University System, and the component unit and the University System are reporting the same assets and debt for the Equine Center, an elimination entry is made to ending balances in the component unit's consolidating financial statements to avoid duplication.

UNIVERSITY OF NORTH DAKOTA AND UND AEROSPACE FOUNDATION

The Foundation reimbursed UND for salaries, building rent, aircraft rental, and goods and services under an operating agreement aggregating approximately \$2,225,579 in fiscal year 2004. This operating agreement has no specific term and is intended to memorialize various operating agreements, rate structures, duties, and obligations each party has to the other. The Foundation also reimbursed UND for air service and hangar, CRJ, 360-degree tower, and aircraft rental of \$941,356. These expense reimbursements represent actual costs incurred.

UNIVERSITY OF NORTH DAKOTA AND RE ARENA, INC.

RE Arena, Inc. manages, operates, and maintains an arena known as the Ralph Engelstad Arena, which was constructed in 2001 for the benefit of UND athletics. On July 1, 2003, UND and RE Arena, Inc., entered into a usage agreement with regards to the arena that sets forth facility usage, fees and services, and net income disposition. This agreement expired on June 30, 2004, but a similar agreement was signed effective July 1, 2004. In accordance with this agreement, UND will control all ticket revenue from UND athletic events held in the arena, UND and RE Arena, Inc. will jointly utilize UND marketing staff, and UND agrees to pay RE Arena, Inc. a stated amount of the ticket revenue from hockey, football, and men's and women's basketball events. Revenue and expenses from all other UND events held at the arena will be negotiated on an event-by-event basis. Per this agreement, UND paid approximately \$1.37 million to RE Arena, Inc. in fiscal year 2004 for event ticket revenue. Also per the agreement, RE Arena, Inc. will annually fund a reserve for extraordinary repairs, maintenance, and building improvements in an amount up to \$350,000. And, on an annual basis, RE Arena, Inc. will remit to UND the net income after adding back depreciation, amortization, the funded reserve and capital expenditures for the fiscal year.

In addition, RE Arena, Inc. may contract with UND for materials and personnel in the service and utility areas and will reimburse UND based on separate agreements. As of June 30, 2004, RE Arena, Inc. has a payable to UND of \$260,078 for these expenditures.

UNIVERSITY OF NORTH DAKOTA AND UNIVERSITY OF NORTH DAKOTA FOUNDATION

The University of North Dakota Foundation issued through Wells Fargo Brokerage Services, LLC, tax-exempt lease revenue bonds on October 24, 2003, of \$4,400,000 to finance the land purchase and construction of the Minot Family Practice Center. The center is a component of the School of Medicine & Health Sciences at UND. Interest only is due on a semi-annual basis at a variable rate of interest with a maturity date of December 15, 2018. The initial interest rate was

1.95 percent. Effective June 15, 2004, the interest rate was reset at 2.02 percent. The Foundation may pay down principal in increments of \$100,000 on interest payment dates without penalty. A total of \$100,000 in principal was retired in fiscal year 2004.

On July 1, 2002, UND Foundation issued lease revenue bonds of \$8,595,000 on behalf of UND to 1) finance the construction of an office building for EERC, 2) renovate the current EERC building, 3) finance capitalized interest, and 4) pay cost of issuance of the bonds. UND and UND Foundation also entered into a lease agreement on July 1, 2002, whereby the foundation leases certain property to UND and UND will pay the Foundation basic rents which will be sufficient to cover principal and interest on the lease revenue bonds when due. The bonds bear an interest rate of 2 to 5.13 percent and mature in 2027. The lease revenue bond has a balance of \$8,370,000 at June 30, 2004. The Foundation's financial statements include this transaction as a receivable from UND and a long-term liability. UND's financial statements include the capitalized asset and a long-term liability due to UND Foundation.

UND leases office space to the UND Foundation at a cost of \$1 per year and provides some administrative services, computer services, utilities and maintenance at no cost as a partial in-kind reimbursement for services rendered by the Foundation. Lease on the office, dated November 1, 1979, has a term of five years remaining. At June 30, 2004, due to timing of receipts and payments, the UND Foundation recorded a payable of \$536,698 to UND, which was paid in full in July.

NOTE 10 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

BANK OF NORTH DAKOTA

The State, through the Bank of North Dakota, is a party to financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments include commitments to extend credit and financial standby letters of credit. Those instruments involve varying degrees of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the State has in particular classes of off-balance-sheet financial instruments.

The State's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and financial standby letters of credit is represented by the contractual amount of those instruments. The State uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

STATE OF NORTH DAKOTA

	Contract Amount (in thousands)
Commitments to extend credit	\$ 237,582
Financial standby letters of credit	124,636
	<u>\$ 362,218</u>

Commitments to extend credit are agreements to lend as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The State evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained by the State upon extension of credit is based on management's credit evaluation of the customer. Collateral held may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Financial standby letters of credit are conditional commitments issued by the State to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The likelihood of funding any of these letters of credit is considered to be remote.

NORTH DAKOTA HOUSING FINANCE AGENCY

In the normal course of business, the Agency makes various commitments that are not reflected in the financial statements. These include commitments to extend credit and the debt reduction required when related loan acquisition funds are not drawn down within prescribed time frames set by the specific bond resolution.

Commitments to extend credit are agreements to fund loans as long as there is no violation of any condition established in the contracts. Commitments require the payment of a reservation fee and generally have a fixed expiration date. Commitments to extend credit total \$28,864,000 at June 30, 2004. The Agency does not anticipate any material losses as a result of these commitments.

The bond resolutions require that the funds in the loan acquisition accounts be expended within 42 months of the related bond delivery date. Any remaining funds must be used for debt reduction. The loan acquisition funds totaled \$32,866,000 at June 30, 2004.

MUNICIPAL BOND BANK

In the normal course of business, the Bond Bank (a component unit) makes various commitments that are not reflected in the financial statements. These commitments include commitments to extend credit of \$26,721,000 at December 31, 2003.

COMMUNITY WATER FACILITY LOAN FUND

The Fund 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. Commitments to extend credit totaled \$661,700 as of December 31, 2003.

NOTE 11 - INTEREST RATE SWAP

NORTH DAKOTA HOUSING FINANCE AGENCY

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance, the Agency entered into several interest rate swaps in connection with various variable-rate housing bond series. The intention of these swaps was to effectively change the Agency's interest rate on the bonds to a fixed rate.

The bonds and the related swap agreements have a stated maturity date, and the swap's notional amounts match the amount of variable-rate bonds. Under the swaps, the Agency pays the counterparty a fixed payment and receives a variable payment computed as a percent of the London Interbank Offered Rate (LIBOR) plus a fixed percentage. On the other hand, the bond's variable-rate coupons are determined by the remarketing agent. If, for any reason, the remarketing agent fails to act, the rate shall be the lesser of (i) the TBMA (Bond Market Association) Index plus 0.25% or (ii) the Maximum rate as defined within the applicable series resolution. The Agency did not disburse any funds to enter into these swap agreements.

As of June 30, 2004, the Agency is exposed to credit risk on the swaps that have a positive fair value, which total \$468,309. Of the swaps with negative fair value, the Agency is not exposed to credit risk. However, the swap exposes the Agency to basis risk should the relationship between LIBOR and TBMA converge, changing the synthetic rate on the bonds. The swap counterparty has guaranteed all payments and is rated AA+/AA-/AA by Moody's Investor Services, Standard & Poor's, and Fitch, respectively. To mitigate potential credit risk, the counterparty has entered into a Credit Support Agreement with Citigroup Global Marketing as a credit enhancement.

Due to the difference among the variable rate indices, the swaps had a net negative fair value of \$1,109,537 as of June 30, 2004. The swap's negative fair value may be

Notes To The Financial Statements

countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic fixed interest rate. Because the coupons on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. All valuations are as of the valuation date indicated. Mid-Market or indicative unwind valuations may be derived from broker quotations or from proprietary models that take into consideration estimates about relevant present and future market conditions as well as the size and liquidity of the position and any related actual or potential hedging transactions. Valuations based on other models or different assumptions may yield different results.

As noted above, the swap exposes the Agency to basis risk should the relationship between LIBOR and the actual variable rates converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate and the synthetic rate as of June 30, 2004. If a change occurs that results in the rates moving to

convergence, the expected cost savings may not be realized.

The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated if counterparty's credit quality rating falls below "A3" as issued by Moody's Investors Service or "A-" as issued by Fitch Ratings or Standard & Poor's. The swap may be terminated at any time by the Agency or the counterparty with 30 days' written notice up to limits specified in the swap agreement. If the swap or swaps were terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Agency would be liable to the counterparty for payment equal to the swap's fair value, but in the event the fair value is positive, the counterparty would be liable to the Agency.

1.	Bond Series	2002 B	2002 B	2003 A	2003 A
2.	Issuance Date	8/28/02	8/28/02	5/14/03	5/14/03
3.	Maturity Date	1/1/34	7/1/11	7/1/34	1/1/12
4.	Notional Amount	\$ 17,595,000	\$ 6,120,000	\$ 14,120,000	\$ 8,355,000
5.	Variable-rate Bonds	\$ 17,595,000	\$ 6,120,000	\$ 14,120,000	\$ 8,355,000
6.	Fixed Rate	4.470%	2.940%	4.035%	2.463%
7.	LIBOR Percentage	68.70%	70.60%	62.50%	62.50%
8.	Additional Percentage	0.00%	0.00%	0.44%	0.44%
9.	Bonds Variable-rate	1.10000%	1.10000%	1.11000%	1.11000%
10.	Fair Value	\$ (645,453)	\$ (91,308)	\$ 103,749	\$ 111,455
11.	Percentage of LIBOR	0.94033%	0.96634%	1.29547%	1.29547%
12.	Synthetic Rate	4.62967%	3.07366%	3.84953%	2.27538%
13.	Actual Synthetic Rate	4.70040%	3.15130%	3.89757%	2.32603%

1.	Bond Series	2003 B	2003 B	2004 B	2004 B
2.	Issuance Date	8/27/03	8/27/03	4/1/04	4/1/04
3.	Maturity Date	1/1/12	7/1/34	1/1/13	7/1/35
4.	Notional Amount	\$ 8,190,000	\$14,205,000	\$ 11,735,000	\$12,990,000
5.	Variable-rate Bonds	\$ 8,190,000	\$14,205,000	\$ 11,735,000	\$12,990,000
6.	Fixed Rate	3.155%	4.530%	2.620%	3.980%
7.	LIBOR Percentage	64.00%	64.00%	63.00%	63.00%
8.	Additional Percentage	0.365%	0.365%	0.34%	0.34%
9.	Bonds Variable-rate	1.11000%	1.11000%	1.11000%	1.11000%
10.	Fair Value	\$ (124,603)	\$ (716,482)	\$ 180,483	\$ 72,622
11.	Percentage of LIBOR	1.24100%	1.24100%	1.20231%	1.20231%
12.	Synthetic Rate	3.02400%	4.39900%	2.52769%	3.88769%
13.	Actual Synthetic Rate	3.11563%	4.49063%	2.66663%	4.02663%

STATE OF NORTH DAKOTA

Using rates as of June 30, 2004, debt service requirements of the variable-rate debt and new swap payments are as follows. Interest calculations were based on rates as of June 30, 2004. As rates vary, variable-rate bond interest payments and net swap payments will vary. (Expressed in thousands.)

Fiscal Year Ending June 30	Variable-Rate Bond		Interest Rate Swap, Net	Total
	Principal	Interest		
2005	\$ 1,750	\$ 1,023	\$ 2,362	\$ 5,135
2006	3,395	992	2,316	6,703
2007	4,995	940	2,242	8,177
2008	5,410	880	2,157	8,447
2009	5,165	822	2,074	8,061
2010-2014	14,080	3,458	9,449	26,987
2015-2019	-	3,261	9,180	12,441
2020-2024	1,335	3,252	9,154	13,741
2025-2029	22,955	2,536	7,124	32,615
2030-2034	29,040	1,058	2,956	33,054
2035-2039	5,580	15	39	5,634
	<u>\$ 93,705</u>	<u>\$ 18,237</u>	<u>\$ 49,053</u>	<u>\$ 160,995</u>

NOTE 12 – SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Most of the State’s business is with customers within the state. Concentrations of credit are present in the construction and operation of community water facilities, developmentally disabled facilities, loans to students for post-secondary education, single-family and multifamily mortgage loans, and the agricultural industry. Due to the pervasive nature of agriculture in the economy of the state, all loans, regardless of type, are impacted by agriculture.

NOTE 13 – RISK MANAGEMENT

Several funds accumulate assets to cover risks that the State may incur. Specifically, the State assumes a portion or substantially all risks associated with the following:

THE STATE FIRE AND TORNADO FUND

The State Fire and Tornado Fund, an Enterprise Fund, is financed by premiums charged to the participating funds of the State. All monies collected must be paid into the fund for use only for the purpose outlined in NDCC 26.1-22.02.

All losses occasioned by the hazards provided for in the North Dakota Century Code must be paid out of the fund, with the fund being reimbursed by a third-party insurance carrier for all losses in excess of \$1,000,000 per occurrence. The limit of liability of such reinsurance contract is no less than \$1,000,000 during each twelve month period.

STATE BONDING FUND

The State Bonding Fund, an Enterprise Fund, is financed by premiums charged to each State agency for the bonding of public employees and public officials.

FLEET SERVICES

Fleet Services, an Internal Service Fund, represents the State’s fleet of automobiles and is administered by the Department of Transportation. The State is self-insured for substantially all automobile insurance (e.g., comprehensive, collision), with the exception of liability, which is provided by the State’s Risk Management Fund (RMF). State agencies are charged premiums to cover Fleet Service’s RMF assessment and to pay for those losses which are not covered by RMF. These premium charges are factored into the fees agencies are charged when renting the cars.

WORKFORCE SAFETY & INSURANCE

Workforce Safety & Insurance (WSI), an Enterprise Fund, is a State insurance fund and a “no fault” insurance system, covering the State’s employers and employees. WSI is financed by premiums assessed to employers. The rate of such premiums is periodically adjusted to assure the solvency of WSI. The premiums are available primarily for the payment of claims to employees injured in the course of employment. During fiscal year 2003, a total of \$105,131,905 in claims was recognized. Incurred but not reported claims of \$604,100,000 have been accrued as a liability based primarily upon actuarial estimates.

RISK MANAGEMENT FUND

Due to the loss of sovereign immunity, the 1995 Legislature established the Risk Management Fund

Notes To The Financial Statements

(RMF) to pay money damages for tort claims for which the State is liable. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence. The State purchases commercial insurance for claims in excess of coverage provided by the Fund and continues to transfer liabilities for medical malpractice and aviation to private insurance carriers. Settlements have not exceeded insurance coverage in any of the past three fiscal years.

Revenues to the RMF are generated from contributions required from state agencies, boards and commissions, and the University System. The need for and amount of funding is determined using a projected cost allocation approach. The premise of this plan is that the agencies with greater expected loss costs should contribute more to the funding of the RMF than those agencies with lesser costs. The underlying logic is that contributions should roughly equal loss costs plus the expenses of administering the program over the long term.

The RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Unpaid claim liabilities are based on an actuarial study of the outstanding loss reserve need for the fund and a forecast of ultimate loss and loss expense. These liabilities were determined on an undiscounted expected level of ultimate loss. Because actual claims liabilities are affected by complex factors including inflation, changes in legal doctrines, and unanticipated damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts. Claims liabilities will be re-evaluated periodically to take into consideration settled claims, the frequency of claims, and other economic and social factors.

The following table presents the changes in claims liabilities balance for the fiscal years ending June 30, 2003, and June 30, 2004:

Fiscal Year	Beginning Balance	Current Year Claims and Changes In Estimates	Claims Payments	Ending Balance
2003	\$ 2,537,631	\$ 1,210,045	\$ 765,415	\$ 2,982,261
2004	2,982,261	547,972	769,932	2,760,301

The Risk Management Workers Compensation Program (WCP) was established to consolidate all state entities under one workers compensation account, allowing for transitional duty between entities. The statutory liability of the fund is limited to \$100,000 per claim with Workforce Safety & Insurance, providing excess insurance for claims which exceed the \$100,000 cap. WCP pays separately for this coverage. Since the inception of WCP on July 1, 2001, five claims exceeded coverage by \$315,854.

Revenues to WCP are generated from contributions required from state agencies, boards, commissions, and the University System. The amount contributed from each agency is actuarially determined by Workforce Safety & Insurance and based upon the number of employees, the type of work done, and claims history of each entity. Each entity also pays a deductible of \$250 per claim.

The WCP liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities are affected by complex factors including inflation, changes in legal doctrine, and unanticipated damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts. Claims liabilities will be re-evaluated periodically to take into consideration settled claims, the frequency of claims, and other economic and social factors. An actual study was performed for Workforce Safety & Insurance. The liability estimates are based on that study.

The following table presents the changes in claims liabilities balance for the fiscal year ending June 30, 2004:

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2003	\$ 491,170	\$ 1,864,658	\$ 1,009,070	\$ 1,346,758
2004	1,346,758	2,368,743	1,416,845	2,298,656

STATE OF NORTH DAKOTA

NOTE 14 – PUBLIC ENTITY RISK POOLS

A. GENERAL

FIRE AND TORNADO AND BONDING FUND

The Fire and Tornado Fund provides property insurance to state agencies, political subdivisions, the International Peace Garden and the winter show. The Fire and Tornado Fund has issued 1,087 policies to participating entities for a total building and content coverage of \$5.7 billion. The Bonding Fund is used to provide fidelity bonding of public employees and officials. The Fund has issued 2,922 policies to participating entities. The total coverage for the Bonding Fund is \$580.7 million. If the assets of these funds were exhausted, fund participants would not be responsible for the funds' liabilities.

The Fire and Tornado and Bonding Fund are accounted for on the accrual basis. The Fire and Tornado Fund establishes claim liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims incurred but not reported. The Bonding Fund establishes claim liabilities based on actual judgments obtained against the fund but not paid prior to fiscal year end. Liabilities for incurred but not reported losses have not been established as they are not expected to be material amounts. Neither fund incurred any acquisition costs which should have been capitalized, nor were any liabilities recognized that were discounted. Investment income was not considered in determining the existence of premium deficiencies.

The Fire and Tornado Fund uses reinsurance agreements to reduce its exposure to large losses on all types of its insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the risks that are reinsured. The Fire and Tornado Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

WORKFORCE SAFETY & INSURANCE

Workforce Safety & Insurance (WSI), an Enterprise Fund, is a state insurance fund and a "no fault" insurance system covering the State's employers and employees. At June 30, 2004, coverage extended to the following employers:

<u>Annual Premium</u>	
\$125 - \$5,000	16,366
\$5,001 - \$50,000	2,507
\$50,001 - \$100,000	211
Over \$100,000	156
Total Employers	<u>19,240</u>

WSI is financed by premiums assessed to the employers of North Dakota. The premiums are available primarily for the payment of claims to employees injured in the course of employment.

The operations of WSI are accounted for on the accrual basis. Liability for incurred but not reported and incomplete claims and claims expense is estimated by WSI's actuary. The estimate is developed by WSI's actuary, taking into consideration past experience of WSI in paying claims, and general conditions of the environment in which WSI operates. The liability includes estimates of costs to settle individual claims which have been reported, plus a provision for losses incurred but not yet reported and includes the effects of inflation and other societal and economic factors. WSI records the liability at a discounted amount.

As adjustments to this estimated liability become necessary, such adjustments are reflected in current operations. Management believes the estimated liability for losses and loss adjustment expense is sufficient to cover the ultimate net cost of incurred claims, but such reserves are necessarily based on estimates and the ultimate liability may be greater or less than the amounts estimated.

For the year ended June 30, 2004, the actuary presented an estimate in the form of a range to emphasize the uncertainty for the estimated liability of WSI. These ranges are as follows (expressed in thousands):

	<u>Low</u>	<u>Expected Value</u>	<u>High</u>
Full Value Basis (undiscounted)	\$ 990,000	\$ 1,098,000	\$ 1,265,000
Discounted at 6% rate	*	604,100	695,000

*Not computed by actuary.

WSI has adjusted the estimated liability for unpaid loss and loss adjustment expense to the actuary's six percent discounted expected value of \$604.1 million at June 30, 2004.

The June 30, 2003, liability of \$577.5 million was also recorded at the discounted rate of six percent.

While management has recorded amounts that fall within the ranges of estimated liabilities as computed under actuarial assumptions, the high level of uncertainty indicates that actual losses and expenses could be materially higher than the recorded estimated liability.

WSI did not incur any acquisition costs which should have been capitalized at June 30, 2004.

B. RECONCILIATION OF CLAIMS LIABILITIES

The following is a reconciliation of total claims liabilities, including an analysis of changes in aggregate liabilities for claims and claim adjustment expenses for the current fiscal year and the prior year (expressed in thousands):

	Fire And Tornado		Bonding		Workforce Safety & Ins	
	2004	2003	2004	2003	2004	2003
Unpaid claims and claims adjustment expenses at the beginning of the year	\$ 1,451	\$ 7,069	\$ 366	\$ 126	\$ 577,500	\$ 500,800
Incurred claims and claims adjustment expenses:						
Provision for current fiscal year	135	(2,523)	254	259	102,850	92,605
Change in provision for prior fiscal year	-	-	-	-	31,645	133,442
Payments and claims and adjustment expenses attributable to:						
Current fiscal year insured events	227	3,974	85	107	(20,379)	(18,586)
Prior fiscal years' insured events	(1,451)	(7,069)	(366)	(126)	(65,216)	(60,761)
Total Payments	(1,224)	(3,095)	(281)	(19)	(85,595)	(79,347)
Change in provision for discount	-	-	-	-	(22,300)	(70,000)
Total unpaid claims and claims adjustment expenses at the end of the year	\$ 362	\$ 1,451	\$ 339	\$ 366	\$ 604,100	\$ 577,500

NOTE 15 – SCHOOL PERMANENT TRUST FUND

State law permits the permanent fund to use one-tenth of the realized gains and losses in the current and previous years to be included in its calculation of income available for distribution in the current year. When determining the amount of distribution from any of the permanent educational trusts, the board of the permanent fund must consider both preservation of trust corpus and its ability to produce income for future years and the demands for distribution of current income. Any realized gains and losses that are spent must be spent for the purposes for which the trust was established.

Any income in excess of the amount of distribution for the current year can be acted on in one of three ways by the board of the permanent fund:

1. Distribute to the fund beneficiary all or a portion of the income in excess of the previous fiscal year's distribution;
2. Retain for distribution in future years all of a portion of the income in excess of the preceding fiscal year's distribution in an amount not to exceed \$10 million; or
3. Add to the permanent fund all or a portion of the income in excess of the preceding fiscal year's distribution.

At June 30, 2004, realized gains and losses available for distribution in the current year totaled \$8,971,463 for the permanent educational trusts. This amount is included in Reserved Fund Balances—Undistributed Revenue in the governmental funds balance sheet.

NOTE 16 – BANK OF NORTH DAKOTA

GASB Statement No. 34 requires assets and liabilities of enterprise funds be presented in a classified format to distinguish between current and long-term assets and liabilities. The Bank of North Dakota is the only government-owned bank in the United States. Banks do not present a classified balance sheet because current assets are not matched with current liabilities. Presentation of a classified balance sheet would give the false impression that there is a liquidity problem at the bank. Presentation of a classified balance sheet for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated. Therefore, the balance sheet of the Bank of North Dakota presents assets and liabilities in order of their relative liquidity, rather than in a classified format.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

A. LONG-TERM COMMITMENTS

BANK OF NORTH DAKOTA

The 2003 North Dakota Legislature passed Senate Bill 2022, which included the statewide water development goals. In connection with these goals, the bill provides that a line of credit-contingent appropriation be made. If determined necessary by the State Water Commission, the Bank of North Dakota shall extend a line of credit, not to exceed \$25,000,000 or so much of the sum as may be necessary, to the State Water Commission for

STATE OF NORTH DAKOTA

the purpose of interim financing until bonds are issued under NDCC chapters 61-02 and 61-02.1 for the biennium beginning July 1, 2003, and ending June 30, 2005. As of December 31, 2003, Bank of North Dakota has not funded and has not committed to fund any amount under the line of credit.

The 2003 North Dakota Legislature passed House Bill 1321, which provides that the Bank of North Dakota may guarantee the loan of money by banks, credit unions, lending institutions that are part of the farm credit system, and savings and loan associations in this state to eligible persons for the purchase of agricultural real estate or the restructuring of agricultural real estate loans, provided the transactions do not exceed a loan-to-value ratio of 80%, and further provided that no single loan exceeds \$400,000. The Bank of North Dakota may have no more than \$5,000,000 in outstanding loan guarantees under this program. The Bank of North Dakota may guarantee up to 75% of the amount of principal due the lender. The guarantee term may not exceed five years. As of December 31, 2003, the Bank of North Dakota has not guaranteed or committed to guarantee any loans under this program.

The 2001 North Dakota Legislature passed Senate Bill 2349, which amended the Beginning Entrepreneur Loan Guarantee Program. The program provides that the Bank of North Dakota enters into an agreement with a lender that in the event of default by a beginning entrepreneur under a note and mortgage or other loan or financing agreement, the Bank of North Dakota shall pay the lender the amount agreed upon, which is 85 percent of the amount of principal due the lender on a loan at the time the claim is approved. A lender may apply to the Bank of North Dakota for a loan guarantee for a loan of up to \$100,000. The term of the loan guarantee may not exceed five years. The Bank may provide guarantees totaling \$3,400,000. As of December 31, 2003, the Bank has provided guarantees totaling \$1,346,000 and has guarantee commitments of \$32,000 included in commitments to extend credit.

STUDENT LOAN TRUST

The 2003 North Dakota Legislature also passed Senate Bill 2335, which permits the Bank of North Dakota to request from the Commission a transfer from the Trust to reimburse the Bank of North Dakota for any losses incurred from investments in North Dakota alternative and venture capital investments and early-stage capital funds up to \$5,000,000. As of June 30, 2004, approximately \$75,000 has been funded.

PACE FUNDS

The 2003 North Dakota Legislature passed House Bill 1021, Section 9, which provides that the Bank of North Dakota shall transfer \$800,000 from the Agricultural PACE Fund to the main NDSU research center. The transfer may not be made until \$1,000,000 of federal funds and \$1,000,000 of special funds from private

contributions have been collected for the establishment of a beef systems center of excellence.

RETIREMENT AND INVESTMENT OFFICE (RIO)

The North Dakota Retirement and Investment Office has entered into two contracts to implement a new pension administration software system for the North Dakota Teachers' Fund for Retirement. The contracts commenced March 1, 2004, and terminate June 30, 2005, and September 30, 2005. The approximate costs under these contracts for implementation of the new software is \$1,707,875. RIO has budgeted \$2.0 million for the implementation of this system. Other costs of the system not under contract include support from the Information Technology Department and other miscellaneous costs totaling \$292,125. Fees paid under these contracts total \$480,864 as of June 30, 2004.

INDUSTRIAL COMMISSION

In September of 2001, the Industrial Commission, as part of the Lignite Research, Marketing and Development Program—Vision 21, entered into a contract with Montana-Dakota Utilities/Westmoreland Power, Inc. (MDU) for a total of \$10,000,000. The contract authorizes payments over a period of years based on completion of the required research and the construction of a new lignite-fired power plant in North Dakota. Payments made on the contract total \$1,125,000. The contract contains a provision for payback to the Industrial Commission of \$4.5 million over twenty years if new power plants are built and become operational. Total commitments under the contract would be reduced by \$7,650,000 if the power plant is not constructed. In addition, the Commission entered into a contract on November 1, 2001, with Great Northern Power Development L.P. totaling \$673,250. Payments totaling \$464,226 have been made. On June 18, 2003, the Commission approved the issuance of a Phase II feasibility matching contract in the amount of \$687,500. The Phase II contract is currently being negotiated.

The Commission also has various significant commitments at June 30, 2004, for the purchase of various types of services and other goods totaling \$3,801,778.

MILL AND ELEVATOR

The Mill has entered into futures contracts for spring wheat to lock in a price for a future delivery or settlement period. These contracts are entered into to protect the Mill against price fluctuations of the commodity and are not reflected on the face of the financial statements. The price protection is needed to cover any long or short positions compared to flour sales. All trades are completed using two different national brokerage firms on the Minneapolis Grain Exchange. The following table shows the Mill's futures positions at June 30, 2004. One contract equals 5,000 bushels.

Futures Positions:

Month	Contracts		Avg. Price	Fair Value
	Long	Short		
September	9	-	\$ 3.883	\$ 3.885
December	-	202	4.158	3.970

As of June 30, 2004, the Mill had commitments to purchase 1,671,247 bushels of spring wheat and 121,387 bushels of durum.

STATE COURTS

As of June 30, 2004, the state courts had significant commitments of \$1,995,708. The majority of the amount consists of indigent defense contracts with law firms around the state to provide legal services for eligible indigent persons at all stages of proceedings as specified in the contracts.

JOB SERVICE NORTH DAKOTA

As of June 30, 2004, Job Service has commitments to pay \$558,336 for purchase orders and contracts awarded for goods and services to be provided in future periods.

BUILDING AUTHORITY

The Authority has committed funds to complete various construction and modernization programs at June 30, 2004, totaling \$14,428,000.

The Legislature authorized the Authority to issue bonds for the State Historical Society to renovate historic site interpretive centers if they decide to proceed with the project prior to June 30, 2005. The amount authorized for financing this project is \$2,000,000.

MUNICIPAL BOND BANK

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 Bond Bank 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 amount of the warrants issued April 1, 1997, was \$3,270,000.

INFORMATION TECHNOLOGY DEPARTMENT

ITD has entered into a contract with Maximus to facilitate the implementation of PeopleSoft software for the ConnectND project. Remaining estimated payments for the 2003-2005 biennium are \$3,905,250.

DEPARTMENT OF HUMAN SERVICES

As of June 30, 2004, the Department of Human Services had significant commitments for the purchase of various types of services totaling \$27,105,631.

PUBLIC SERVICE COMMISSION

As of June 30, 2004, the Public Service Commission had significant commitments of \$1,042,643. This amount consists primarily of contractor charges associated with the Abandoned Mine Lands.

AERONAUTICS COMMISSION

As of June 30, 2004, the Aeronautics Commission had significant commitments of \$1,152,000. This amount consists of grants to political subdivisions for maintenance and improvements of their airports.

DAIRY PRODUCTS PROMOTION COMMISSION

As of June 30, 2004, the Dairy Products Commission had significant commitments of \$225,000. This amount consists of a contract with Midwest Dairy Association to implement and administer programs intended to contribute to the betterment of North Dakota dairy farmers and the State's dairy industry. The contract also provides the Commission with administrative, financial, and reporting services.

NORTH DAKOTA SOYBEAN COUNCIL

As of June 30, 2004, the North Dakota Soybean Council had significant commitments of \$659,160. This amount mainly consists of grants for the research and development of soybeans.

STATE WATER COMMISSION

As of June 30, 2004, the State Water Commission had long-term commitments of \$68,647,572 for various water projects.

NORTH DAKOTA DEPARTMENT OF TRANSPORTATION

At June 30, 2004, the North Dakota Department of Transportation (Special Revenue Fund) had non-construction contract commitments of approximately \$10.6 million of which \$8.1 million represents federal programs which are cost reimbursable.

Construction commitments at June 30, 2004, totaled approximately \$173.6 million, of which \$146.0 million

STATE OF NORTH DAKOTA

represents federal programs which are cost reimbursable. These commitments will be funded with future appropriations as work is performed.

UNIVERSITY SYSTEMS

Contracts for the construction of various projects on behalf of the University System have been let as follows (expressed in thousands):

	Original Issue	Paid To Date	Amount To Be Paid
BSC	\$ 148	\$ 57	\$ 91
DSU	4,790	1,373	3,417
MaSU	3,531	3,010	521
MiSU	88	-	88
MiSU-B	111	53	58
NDSCS	421	95	326
NDSU	9,249	719	8,530
UND	18,636	14,702	3,934
VCSU	2,612	1,973	639
WSC	5,625	5,564	61

NORTH DAKOTA DEVELOPMENT FUND

The board of directors has approved equity investments, loans, grants, and guaranty of collections at June 30, 2004, for which funds have not been disbursed or written agreements entered into in the amount of \$4,619,000.

OTHER CONSTRUCTION COMMITMENTS

Health Department	\$ 1,085
Human Services	937
Corrections	455
Adjutant General	2,984
Game and Fish	40
Transportation	22,654

B. LITIGATION

The estimated loss in all of the litigation against the State in which a loss to the State is probable is estimated at zero. Litigation that is reasonably possible to result in an unfavorable outcome is estimated at \$100,000 to \$10,000,000.

The estimated gain in all the litigation brought by the State in which a gain is probable is estimated at \$4,552,154. This amount was not accrued in these financial statements.

In November 1998, the North Dakota Attorney General joined forty-five other states and five territories in a settlement agreement against the nation's largest tobacco manufacturer. The Master Settlement Agreement includes base payments to states totaling \$220.6 billion for the next 25 years, and continues in perpetuity. North Dakota's share of the settlement is expected to be \$866 million over the next 25 years. The amount of the annual

payment is subject to a number of modifications, including adjustments for inflation and usage volumes. Some of the adjustments may result in increases in the payments (inflation, for example), or other adjustments will likely cause decreases in the payments (e.g., volume adjustments). The net effect of these adjustments on future payments is unclear.

The State had not settled any cases before June 30, 2004, in which the settlement had not been paid as of June 30, 2004.

C. QUESTIONED COSTS

The State receives federal financial assistance which is subject to review and audit by the Office of the State Auditor and the federal government. This assistance is generally conditioned upon compliance with certain laws and regulations. Disallowed and questioned costs relating to federal assistance could become a liability to the State. The State estimates that the ultimate disallowances pertaining to federal assistance, if any, will be immaterial to its overall financial condition.

The single audit of the State of North Dakota for the two year period ending June 30, 2002, was completed in March of 2003. As a result of this audit, approximately \$300,000 of identifiable questioned costs were noted. Also, there were several findings which had potentially significant, unknown, questioned costs. The State is cooperating with the federal government to resolve the findings and is optimistic these findings will not have a material impact on the State.

The 2003-2004 single audit will be issued sometime in March 2005. It is anticipated there will be potential questioned costs against the State as a result of this audit. The State does not believe the results of the audit will have a material impact.

NOTE 18 - SUBSEQUENT EVENTS

HOUSING FINANCE AGENCY

Subsequent to June 30, 2004, the Agency began the process for the issuance of 2004 Series C Housing Finance Program Bonds. The 2004 Series C bond issuance will be in the amount of \$60,000,000. The 1993 AB Multi-Family bond issue of \$1,783,000 was repaid on July 1, 2004.

HEALTH DEPARTMENT

The State reached an agreement in July 2004 with Burlington Northern and Santa Fe Railway Company (BNSF) to settle the lawsuit relating to the fuel contamination in downtown Mandan, North Dakota. The agreement, which was approved by the Mandan City Commission, settled claims by the North Dakota Department of Health and the City of Mandan alleging

violations of North Dakota's hazardous waste and water pollution laws.

Under the settlement, BNSF agrees to pay \$29 million, of which \$26.5 million will be placed in trust, and transfer property to the City of Mandan valued at \$1.25 million. The settlement addresses BNSF's continued responsibility for the contamination in the Mandan Railyard and the State's right to bring future enforcement actions for any new contamination.

The financial reporting implications of the trust funds have not been determined.

WORKFORCE SAFETY & INSURANCE

At its November 17, 2004, quarterly meeting, the Workforce Safety & Insurance (WSI) board of directors unanimously approved a five percent discount for WSI's unpaid loss and loss adjusting expense liability. This is a reduction from the current rate of six percent.

The change was applied prospectively and resulted in a \$55.1 million increase in the liability and expense accounts.

WATER COMMISSION

Subsequent to June 30, 2004, the Commission issued the remaining authorized but unissued 2003 A Series Bonds for the Southwest Pipeline, totaling \$257,958.

MUNICIPAL BOND BANK

Subsequent to year end, the Industrial Commission approved the issuance of two separate bond series: (1) \$11,790,000 State Revolving Fund Program Bonds, Series 2004 A; and (2) \$880,000 Capital Financing Program Bonds, Series 2004 A. These bonds are for the express purpose of providing funds to political subdivisions for use in connection with various improvement, construction, and refinancing projects. The interest rates vary on these bonds from 2.00% to 4.75%, with maturity ranging from October 1, 2004, to October 1, 2021.

STUDENT LOAN TRUST

On July 1, 2004, the Trust purchased \$2,194,000 of student loans from the Bank of North Dakota.

NORTH DAKOTA STATE UNIVERSITY

In August 2004, NDSU issued \$10.3 million in revenue bonds to finance the construction of the Bison Court Apartments. The revenue bonds will be repaid with auxiliary revenues.

NOTE 19 – NEW PRONOUNCEMENT

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This statement addresses common deposit and investment risks related to credit risks, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also should be disclosed. This statement is effective for financial periods beginning after June 15, 2004. The State is planning to implement the new reporting requirements for the fiscal year 2004-05 financial statements.

APPENDIX D

**General Information Concerning the North Dakota State Board
of Higher Education, Its Facilities and Programs**

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GENERAL INFORMATION

The North Dakota State Board of Higher Education was established by an initiated measure approved by the voters of North Dakota in 1938 which added Article 54 to the State Constitution. Annually, the Governor nominates a Board member from a list of three names which have been selected by action of four of the following five persons: the President of North Dakota Educational Association, the Chief Justice of the Supreme Court, the Superintendent of Public Instruction, the President Pro Tempore of the Senate, and the Speaker of the House of Representatives, and with the consent of a majority of members-elect of the Senate, serves a four-year term. Members can be reappointed and serve a maximum of two four-year terms. (This method of selecting members of the Board was amended by a vote of the people during the 1996 General Election.) Prior to 1997 a Board member served a seven-year term. The Board is made up of eight voting members and one non-voting faculty representative; seven voting members selected by the method outlined above and one student voting member. The student member is appointed by the Governor from a list of names recommended by the Executive Board of the North Dakota Student Association for a term of one year. The faculty representative is appointed annually by the Council of College Faculties. The State Constitution provides the Board with broad powers and specifies that the Board retains any powers it does not specifically delegate to the campuses. The Board discharges its constitutional responsibilities through policies adopted by the Board and administrative rules and regulations established at various levels.

The North Dakota State Board of Higher Education is the governing body for North Dakota's eleven publicly-supported colleges and universities, which include two research universities, four regional universities, five two-year institutions and related entities which include the Extension Service, Research Stations, Medical School and the State Forest Service. The Commissioner of Higher Education serves as the chief executive officer of the Board. The Commissioner is the Chancellor and chief executive officer of the University System. The Chancellor chairs a cabinet consisting of the presidents and vice chancellors to advise him or her regarding matters affecting the University System. The Chancellor is assisted by three vice chancellors: the Vice Chancellor for Academic and Student Affairs, the Vice Chancellor for Administrative Affairs and the Vice Chancellor for Strategic Planning. Following is a brief biographical sketch of each of these key administrators.

Robert L. Potts became chancellor of the North Dakota University System ("NDUS") on July 1, 2004. He is CEO of the NDUS, which includes 11 colleges and universities and serves about 42,000 students. Chancellor Potts had served for 14 and one-half years as president of the University of North Alabama and for six years as general counsel of the University of Alabama System. Chancellor Potts is a commissioner for the Western Interstate Commission on Higher Education and a member of the North Dakota Commerce Cabinet. He was appointed by Gov. John Hoeven to serve on the Midwestern Higher Education Commission. Chancellor Potts currently serves on the board of directors of the American Association of State Colleges and Universities and is immediate past chair of the Alabama Council of College and University Presidents. He previously served on the boards of trustees at Alabama State University and Oakwood College in Alabama. He has taught at Boston University, the University of Alabama and University of North Alabama. Chancellor Potts attended Newbold College in England and graduated cum laude from Southern Adventist University in Tennessee. He received a juris doctor degree from the University of Alabama School of Law. After clerking for the U.S. District Court chief judge for the Northern District of Alabama, Chancellor Potts received a master of laws degree from Harvard University. Before entering higher education on a full-time basis in 1984, Chancellor Potts practiced law in Florence, Alabama, where educational issues were a significant part of his practice. He has lectured widely on legal and education topics and is the author of several published articles.

Dr. Michel Hillman was appointed Vice Chancellor for Academic Affairs for the North Dakota University System in June 1996. He previously was the Director of Academic Affairs for the South Dakota Board of Regents, a position he held since 1987. His other experience includes serving as a Research Officer in the South Dakota system of higher education, an Evaluation Specialist for the Division of Law Enforcement Assistance in Pierre, South Dakota, and an Adjunct Professor of Psychology at the University of South Dakota. He received his bachelor's degree in psychology from Slippery Rock State College in Pennsylvania, his master's degree in experimental psychology from Indiana University of Pennsylvania, and his Ph.D. degree in experimental psychology from the University of South Dakota in Vermillion.

Laura Glatt was appointed the Vice Chancellor for Administrative Affairs in July 1995. A native of Bismarck, North Dakota, she earned a B.S. in accounting from the University of Mary in 1983 and a master's in Management from the University of Mary in 1996. She is a certified public accountant. Prior to joining the University staff in 1989, she served as a management and fiscal analyst in the North Dakota Office of Management and Budget, served as Controller for the State Treasurer's office and Cashier for the State Tax Department.

Eddie Dunn was named the Vice Chancellor for Strategic Planning in July 1999. A native of LaMoure, North Dakota, he obtained his Bachelor's and Master's degrees from North Dakota State University where he later became an associate professor of agricultural economics and was also Coordinator for the University's Faculty Development Institute. He later served as an economic development specialist with the Cooperative Extension Service and the Agricultural Experiment Station at North Dakota State University. In 1980-81, he served as Program Leader for Economic Development with the Federal Extension Service for the U.S. Department of Agriculture in Washington, D.C. Prior to joining the University System, Eddie was Vice President for Programs and Economic Development for the Greater North Dakota Association. In addition to serving as Vice Chancellor for Strategic Planning, Eddie is also the Executive Director of the College Technical Education Council, a position he has held since January of 1993.

CAMPUSES AND FACILITIES

Below are brief descriptions of selected institutions of higher education in the state.

Minot State University (MiSU) is a comprehensive, mid-size university offering 50 undergraduate degrees and nine master's degree programs. Programs are offered in five colleges: Education and Human Services, Business, Arts and Sciences, Nursing and the Graduate School. MiSU has a campus center in Bottineau. MiSU and its Bottineau campus (MiSU-BC) employs 450 FTE personnel and has a \$46 million operating budget for the fiscal year beginning July 1, 2005 for MiSU and MiSU-BC. Current enrollment for these two campuses is 3,250 FTE students.

The North Dakota State College of Science (NDSCS) is a comprehensive, associate degree granting college founded on a tradition of quality and integrity – serving slightly less than 2,100 FTE students. The College provides educational programs and services which serve the needs of individuals preparing for careers in the applied sciences/technologies. It serves the businesses and industries of North Dakota by working with employers on the design and delivery of customized training programs.

The NDSCS employs 325 FTE personnel. The operating budget for the fiscal year beginning July 1, 2005 is \$35 million and is used, in part, to maintain roughly 1.2 million square feet of facilities.

North Dakota State University (NDSU), North Dakota's land-grant institution, was founded in 1862. It is located in the Red River Valley in eastern North Dakota, in the city of Fargo. There are approximately 10,100 FTE students enrolled in the fully accredited colleges of Agriculture, Business Administration, Engineering and Architecture, Home Economics, Humanities and Social Sciences, Science and Mathematics, Pharmacy and University Studies, the School of Education and the Graduate School.

The main campus includes approximately 85 buildings with 3.4 million square feet of space. NDSU also oversees the operations of the State Forest Service, Extension Service, Upper Great Plains Transportation Institute, Northern Crops Institute and the Main Research Station and its eight branches. North Dakota State University and related entities employ over 2,200 full-time equivalent employees with an annual operating budget from all sources of \$256 million for the fiscal year beginning July 1, 2005 for the University and related entities.

Williston State College (WSC), located in Williston, is a two-year state college that offers a broad range of classes in the area of general education and pre-professional programs. Its current enrollment is 658 students.

WSC has an \$8.7 million annual budget for the fiscal year beginning July 1, 2005.

ACADEMIC INFORMATION

The North Dakota Board of Higher Education currently operates under an open door admission policy. Current requirements are: (1) the applicant must be a high school graduate or have successfully completed the GED test, and (2) for undergraduate admission, the applicant must submit the scores from either the ACT or SAT, with a limited number of exceptions. The institutions may limit admission to selected undergraduate and graduate programs based on considerations other than high school records, test scores, residence academic records and transfer records. Examples of such considerations may include, but are not limited to, the following: facility or instructional equipment limitations; number of qualified faculty or support staff; and financial resources. In April, 1990, the State Board of Higher Education adopted new admission requirements for its four-year institutions. The new requirements became effective the summer term of 1993. The following high school courses constitute the new minimum admission requirements:

- 4 units of English
- 3 units of mathematics, algebra I or above
- 3 units of lab science, including at least 2 in biology, chemistry, physics, or physical science
- 3 units of social studies, excluding consumer education, cooperative marketing, orientation to social science, and marriage/family.

In addition, two units of a single classical or modern language, including American Sign Language and Native American languages and the completion of algebra II (advanced algebra), are strongly recommended. Again, institutions may limit admission to selected undergraduate and graduate programs based on other criteria, including scholastic achievement.

TUITION AND FEES

Academic Year	<u>MiSU</u>	<u>NDCS</u>	<u>NDSU</u>	<u>WSC</u>
2005-06	\$4,092	\$3,267*	\$5,264	\$2,850
2004-05	3,712	3,074*	4,776	2,638
2003-04	3,228	2,402	3,965	2,374
2002-03	2,845	2,120	3,506	2,203
2001-02	2,554	1,930	3,272	1,966
2000-01	2,425	1,850	3,010	1,916
1999-00	2,330	1,809	2,886	1,876
1998-99	2,241	1,761	2,730	1,806
1997-98	2,139	1,761	2,566	1,806
1996-97	2,044	1,755	2,410	1,806

Note: Tuition and fees for full-time undergraduate resident students.

* Based on 15 credit hours per semester.

FALL FTE STUDENT ENROLLMENT

Academic Year	<u>MiSU</u>	<u>NDSCS</u>	<u>NDSU</u>	<u>WSC</u>
2005-06	2,884	2,084	10,132	658
2004-05	2,844	2,129	10,073	665
2003-04	2,840	2,177	9,701	659
2002-03	2,789	2,112	9,368	611
2001-02	2,739	2,106	9,056	579
2000-01	2,491	2,276	8,469	550
1999-00	2,588	2,139	8,253	615
1998-99	2,597	2,219	8,142	592
1997-98	2,727	2,271	8,079	663
1996-97	2,964	2,340	8,190	702

INFORMATION REGARDING RESEARCH FACILITY

Main Station (NDSU Fargo) offers fundamental research in all basic sciences providing a foundation for research center field-testing, evaluation of crop varieties adaptable to the Red River Valley (including soybean, dry edible bean, small grains, corn and sugarbeet); animal research (including dairy, beef, sheep, swine and equine); diagnostic and testing services, technology development, marketing and the economics of production; economics of natural resource use and human ecology.

The Main Station of the North Dakota Agricultural Experiment Station is located in the northwest corner of Fargo, with research land and buildings on the north and west edges of the North Dakota State University campus.

Approximately 2,300 acres accommodate 500 employees in the departments of Agribusiness and Applied Economics, Agricultural and Biosystems Engineering, Animal and Range Science, Cereal and Food Sciences, Entomology, Plant Pathology, Plant Sciences, Soil Science and Veterinary and Microbiological Sciences.

Scientists based at the Main Station do research under local conditions and work with Experiment Station and Extension staff throughout the state. Nearly 400 acres of Main Station land is intensely cultivated and maintained in orderly research plots. These experiments are carefully designed and replicated to simulate large-scale farming enterprises in order to test new varieties of plants and experimental ways of raising them more efficiently and effectively.

Livestock research investigates livestock growth, reproduction and health and includes dairy, beef, equine, swine and sheep.

Special emphasis is given to several aspects of rural life and North Dakota population changes.

Fundamental research in all basic sciences, providing the foundation for research center field testing, includes:

- Evaluation of crop varieties adaptable for the Red River Valley, including soybean, dry edible bean, small grains, corn and sugarbeet.
- Animal research including dairy, beef, sheep, swine and equine.
- Diagnostic and testing services.
- Technology development.
- Marketing and the economics of production.
- Economics of natural resource use.
- Human ecology

APPENDIX E

**General Information Concerning the Department of
Corrections and Rehabilitation**

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GENERAL INFORMATION

Senate Bill No. 2212 passed by the 1989 Legislative Assembly created the Department of Corrections and Rehabilitation (the “Department”). The primary reason for creation of the Department was the need to bring all of the State’s corrections’ programs together under one direction and one philosophy for both juveniles and adults.

The Mission for the Department is:

To protect the public while providing a safe and humane environment for both adults and juveniles placed in the Department’s care and custody. The Department will carry out the judgments of the North Dakota courts to both incarcerate inmates for the protection of society and to provide rehabilitative programs in an effort to successfully reintegrate offenders back into society.

In addition to the Central Office that has responsibility for the overall management of the Department, county correctional officer training and jail inspections, the Department has two major divisions:

- Division of Adult Services; and
- Division of Juvenile Services.

The Division of Adult Services includes the Field Services Division (adult parole and probation across the State) and the Prisons Division.

The mission of the Field Services Division is to protect society by ensuring that the community-placed offenders are provided responsible supervision that requires them to be an active participant in their rehabilitation. The Division is equally committed to the compensation and restoration of crime victims.

The Field Services Division has offices across the state staffed by highly trained parole and probation officers. It manages offenders sentenced to supervision by the Court, released to parole by the Parole Board, or sent to Community Placement by the Director. Over three thousand offenders are supervised in the community. Field Services also manages the Victim Services program to help mitigate the suffering of crime victims by providing fiscal support and services to crime victims.

Within the Prisons Division are the following facilities: North Dakota State Penitentiary; James River Correctional Center, Missouri River Correctional Center and Rough Rider Industries. The mission of this Division is *to protect the public by maintaining proper custody and healthy environment for staff and inmates; and to offer the best work, education, and treatment programs possible, encouraging inmates to make the needed changes to be law abiding and successful in society.*

The North Dakota State Penitentiary (NDSP) in east Bismarck is the main prison complex and houses maximum-security male inmates as well as some medium security treatment inmates. NDSP is the original prison built in the State and consists of seven housing units.

The James River Correctional Center (JRCC) at Jamestown is designed to hold medium security male inmates. The JRCC is located on the North Dakota State Hospital Grounds. It consists of ten buildings.

The Missouri River Correctional Center (MRCC) in southwest Bismarck houses minimum-security male inmates. The facility has a single housing unit with twelve male dormitories.

Rough Rider Industries is a self-sufficient, state operated industrial program which puts inmates to work in the production of goods and services for sale to State agencies and other tax-supported entities.

The Division of Juvenile Services includes Community Services and the Youth Correctional Center (NDYCC). Across the State, the Division of Juvenile Services provides intensive supervision and case management services to delinquent youth placed under their care, custody and control.

The mission of the Division of Juvenile Services/Community Services is to provide a continuum of services to juvenile delinquent and unruly youth in North Dakota and to protect society from those juveniles who are a danger to themselves and others. This will be accomplished through the development of a Treatment and Rehabilitation plan for each juvenile and through the provision of an array of services by a dedicated staff who will ensure that the juvenile receives these services in the least restrictive environment.

Each case is assigned to a Corrections Specialist prior to or at the time of commitment and that worker follows the case for the duration of the court order. Within 60 days of commitment, an individualized plan for treatment and rehabilitation is drafted and submitted to the committing court. Placement may be made anywhere along a continuum that includes parental home, relative care, family foster care, treatment foster care, group home treatment, residential treatment, hospitalization and the Youth Correctional Center. Overall, the Community Services Division strives to provide effective, responsive services that insure that the treatment needs of youth are met while maintaining an acceptable level of community safety.

The NDYCC is the State's only secure juvenile correctional institution and is located in Mandan. The NDYCC provides long and short term programming, referred to as treatment, as well as detention and short term behavioral evaluation for delinquent adolescents who are committed by State district court order, Federal Bureau of Prisons or tribal court. NDYCC provides a fully accredited (North Central Accreditation) middle school and high school educational program in a 12-month academic year. Overall, NDYCC strives to provide high quality treatment and educational services in a way that can be flexibly interfaced with other residential facilities, community based programs and schools.

The basic mission of the NDYCC is to protect society while providing education and therapeutic services to troubled adolescents within a safe and secure environment. Juveniles at NDYCC are prepared to return to a less restrictive environment in their communities with the skills to choose more appropriate behavior and to find success in life. NDYCC accomplishes its mission with a dedicated staff that cares about young people by emphasizing the three rehabilitative factors of structure, accountability and relationship.

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APPENDIX F

Form of Legal Opinion

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1. The Issuer is duly established and validly existing under the laws of the State of North Dakota with the power to adopt and to enter into and perform its obligations under the Indenture and the Leases and to issue the Bonds.
2. The Indenture has been duly adopted, authorized, executed, and delivered by the Issuer, and is a valid and binding obligation of the Issuer enforceable against the Issuer. The Indenture creates a valid lien on the Projects, Basic Rent and other funds pledged by the Indenture to the payment of Debt Service on the Bonds.
3. The Bonds have been duly authorized and executed by the Issuer and are valid and binding limited obligations of the Issuer, payable solely from the Basic Rent and other funds provided therefor in the Indenture.
4. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the Issuer and the Agencies comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Issuer and the Agencies have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.
5. Interest on the Bonds is excludable from gross income for State of North Dakota income tax purposes (other than the tax imposed on financial institutions by North Dakota Century Code, Chapter 57-35.3).

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture are limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the Official Statement or other offering material relating to the Bonds (except to the extent that such opinion is specifically stated in the Official Statement, including the section entitled Tax Matters), or regarding the perfection or priority of the lien on the Basic Rent, other funds pledged by the Indenture to the payment of Debt Service on the Bonds, or any other accounts or subaccounts created by the Indenture. Further, we express no opinion regarding the tax consequences arising with respect to the Bonds other than as expressly set forth herein.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully Submitted,

Cook Wegner & Wike PLLP

APPENDIX G

**Form of Undertaking to Provide
Continuing Disclosure**

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NORTH DAKOTA BUILDING AUTHORITY
LEASE REVENUE REFUNDING BONDS
2006 SERIES A -- \$_____

UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE

Section 1. This constitutes the written undertaking (the “**Undertaking**”) of the Industrial Commission of North Dakota, acting as the North Dakota Building Authority (the “**Authority**”) for the benefit of a holder’s or holders’ beneficial interests in the captioned bonds (the “**Bonds**”) as issued pursuant to that Trust Indenture and Assignment of Lease Rentals dated as of February 1, 2006 (the “**Indenture**”), required by Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, § 240.15c2-12) (the “**Rule**”). Capitalized terms used herein and not otherwise defined in the Indenture shall have the meanings assigned such terms in Section 4 hereof.

Section 2. To the extent there are appropriated or other legally available funds for these purposes, the Authority undertakes to provide the following information as provided in this Undertaking:

- A. Annual Financial Information;
- B. Audited Financial Statements; and
- C. Material Event Notices.

Section 3.

A. The Authority shall while any Bonds are Outstanding provide the Annual Financial Information for each fiscal year ending June 30th on or before December 15th of the same calendar year (the “**Report Date**”), beginning in 2006, to the Trustee and to each then existing NRMSIR and the SID, if any, or to DisclosureUSA.¹ The Authority shall include with each submission of Annual Financial Information to the Trustee a written representation addressed to the Trustee to the effect that the Annual Financial Information is the Annual Financial Information required hereby and that it complies with the applicable requirements hereof. It shall be sufficient if the Authority provides to each then existing NRMSIR, any SID and the Trustee the Annual Financial Information by specific reference to documents previously provided to each NRMSIR and any SID or filed with the Securities and Exchange Commission and, if such a document is a final official statement within the meaning of the Rule, available from the MSRB.

¹ Any filing under this Undertaking may be made solely by transmitting such filing to DisclosureUSA unless the U.S. Securities and Exchange Commission has withdrawn the interpretive advice in its letter dated September 7, 2004.

B. (i) If a Material Event occurs while any Bonds are Outstanding, the Authority shall provide a Material Event Notice in a timely manner to the Trustee and the MSRB and any SID. Each Material Event Notice shall be so captioned and shall prominently state the date, title and CUSIP numbers of the Bonds.

(ii) The Trustee shall promptly advise the Authority whenever, in the course of performing its duties as Trustee hereunder, the Trustee identifies an occurrence which, if material, would require the Authority to provide a Material Event Notice pursuant to Section 3(B)(i); provided that the failure of the Trustee so to advise the Authority shall not constitute a breach by the Trustee of any of its duties and responsibilities hereunder.

C. The Trustee shall, without further direction or instruction from the Authority, provide in a timely manner to the MSRB and to any SID notice of any failure by the Authority while any Bonds are Outstanding to provide the Trustee Annual Financial Information on or before the Report Date. For the purposes of determining whether information received from the Authority is Annual Financial Information, the Trustee shall be entitled conclusively to rely on the Authority's written representation made pursuant to Section 3(A) of this Undertaking.

Section 4. The following are the definitions of the capitalized terms used herein and not otherwise defined in this Undertaking.

"Agencies" mean the North Dakota State Board of Higher Education and the Department of Corrections and Rehabilitation.

"Annual Financial Information" means the financial information, which shall be based on financial statements prepared in accordance with generally accepted accounting principles ("**GAAP**") for governmental units as prescribed by the Governmental Accounting Standards Board ("**GASB**") or operating data with respect to the Authority and the Agencies provided at least annually, of the type included in those sections of the final official statement with respect to the Bonds attached thereto as Appendix C and Appendix A pages [A-5 through A-12] which Annual Financial Information may, but is not required to, include Audited Financial Statements.

"Audited Financial Statements" mean the annual financial statements of the Authority and the Agency, prepared in accordance with GAAP for governmental units as prescribed by GASB, which financial statements shall have been audited by such auditor as shall be then required or permitted by the laws of the State.

"DisclosureUSA" means the central post office website "www.disclosureusa.org" operated by the Municipal Advisory Council of Texas and authorized for use by issuers of municipal securities by the U.S. Securities and Exchange Commission on September 7, 2004.

“Material Event” means any of the following events, if material, with respect to the Bonds:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers, or their failure to perform;
- (f) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (g) Modifications to rights of security holders;
- (h) Bond calls (other than sinking fund redemptions);
- (i) Defeasances;
- (j) Release, substitution, or sale of property securing repayment of the securities; and
- (k) Rating changes.

“Material Event Notice” means written or electronic notice of a Material Event.

“MSRB” means the Municipal Securities Rulemaking Board located at 1150 18th Street NW, Suite 400, Washington, DC 20036.

“NRMSIR” means a nationally recognized municipal securities information repository, as recognized from time to time by the Securities and Exchange Commission for the purposes referred to in the Rule, and which list is available on the Internet at www.sec.gov/info/municipal/nrmsir.htm.

“SID” means a state information depository as operated or designated by the State as such for the purposes referred to in the Rule. As of the date hereof there is no SID.

Section 5. Unless otherwise required by law and subject to technical and economic feasibility, the Authority and the Trustee shall employ such methods of information transmission as shall be requested or recommended by the designated recipients of the Authority's information.

Section 6. The continuing obligation hereunder of the Authority to provide Annual Financial Information, Audited Financial Statements, if any, and Material Event Notices shall terminate immediately once the Bonds no longer are Outstanding. Any provision hereof shall be null and void in the event that the Authority delivers to the Trustee an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this Undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; provided that the Authority shall have provided notice of such delivery and the cancellation hereof to each then existing NRMSIR and the SID, if any.

Section 7.

A. In the event of a failure of the Authority to provide to the Repositories the Annual Financial Information as required by this Undertaking, the registered holder or holders of beneficial interest in any Bonds may take only such actions as may be necessary to cause the Authority to comply with its obligations to provide Annual Financial Information under this Undertaking.

B. Notwithstanding the foregoing, no registered holder or holders of a beneficial interest in the Bonds shall have the right to challenge the content or adequacy of the information provided hereto by mandamus, specific performance or other equitable proceedings unless the registered holder or holders of beneficial interest in the Bonds representing at least 25% aggregate principal amount of outstanding Bonds shall join in such proceedings.

C. A default under this Undertaking shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Undertaking in the event of any failure of the Authority to comply with this Undertaking shall be an action to compel performance.

D. Notwithstanding any other provision in this Undertaking, neither the State, the Authority, or any officer, director, employee, or agent thereof shall be liable for any claims for monetary damages or attorneys' fees whatsoever for any breach of this Undertaking.

Section 8. Information may be obtained from an Authorized Officer, as designated in the Indenture. Additionally, the Authority may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Undertaking.

Section 9. The Trustee shall be entitled to the protections afforded to the Trustee in the Indenture with regard to the performance of any of the duties required of the Trustee by this Undertaking.

Section 10. Notwithstanding any other provision of this Undertaking, the Authority by resolution authorizing such amendment, may amend this Undertaking without the consent of the registered holders or holders of beneficial interests if an opinion of nationally recognized bond counsel is obtained by the Authority to the effect that such amendment, and giving effect thereto, will not adversely affect the compliance of this Undertaking with the Rule or materially impair the interest of registered holders or holders of beneficial interests; if:

A. The amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority or type of business conducted;

B. This Undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

C. The Annual Financial Information initially following the amendment containing the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

Dated this 15th day of February, 2006.

North Dakota Building Authority

By: _____
An Authorized Officer

Bank of North Dakota, as Trustee

By: _____
An Authorized Officer

APPENDIX H

Specimen Financial Guaranty Insurance Policy

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Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.



Authorized Officer of Insurance Trustee

