

NORTH DAKOTA BUILDING AUTHORITY

FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NORTH DAKOTA BUILDING AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the accompanying basic financial statements of the **North Dakota Building Authority** (a component unit of the State of North Dakota) as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the **North Dakota Building Authority** management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **North Dakota Building Authority** as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2005 on our consideration of **North Dakota Building Authority's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Eide Bailly LLP

Bismarck, North Dakota
August 17, 2005

NORTH DAKOTA BUILDING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005 AND 2004
(In Thousands)

The discussion and analysis of the financial performance of the North Dakota Building Authority (Authority) that follows is meant to provide additional insight into the Authority's activities for the years ended June 30, 2005 and 2004. Please read it in conjunction with the Authority's financial statements and footnotes, which are presented within this report.

FINANCIAL HIGHLIGHTS:

With the continued construction of projects authorized and funded with Series 2002 A, 2002 B, 2003 B and 2003 C bonds, the Authority's leases receivable increased by 8.4% from \$89,523 in 2004 to \$97,080 in 2005. Accordingly, cash decreased to \$2,708 in 2005 from \$15,967 in 2004.

The Authority's rebate due to the Internal Revenue Service decreased by \$39. In 2005, the Series 1995A bond's final calculation was completed with no payment due. In addition, the Series 2000A bond's five-year rebate payment of \$3 was made to the IRS. As of year-end, the remaining liability is considered non-current.

Based on certain bond covenants, the Authority is required to establish and restrict prescribed amounts of resources for debt service reserves. In addition, bond proceeds for the construction of projects are also classified as restricted.

The State agencies pay as rent the debt service on the related bonds. The leases also provide that the State agencies pay as additional rent to the Authority reimbursement for trustee fees, paying agent fees, registrar fees, audit fees, arbitrage rebate payments and fees, and other reasonable and necessary expenses incurred by the Authority or the Trustee on behalf of the Authority.

REQUIRED FINANCIAL STATEMENTS:

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

CONDENSED BALANCE SHEET
JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
CURRENT ASSETS - RESTRICTED	\$ 12,310	\$ 23,681
NONCURRENT ASSETS - RESTRICTED	<u>98,772</u>	<u>94,306</u>
TOTAL ASSETS	<u>\$ 111,082</u>	<u>\$ 117,987</u>
LIABILITIES		
CURRENT LIABILITIES	\$ 10,628	\$ 8,224
NONCURRENT LIABILITIES	<u>100,454</u>	<u>109,763</u>
TOTAL LIABILITIES	<u>111,082</u>	<u>117,987</u>
FUND NET ASSETS	-	-
TOTAL LIABILITIES & FUND NET ASSETS	<u>\$ 111,082</u>	<u>\$ 117,987</u>

Cash and Investments

Certain Authority cash and investments, which are included in the restricted current and noncurrent assets, are restricted for the debt service of bond issues or for construction. Additional discussion of cash investments can be found at Note 2 to the financial statements.

Leases Receivable

Obligations of North Dakota agencies and university system are classified separately on the balance sheet as "lease receivable" and included in the restricted current and noncurrent assets of the condensed Balance Sheet. These leases are pledged to the various bond issues. No losses for market value declines are anticipated and an allowance has not been provided. Note 3 to the financial statements contains further information regarding lease receivable.

Bonds Payable

In order to provide state agencies with funds to finance projects, the Authority has issued bonds to facilitate the purchase of the lease. The bonds payable are included in the restricted current and noncurrent liabilities of the preceding statement. The bonds are direct obligations of the Authority and are secured by leases purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions. Further details are contained in Note 5 to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS – page 3
(In Thousands)

Rebate Due to IRS

Under Internal Revenue Service Code Sections 103 and 148, earnings from nonpurpose investments in excess of bond interest expense must be remitted as a rebate, once every five years, to the U.S. Treasury. This liability is included in the restricted current liabilities. Note 7 to the financial statements contains additional information.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Lease interest	\$ 4,654	\$ 4,458
Other	55	24
	<u>4,709</u>	<u>4,482</u>
NONOPERATING REVENUE		
Investment interest	384	515
	<u>384</u>	<u>515</u>
TOTAL REVENUE	<u>5,093</u>	<u>4,997</u>
OPERATING EXPENSES		
Interest expense	5,021	4,926
Operating	72	71
	<u>5,093</u>	<u>4,997</u>
CHANGE IN NET ASSETS	-	-
TOTAL FUND NET ASSETS, BEGINNING OF YEAR	<u>-</u>	<u>-</u>
TOTAL FUND NET ASSETS, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>

Lease Interest

The state agencies have agreed to pay as rent the debt service (principal and interest) on the related bonds, to the extent that the bond funds and earnings are used to pay construction and other eligible costs of the projects. See Note 3 to the financial statements for further details of the leases.

MANAGEMENT'S DISCUSSION AND ANALYSIS – page 4
(In Thousands)

Economic and Budgetary Information

The Authority is economically dependent on the North Dakota University System and agencies of the State of North Dakota.

As discussed in financial statement Note 1, the Authority operates through a biennial appropriation provided by the State Legislature. The Authority prepares a biennial budget, which is included in the Governor's budget that is presented to the General Assembly at the beginning of each legislative session. The Authority has continuing appropriation from monies received from the sale of indebtedness, lease payments and revenues generated by projects authorized by the legislature for the acquisition of authorized projects and the payment of rentals for these projects.

During the fiscal year there were no changes in the Authority's bond ratings by Standard & Poor's and Moody's Investment Services.

Contacting the North Dakota Building Authority's financial management:

The information in this report is intended to provide the reader with an overview of the Authority's operations along with the Authority's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Dakota Building Authority, 600 East Boulevard Avenue, Department 405, Bismarck, ND 58505-0840.

NORTH DAKOTA BUILDING AUTHORITY
BALANCE SHEETS
JUNE 30, 2005 AND 2004
(In Thousands)

ASSETS	2005	2004
CURRENT ASSETS - RESTRICTED		
Cash and cash equivalents at the Bank of North Dakota	\$ 2,324	\$ 15,583
Investments at the Bank of North Dakota	260	1,340
Leases receivable	9,185	6,205
Investment interest receivable, Bank of North Dakota	37	21
Lease interest receivable	504	532
Total restricted current assets	<u>12,310</u>	<u>23,681</u>
NONCURRENT ASSETS - RESTRICTED		
Cash and cash equivalents at the Bank of North Dakota	384	384
Investments at the Bank of North Dakota	9,378	9,378
Lease receivable	87,895	83,318
Deferred bond financing costs, net	1,115	1,226
Total restricted noncurrent assets	<u>98,772</u>	<u>94,306</u>
Total assets	<u>\$ 111,082</u>	<u>\$ 117,987</u>
LIABILITIES		
CURRENT LIABILITIES		
Due to state agencies	\$ 308	\$ 1,012
Due to colleges and universities	631	542
Rebate due to IRS	-	41
Bonds payable	9,185	6,205
Interest payable	504	424
Total current liabilities	<u>10,628</u>	<u>8,224</u>
NONCURRENT LIABILITIES		
Rebate due to IRS	2	-
Bonds payable	100,452	109,763
Total noncurrent liabilities	<u>100,454</u>	<u>109,763</u>
Total liabilities	<u>111,082</u>	<u>117,987</u>
FUND NET ASSETS		
Total liabilities and fund net assets	<u>\$ 111,082</u>	<u>\$ 117,987</u>

NORTH DAKOTA BUILDING AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004
(In Thousands)

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Lease interest	\$ 4,654	\$ 4,458
Other	55	24
	<u>4,709</u>	<u>4,482</u>
OPERATING EXPENSES		
Interest expense	5,021	4,926
Operating	72	71
	<u>5,093</u>	<u>4,997</u>
OPERATING LOSS	(384)	(515)
NONOPERATING REVENUE		
Investment interest	<u>384</u>	<u>515</u>
CHANGE IN NET ASSETS	-	-
TOTAL FUND NET ASSETS, BEGINNING OF YEAR	<u>-</u>	<u>-</u>
TOTAL FUND NET ASSETS, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>

NORTH DAKOTA BUILDING AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004
(In Thousands)

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Receipts of rent	\$ 6,444	\$ 5,812
Receipts of additional rent and other	55	24
Payment to project vendors	(13,298)	(21,031)
Payments to service providers	(72)	(71)
Payment of rebate to IRS	(3)	(11)
Net cash used in operating activities	<u>(6,874)</u>	<u>(15,277)</u>
NONCAPITAL FINANCING ACTIVITIES		
Proceeds from notes payable	-	6,989
Proceeds from issuance of bonds payable	-	20,555
Principal payment on bonds payable	(6,205)	(5,810)
Bond financing costs	-	(207)
Interest paid on bonds payable	(4,992)	(5,173)
Payments on notes payable	-	(6,989)
Net cash from (used for) non-capital financing activities	<u>(11,197)</u>	<u>9,365</u>
INVESTING ACTIVITIES		
Interest received	3,732	3,818
Proceeds from sale and maturity of investment securities	14,975	13,809
Purchase of investment securities	(13,895)	(14,098)
Net cash from investing activities	<u>4,812</u>	<u>3,529</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(13,259)	(2,383)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>15,967</u>	<u>18,350</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,708</u>	<u>\$ 15,967</u>
RECONCILIATION OF OPERATING LOSS TO		
TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (384)	\$ (515)
Adjustments to reconcile operating loss		
Amortization of bond financing costs	111	112
Net amortization of bond premium and deferred loss	(126)	(126)
Reclassification of interest income and expense to other activities	418	492
Changes in assets and liabilities:		
Lease receivable	(6,242)	(15,524)
Arbitrage rebate payable	(36)	(21)
Due to state agencies	(703)	1,012
Due to colleges and universities	88	(475)
Accounts payable	-	(232)
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (6,874)</u>	<u>\$ (15,277)</u>

NORTH DAKOTA BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(In Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The North Dakota Building Authority (Authority) was established July 1, 1985, by the North Dakota Legislature, as provided in Chapter 54-17.2 of the North Dakota Century Code, as a separate instrumentality of the State of North Dakota. The purpose of the Authority is to promote the general welfare of the citizens of the State by providing projects for use by the State in providing public services by altering, repairing, maintaining or constructing buildings primarily for use by the State and making any improvements connected to those buildings or pertaining to those buildings and necessary to the use of those buildings in providing services to the public.

Reporting Entity

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

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

Based upon criteria set forth in GASB No. 14 and No. 39, no organizations were determined to be part of the reporting entity. North Dakota Building Authority is included as part of the primary government of the State of North Dakota's reporting entity.

Budgetary Process

The Authority operates through a biennial appropriation provided by the State Legislature. The Authority prepares a biennial budget, which is included in the Governor's budget that is presented to the General Assembly at the beginning of each legislative session. The General Assembly enacts the budgets of the various State departments through passage of specific appropriation bills. The Governor has line item veto powers over all legislation subject to legislative override. Once passed and signed, the appropriation becomes the Authority's financial plan for the next two years. The Authority has continuing appropriation for monies received from the sale of indebtedness, lease payments and revenues generated by projects authorized by the legislature for the acquisition of authorized projects and the payment of rentals for these projects.

NOTES TO FINANCIAL STATEMENTS (In Thousands)

Basis of Accounting and Measurement Focus

The North Dakota Building Authority is presented in the accompanying financial statements as a proprietary fund type – an enterprise fund.

An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public or other funds on a continuing basis be financed or recovered primarily through user charges. The Authority recovers its costs through administrative charges to agencies and earnings on funds.

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

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

Use of Estimates

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

Cash and Cash Equivalents

The Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investments

The Authority's investments consist entirely of certificate of deposits, and are reported at fair value.

Funds held by trustee under bond resolutions are to be invested to the fullest extent possible in investment obligations selected by the Authority. The maturity date or the date on which such investment obligations may be redeemed shall coincide as nearly as practicable with the date or dates on which moneys in the funds or accounts for which the investments were made will be required.

Leases Receivable

The Authority's leasing operations, as lessor, consist of leasing real estate property under capital leases.

Lease payments are due upon receipt. In the event of non-payment, the item or installment so in default shall continue as an obligation of the agency until the amount in default has 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 the Indenture. The agency agrees to pay interest on Additional Rent in default at the rate or rates of interest equal to the Bank of North Dakota Base Rate.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

Deferred Bond Financing Costs

Bond issuance costs are being amortized over the life of the bonds using the straight-line method.

Restricted Assets

The Authority, based on certain bond covenants, is required to establish and maintain prescribed amounts of resources that can be used only to service outstanding debt. Other restricted assets can only be used for construction projects financed by related bonds.

Operating and Non-operating Revenues

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

The North Dakota Building Authority is required to maintain its deposits at the Bank of North Dakota. As of June 30, 2005, the Building Authority had the following deposits (amount in thousands):

	<u>Bank Balance</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>More Than 10 Years</u>
Cash	\$ 2,708	\$ 2,708	\$ -	\$ -	\$ -
Certificates of deposit recorded as investments	<u>9,638</u>	<u>7,077</u>	<u>1,035</u>	<u>-</u>	<u>1,526</u>
	<u>\$ 12,346</u>	<u>\$ 9,785</u>	<u>\$ 1,035</u>	<u>\$ -</u>	<u>\$ 1,526</u>

The above cash and investments are recorded in the balance sheet as follows:

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Current assets	\$ 2,324	\$ 260	\$ 2,584
Non-current assets - restricted	<u>384</u>	<u>9,378</u>	<u>9,762</u>
	<u>\$ 2,708</u>	<u>\$ 9,638</u>	<u>\$ 12,346</u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

Custodial and Concentration of Credit Risk

For a deposit, the custodial credit risk that, in the event of the failure of a depository financial institution, the Building Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession on an outside party. The Building Authority's deposits are uncollateralized and all of the deposits are with the Bank of North Dakota.

Cash is restricted for the following purposes:

	<u>2005</u>	<u>2004</u>
Construction	\$ 1,997	\$ 15,340
Debt service	<u>711</u>	<u>627</u>
	<u>\$ 2,708</u>	<u>\$ 15,967</u>

Investments

Funds held by trustees or the Authority under bond resolutions are to be invested to the fullest extent possible in investment obligations selected by the Authority. The maturity date or the date on which such investment obligations may be redeemed shall coincide as nearly as practicable with the date or dates on which monies in the funds or accounts for which the investments were made will be required. The restricted bond accounts have their monies invested in certificates of deposit.

NOTE 3 - LEASES RECEIVABLE

After receiving Legislative authority, the Authority purchases or constructs various facilities, which are generally financed by bonds. The facilities are leased to State agencies under terms described below.

The terms of the leases commence as of the date of the sale of the bonds and expire at the end of each biennium on June 30, subject to successive automatic two-year extensions under the provisions of each lease (unless the Legislature specifically fails to appropriate sufficient moneys for the payment of rent under the lease during any two-year renewal term).

Under the lease agreements, the State agencies have agreed to pay as rent the debt service on the related bonds from funds appropriated by the Legislature from the General Fund or other special funds, which may include federal funds.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

The Authority is not required to make any expenditures in connection with the leases of the facilities. Upon expiration of a lease, the facility is conveyed to the appropriate agency. At June 30, 2005, future minimum lease payments under agreements are as follows:

2006	\$	9,185
2007		9,280
2008		10,440
2009		10,486
2010		7,770
2011-2015		33,859
2016-2020		14,427
2021-2023		1,633
		<hr/>
	\$	<u>97,080</u>

The leases also provide that the State agencies pay as additional rent to the Authority for trustee fees, paying agent fees, registrar fees, letter of credit fees, audit fees and other reasonable and necessary expenses incurred by the Authority or the Trustee on behalf of the Authority.

NOTE 4 - BOND ANTICIPATION NOTE PAYABLE TO BANK OF NORTH DAKOTA

Changes in Bond Anticipation Note Payable to Bank of North Dakota

Balance, June 30, 2003	\$	-
Additions		6,989
Retirements		6,989
		<hr/>
Balance, June 30, 2004		-
Additions		-
Retirements		-
		<hr/>
Balance, June 30, 2005	\$	<u>-</u>

Bond Anticipation Note Payable to Bank of North Dakota

On July 22, 2003, the North Dakota Building Authority received authority from the Industrial Commission to issue and sell evidences of indebtedness to the Bank of North Dakota in an amount not to exceed \$7,000 for the purpose of interim financing of the project approved during the 2003 legislative session.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

NOTE 5 - LONG-TERM DEBT

Changes in Bonds Payable

The following is a summary of changes in bonds payable for the years ended June 30, 2005 and 2004:

Balance, June 30, 2003	\$	101,349
Additions		20,555
Retirements		5,810
Amortization of deferred amount of refunding, deferred bond financing costs and bond premium		<u>(126)</u>
Balance, June 30, 2004		115,968
Retirements		6,205
Amortization of deferred amount of refunding, deferred bond financing costs and bond premium		<u>(126)</u>
Balance, June 30, 2005	\$	<u><u>109,637</u></u>

Maturities of Bonds Payable

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

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
Year Ending June 30,			
2006	\$ 9,185	\$ 4,672	\$ 13,857
2007	9,540	4,292	13,832
2008	10,440	3,884	14,324
2009	10,665	3,438	14,103
2010	9,445	2,965	12,410
2011-2015	36,060	9,358	45,418
2016-2020	17,040	3,568	20,608
2021-2023	6,850	519	7,369
	<u>109,225</u>	<u>32,696</u>	<u>141,921</u>
Unamortized bond premium	1,219	(1,219)	-
Unamortized deferred amount on refunding	(807)	807	-
	<u><u>\$ 109,637</u></u>	<u><u>\$ 32,284</u></u>	<u><u>\$ 141,921</u></u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

The following summarizes the Authority's bonds outstanding at June 30, 2005 and 2004:

<u>Description and Due Date</u>	<u>Interest Rate</u>	<u>Original Value</u>	<u>2005</u>	<u>2004</u>
Series 98A Bonds 12/1/03-6/1/19	4.40 - 5.125	\$ 8,360	\$ 6,625	\$ 6,945
Series 98B Bonds 12/1/03-6/1/11	4.50 - 5.00	11,340	6,880	7,995
Series 98C Bonds 12/1/03-12/1/09	3.85 - 4.35	3,400	1,685	2,000
Series 00A Bonds 12/1/03-12/1/19	5.125 - 5.60	4,400	3,835	3,995
Series 01A Bonds 12/1/03-12/1/22	4.00 - 5.125	13,200	12,505	12,730
Series 02A Bonds 12/1/03-12/1/22	3.50 - 5.35	9,595	9,275	9,440
Series 02B Bonds 12/1/03-12/1/06	4.00 - 5.20	1,535	795	1,170
Series 02C Bonds 8/15/03-8/15/14	3.00 - 4.30	10,665	9,394	9,189
Series 02D Bonds 12/1/03-12/1/16 (net of deferred loss on refunding of \$807 and \$874)	3.00 - 4.50	16,425	13,136	14,752
Series 03A Bonds 6/1/04-6/1/10	5.25	15,145	11,940	14,127
Series 03B Bonds 12/1/05-12/1/22	2.00 - 5.00	13,080	13,123	13,125
Series 03C Bonds 12/1/05-12/1/13	3.50 - 5.25	20,000	20,444	20,500
Total bonds payable			109,637	115,968
Less current portion			9,185	6,205
Long-term portion			\$ 100,452	\$ 109,763

1995 Series A (Defeased Debt)

July 18, 2002, the Authority issued \$16,425 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. 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 and resulted in an economic gain of \$478. As of June 30, 2005, there are no bonds outstanding.

NOTES TO FINANCIAL STATEMENTS (In Thousands)

1998 Series A

Interest on the 1998 Series A Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2008 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2009 are subject to optional redemption in whole or in part on December 1, 2008. The bonds are secured by the funds, certain mortgaged property and all rights, titles and interests of the Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

1998 Series B

Interest on the 1998 Series B Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2008 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2009 are subject to optional redemption in whole or in part on December 1, 2008. The bonds are secured by the funds, certain mortgaged property and all rights, titles and interests of the Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

1998 Series C

Interest on the 1998 Series C Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2006 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2006 are subject to optional redemption in whole or in part on December 1, 2006. The bonds are secured by the funds, certain mortgaged property and all rights, titles and interests of the Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2000 Series A

Interest on the 2000 Series A Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2009 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2010 are subject to optional redemption in whole or in part on December 1, 2009. The bonds are secured by the funds, certain mortgaged property and all rights, titles and interests of the Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2001 Series A

Interest on the 2001 Series A Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2010 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2011 are subject to optional redemption in whole or in part on December 1, 2010. The bonds are secured by the funds, certain mortgaged property and all rights, titles and interests of the Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

2002 Series A

Interest on the 2002 Series A Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2011 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2012 are subject to optional redemption in whole or in part on December 1, 2011. The bonds are secured by the funds, certain mortgaged property and all rights, titles and interests of the Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2002 Series B

Interest on the 2002 Series B Bonds is taxable and payable semi-annually on June 1 and December 1 of each year. The bonds are not subject to optional redemption prior to maturity except under extraordinary circumstances. The bonds are secured by the funds, certain mortgaged property and all rights, titles and interests of the Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2002 Series C

The proceeds of the issue were used for a current refunding of 1993 Series B. Interest on the 2002 Series C Bonds is payable semi-annually on February 15 and August 15 of each year. The bonds maturing on or before August 15, 2012 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after August 15, 2013 are subject to optional redemption in whole or in part on August 15, 2012. The bonds are secured by the funds, certain mortgaged property and all rights, titles and interests of the Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2002 Series D

The proceeds of the issue were used for an advance refunding of 1995 Series A. Interest on the 2002 Series D Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2011 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2012 are subject to optional redemption in whole or in part on December 1, 2011. The bonds are secured by the funds, certain mortgaged property and all rights, titles and interests of the Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2003 Series A

The proceeds of the issue were used for a current refunding of 1993 Series A. Interest on the 2003 Series A Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds are not subject to optional redemption prior to maturity except under extraordinary circumstances. The bonds are secured by the funds, certain mortgaged property and all rights, titles and interests of the Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

2003 Series B

Interest on the 2003 Series B Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2013 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2014 are subject to optional redemption in whole or in part on December 1, 2013. The bonds are secured by the funds, certain mortgaged property and all rights, titles and interests of the Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2003 Series C

Interest on the 2003 Series C Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2011 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2012 are subject to optional redemption in whole or in part on December 1, 2011. The bonds are secured by the funds, user charges and all rights, titles and interests of the Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

Reserve Funds

	2005		2004	
	Required Reserve Balance	Reserve Balance	Required Reserve Balance	Reserve Balance
1998A	\$ 663	\$ 663	\$ 663	\$ 663
1998B	1,134	1,134	1,134	1,134
1998C	340	340	340	340
2000A	380	384	380	384
2001A	1,097	1,097	1,097	1,097
2002A	864	864	864	864
2002B	138	138	138	138
2002C	1,067	1,067	1,067	1,067
2002D	1,526	1,526	1,526	1,526
2003A	1,514	1,514	1,514	1,514
2003B	1,035	1,035	1,035	1,035
2003C	2,000	2,000 *	2,000	2,000
	<u>\$ 11,758</u>	<u>\$ 11,762</u>	<u>\$ 11,758</u>	<u>\$ 11,762</u>

* Bank of North Dakota Letter of Credit

The 1998, 2000, 2001, 2002 and 2003 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 the payments. Funds are also required for any positive arbitrage due the Federal government.

North Dakota Building Authority entered into a series of agreements with the State Board of Higher Education. These agreements require individual colleges and universities to make debt service payments to NDBA.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

College and university portion of bonds payable included on the balance sheet of North Dakota Building Authority is \$3,374 and their portion including interest of \$70 is:

	<u>1993 A</u> <u>Bonds</u>	<u>2001 A</u> <u>Bonds</u>	<u>2003B</u> <u>Bonds</u>	<u>Total</u>
North Dakota State University	\$ 111	\$ -	\$ -	\$ 111
University of North Dakota	57	-	-	57
North Dakota State College of Science	63	-	-	63
Minot State University	394	1,669	-	2,063
Williston State College	-	900	-	900
Dickinson State University	-	-	250	250
Total	<u>\$ 625</u>	<u>\$ 2,569</u>	<u>\$ 250</u>	<u>\$ 3,444</u>

Debt service requirements of the colleges and universities:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 584	\$ 25	\$ 609
2007	651	20	671
2008	344	15	359
2009	661	10	671
2010	359	-	359
2011-2013	775	-	775
	<u>\$ 3,374</u>	<u>\$ 70</u>	<u>\$ 3,444</u>

NOTE 6 - DUE TO COLLEGES AND UNIVERSITIES AND STATE AGENCIES

The North Dakota Building Authority is responsible for the distribution of construction voucher reimbursement as requested by the individual colleges and universities and state agencies for approved projects. A detail of the payables at June 30, 2005, and 2004, is as follows:

	<u>2005</u>	<u>2004</u>
Dickinson State University	\$ 402	\$ 97
North Dakota State University	-	2
Valley City State University	-	178
University of North Dakota	229	265
Department of Corrections	308	16
Department of Health	-	201
Information Technology Department	-	795
	<u>\$ 939</u>	<u>\$ 1,554</u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

NOTE 7 - REBATE DUE TO IRS

Under Internal Revenue Service Code Sections 103 and 148, earnings from nonpurpose investments in excess of bond interest expense must be remitted as a rebate, once every five years, to the U.S. Treasury. A detail of the rebate at June 30, 2005 and 2004, is as follows:

	<u>2005</u>	<u>2004</u>
Series 1995 A	\$ -	\$ 40
Series 2000 A	<u>2</u>	<u>1</u>
	<u>\$ 2</u>	<u>\$ 41</u>

NOTE 8 - PROJECT FINANCING

	<u>2005</u>	<u>2004</u>
Construction Funding		
University System		
Dickinson State University	\$ 3,948	\$ 1,545
Mayville State University	111	1,244
North Dakota State University	-	10
University of North Dakota	885	654
Valley City State University	400	385
Other		
Department of Corrections	1,793	848
Department of Health	904	2,309
Information Technology Department	<u>4,645</u>	<u>14,341</u>
	<u>\$ 12,686</u>	<u>\$ 21,336</u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

Lease Receipts			
NDUS Office/Campuses	\$	7,417	\$ 5,858
State Penitentiary		1,911	717
Health and Consolidate		192	168
National Guard		61	-
Soldiers Improvement		234	-
Job Service		274	151
Human Services		1,757	-
		<u>11,846</u>	<u>6,894</u>
	\$	<u>11,846</u>	\$ <u>6,894</u>

NOTE 9 - RELATED PARTY

The North Dakota Building Authority is related to the Bank of North Dakota through common management under the Industrial Commission of North Dakota. The Authority's deposits and investments are held by the Bank of North Dakota.

The Bank of North Dakota acts as the trustee for the bondholders having been duly appointed by the Authority. The Bank also acts as the paying agent, registrar, provider of letter of credit, and escrow agent for the bonds issued and defeased by the Authority. Fees paid by the Authority to the Bank of North Dakota for these services for the years ending June 30, 2005, and 2004, were \$27 and \$36. For the years ending June 30, 2005, and 2004, expenses of \$27 and \$24 are reflected in the statement of revenues, expenses and changes in fund nets assets and \$0 and \$15 of costs were capitalized into the deferred bond financing costs.

The Authority obtains legal services from the Attorney General's Office. Fees paid for services for the years ended June 30, 2005, and 2004, were \$1 and \$8.

The Authority also obtains accounting services from the North Dakota Public Finance Authority. Fees paid for these services for the years ended June 30, 2005, and 2004, were \$4 and \$7.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

NOTE 10 - COMMITMENTS

The Authority has committed funds to complete various construction and modernization programs at June 30, 2005 as follows:

	<u>Amount</u>
Department of Corrections	\$ 67
Dickinson State University	389
University of North Dakota	<u>269</u>
	<u>\$ 725</u>

Senate Bill No. 2023 provided appropriations for state facility energy improvement capital projects of various state departments and institutions. The Senate Bill authorized the Industrial Commission to issue and sell evidences of indebtedness for the following capital projects during the June 30, 2005 through June 30, 2007 biennium:

Project:

Office of Management and Budget fire suppression	\$ 3,155
Office of the Attorney General Crime Lab and Renovation	3,633
North Dakota State University Hazardous Material Handling and Storage Facility	3,500
North Dakota State College of Science electrical distribution	736
Dickinson State University Murphy Hall	4,100
Minot State University - Bottineau Thatcher Hall Addition	2,500
Department of Corrections and Rehabilitation James River Correctional Center ET building improvements	980
Department of Corrections and Rehabilitation James River Correctional Center programs building code improvements	584
North Central Research Center Agronomy Laboratory and Greenhouse	440
Central Grasslands Research Extension Center Office addition	270
Main research center greenhouse complex	2,000
Historical Society Chateau Interpretive Center	1,100
Historical Society and Heritage Center research collections expansion	5,500
Parks and Recreation Turtle River State Park administrative office	350
University of North Dakota Energy Conservation Sundry Projects	<u>2,332</u>
Total special funds appropriation	<u>\$ 31,180</u>

NOTE 11 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, and damage to assets and errors and omissions. These risks of loss are covered under the insurance policies owned by the North Dakota Industrial Commission, North Dakota Public Finance Authority and North Dakota Office of Management and Budget. The State Bonding Fund currently provides the agencies with blanket fidelity bond coverage in the amount of \$1,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

There have been no significant reductions in insurance coverage from the prior year. In addition, there have been no claims filed or settled in the past three fiscal years.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

The Governor of North Dakota
Legislative Audit and Fiscal Review Committee
Industrial Commission of North Dakota
Bismarck, North Dakota

We have audited the basic financial statements of the **North Dakota Building Authority** as of and for the year ended June 30, 2005 and have issued our report thereon dated August 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered North Dakota Building Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

Eide Bailly LLP

August 17, 2005
Bismarck, North Dakota

**NORTH DAKOTA BUILDING AUTHORITY
INDEPENDENT AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED JUNE 30, 2005**

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of State agencies. The items and our responses regarding the June 30, 2005 audit of the Authority are as follows:

1. **Were expenditures made in accordance with legislative appropriations and other State fiscal requirements and restrictions?**
Yes.
2. **Were revenues accounted for properly?**
Yes.
3. **Were there adequate financial controls and procedures?**
Yes.
4. **Was there an adequate and effective system of internal control?**
Yes.
5. **Do financial records and reports reconcile with those of State fiscal offices?**
Yes.
6. **Was there compliance with statutes, laws, rules and regulations under which the Authority was created and is functioning?**
Yes.
7. **Was there any indication of fraud or dishonesty?**
No.

8. Were there any indications of lack of efficiency in financial operations and management of the Authority?

No.

9. Was action taken on prior audit findings and recommendations?

There were no prior year findings or recommendations.

10. Were all activities of the agency encompassed within appropriations of specific amounts?

The Authority has a continuing appropriation from monies received from the sale of indebtedness, lease rental payments and revenues generated by projects authorized by the legislature for the acquisition of authorized projects and the payment of lease rentals for these projects.

11. Has the Authority implemented the statewide accounting and management information system including the cost allocation system?

No. The Authority has their own accounting system. The uniqueness of the Authority's accounting and management information needs require the Authority to utilize other software systems.

12. Has the Authority developed budgets of actual anticipated expenditures and revenues on at least a quarterly basis and compared on at least a quarterly basis actual expenditures and revenues on the accrual basis to budgeted expenditures and revenues?

Yes.

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

Eide Barlly LLP

August 17, 2005
Bismarck, North Dakota



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

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the North Dakota Building Authority for the year ended June 30, 2005, and have issued our report thereon dated August 17, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted In The United States of America

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

Review of Internal Control

As part of our audit, we considered the internal control of the North Dakota Building Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the North Dakota Building Authority are described in Note 1 to the financial statements. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Authority's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed no adjustments that in our judgment, whether recorded or unrecorded by the Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Authority's financial reporting process.

Disagreements With Management

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

Consultations With Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

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

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation we received during the course of the audit. We look forward to many years of continued service to the North Dakota Building Authority.

Erle Bailey LLP

Bismarck, North Dakota
August 17, 2005