Financial Statements
June 30, 2013 and 2012

North Dakota Building Authority

NORTH DAKOTA BUILDING AUTHORITY

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

Report on the Financial Statements
We have audited the accompanying financial statements of the North Dakota Building Authority, a component unit of the State of North Dakota, which comprise the statement of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and the statement of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Dakota Building Authority as of June 30, 2013 and 2012, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of American, which consisted of inquires of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 2013 on our consideration of the North Dakota Building Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering North Dakota Building Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Bismarck, North Dakota
September 24, 2013

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, 2013, 2012 and 2011. Please read it in conjunction with the Authority's financial statements and footnotes, which are presented within this report.

FINANCIAL HIGHLIGHTS:

The 2013 Legislature did not authorize any construction projects for the 2013-2015 biennium. The 2011 Legislature also did not authorize any construction projects for the 2011-2013 biennium. In May 2012, the Authority issued Series 2012A bonds in the amount of $19,055 to refund the Series 2002C, Series 2002D and Series 2003C bonds, and to advance refund the Series 2003B bonds. The 2009 Legislature authorized the Authority to bond up to $2,575 during the 2009-2011 biennium for the Veteran's Home Construction. During the fiscal year ended 2011, the Authority issued Series 2010A bonds in the amount of $2,355 to finance the project. The Authority also issued Series 2010B bonds in the amount of $4,910. A portion of the Series 2010B bonds was used to finance the Veteran's Home project, with the remaining portion used to advance refund a portion of the Series 2002A bonds.

Cash has decreased $671 to $2,434 at June 30, 2013, and decreased $819 to $3,105 at June 30, 2012, as a result of construction projects progressing. All but one project authorized during the 2005 Legislative session has completed construction. It is anticipated that cash balances will steadily decline as the final project continues to progress.

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 Statement of Net Position summarizes the assets and liabilities, with the difference between the two reported as net position. It also serves as the basis for analysis of the soundness and liquidity of the Authority. The Statement of Revenues, Expenses and Changes in Net Position 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.

(continued on next page)

(In Thousands)

CONDENSED STATEMENT OF NET POSITION
JUNE 30, 20133, 20122 AND 201111

	2013	2012	2011
ASSETS			
CURRENT ASSETS - RESTRICTED	**$ 16,930**	$ 16,903	$ 20,115
NONCURRENT ASSETS - RESTRICTED	**48,487**	57,065	69,645
TOTAL ASSETS	**$ 65,417**	$ 73,968	$ 89,760
LIABILITIES			
CURRENT LIABILITIES	**$ 9,692**	$ 9,063	$ 10,903
NONCURRENT LIABILITIES	**55,725**	64,905	78,857
TOTAL LIABILITIES	**65,417**	73,968	89,760
NET POSITION	**$ -**	$ -	$ -
TOTAL LIABILITIES & NET POSITION	**$ 65,417**	$ 73,968	$ 89,760

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 "leases receivable" and included in the restricted current and noncurrent assets of the 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 leases 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. The 2013 Legislature did not authorize any construction projects for the 2013-2015 biennium. The 2011 Legislature also did not authorize any construction projects for the 2011-2013 biennium. Further details are contained in Note 4 to the financial statements.

(continued on next page)

(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 6 to the financial statements contains additional information.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2013, 2012 AND 2011

	2013	2012	2011
OPERATING REVENUES			
Lease interest	**$ 2,732**	$ 2,844	$ 3,621
Other	**69**	94	68
	2,801	2,938	3,689
NONOPERATING REVENUE			
Investment interest	**148**	355	397
TOTAL REVENUE	**2,949**	3,293	4,086
OPERATING EXPENSES			
Interest expense	**2,914**	3,194	4,000
Provision for Arbitrage Rebate due to IRS	**(6)**	26	27
Operating	**41**	73	59
	2,949	3,293	4,086
CHANGE IN NET POSITION	**-**	-	-
TOTAL NET POSITION, BEGINNING OF YEAR	**-**	-	-
TOTAL NET POSITION, END OF YEAR	**$ -**	$ -	$ -

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.

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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 State Legislature 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.

The Authority's bond rating is AA for the years ending June 30, 2013 and 2012.

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
STATEMENT OF NET POSITION
JUNE 30, 20133 AND 20122
(In Thousands)

ASSETS	**2013**	2012
CURRENT ASSETS - RESTRICTED		
Cash and cash equivalents at the Bank of North Dakota	**$ 2,434**	$ 3,105
Investments at the Bank of North Dakota	**4,992**	4,992
Leases receivable	**9,280**	8,555
Investment interest receivable, Bank of North Dakota	**5**	6
Lease interest receivable	**219**	245
Total restricted current assets	**16,930**	16,903
NONCURRENT ASSETS - RESTRICTED		
Investments at the Bank of North Dakota	**1,046**	1,046
Lease receivable	**46,887**	55,435
Deferred bond financing costs, net	**554**	584
Total restricted noncurrent assets	**48,487**	57,065
Total assets	**$ 65,417**	$ 73,968
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	**$ -**	$ 32
Due to colleges, universities and state agencies	**193**	224
Rebate due to IRS	**-**	7
Bonds payable	**9,280**	8,555
Interest payable	**219**	245
Total current liabilities	**9,692**	9,063
NONCURRENT LIABILITIES		
Bonds payable	**55,725**	64,905
Total liabilities	**65,417**	73,968
NET POSITION	**-**	-
Total liabilities and net position	**$ 65,417**	$ 73,968

NORTH DAKOTA BUILDING AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 20133 AND 20122
(In Thousands)

	2013	2012
OPERATING REVENUES		
Lease interest	**$ 2,732**	$ 2,844
Other	**69**	94
	2,801	2,938
OPERATING EXPENSES		
Interest expense	**2,914**	3,194
(Provision)/Expense from arbitrage rebate due to IRS	**(6)**	26
Operating	**41**	73
	2,949	3,293
OPERATING LOSS	**(148)**	(355)
NONOPERATING REVENUE		
Investment interest	**148**	355
CHANGE IN NET POSITION	**-**	-
TOTAL NET POSITION, BEGINNING OF YEAR	**-**	-
TOTAL NET POSITION, END OF YEAR	**$ -**	$ -

NORTH DAKOTA BUILDING AUTHORITY

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 20133 AND 20122
(In Thousands)

		2013		2012
OPERATING ACTIVITIES				
Receipts of rent	$	9,957	$	12,139
Receipts of additional rent and other		69		94
Payment to project vendors		(711)		(962)
Payments to service providers		(41)		(73)
Payment of rebate to IRS		-		(134)
Net cash from operating activities		9,274		11,064
NONCAPITAL FINANCING ACTIVITIES				
Proceeds from issuance of bonds payable		-		18,588
Principal payment on bonds payable		(8,555)		(33,715)
Bond financing costs		(26)		237
Interest paid on bonds payable		(2,784)		(3,092)
Net cash used for non-capital financing activities		(11,365)		(17,982)
INVESTING ACTIVITIES				
Interest received		1,420		2,042
Proceeds from sale and maturity of investment securities		4,992		10,085
Purchase of investment securities		(4,992)		(6,028)
Net cash from investing activities		1,420		6,099
NET CHANGE IN CASH AND CASH EQUIVALENTS		(671)		(819)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		3,105		3,924
CASH AND CASH EQUIVALENTS, END OF YEAR	$	2,434	$	3,105
		-		-
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES				
Operating loss	$	(148)	$	(355)
Adjustments to reconcile operating loss:				
Amortization of bond financing costs		56		69
Net amortization of bond premium and deferred loss		100		100
Reclassification of interest income and expense to other activities		26		180
Changes in assets and liabilities:				
Lease receivable		9,310		11,768
Arbitrage rebate payable		(7)		(107)
Accounts payable		(32)		32
Due to colleges, universities and state agencies		(31)		(623)
NET CASH FROM OPERATING ACTIVITIES	$	9,274	$	11,064

See Notes to Financial Statements

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), the financial reporting entity of 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 further defined component units as reporting units that are 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 by GASB, 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 State Legislature at the beginning of each legislative session. The State Legislature 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.

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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.

When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, and then unrestricted resources as they are needed.

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 certificates of deposit, and are reported at amortized cost.

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.

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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.

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, 2013, the Building Authority had the following deposits (amount in thousands):

	Cash	Investments	Total
Current assets - restricted	$ 2,434	$ 4,992	$ 7,426
Non-current assets - restricted	-	1,046	1,046
	$ 2,434	$ 6,038	$ 8,472

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The North Dakota Building Authority is required to maintain its deposits at the Bank of North Dakota. As of June 30, 2012, the Building Authority had the following deposits (amount in thousands):

	Cash	Investments	Total
Current assets - restricted	$ 3,105	$ 4,992	$ 8,097
Non-current assets - restricted	-	1,046	1,046
	$ 3,105	$ 6,038	$ 9,143

Custodial and Concentration of Credit Risk

Custodial credit risk for deposits is the 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 of an outside party. The Building Authority does not have a formal policy that limits custodial credit risk for deposits. None of the Building Authority's deposits are covered by depository insurance. The Building Authority's deposits are uncollateralized and all of the funds are held on deposit at the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Cash is restricted for the following purposes:

	2013	2012
Construction	**$ 2,358**	$ 2,931
Debt service	**76**	174
	$ 2,434	$ 3,105

Investments

The Building Authority has their moneys invested in certificates of deposit with the Bank of North Dakota as allowed by the Trust Indenture. 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.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair values of an investment.

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As of June 30, 2013, the Authority held certificates of deposit with the following maturity dates (amounts are in thousands):

Investment Type	Less Than 1 Year	1 - 5 Years	6 - 10 Years	Total
Certificates of Deposit	$ 4,992	$ -	$ 1,046	$ 6,038

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.

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, 2013, future minimum lease payments under agreements are as follows:

2014	$ 9,280
2015	6,130
2016	6,375
2017	5,315
2018	5,515
2019-2023	22,945
2024	607
	$ 56,167

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.

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(In Thousands)

NOTE 4 - LONG-TERM DEBT

Changes in Bonds Payable

The following is a summary of changes in bonds payable for the years ended June 30, 2013 and 2012:

Balance, June 30, 2011	$	88,487
Additions		18,588
Retirements		(33,715)
Amortization of deferred amount of refunding, deferred bond financing costs and bond premium		100
Balance, June 30, 2012		73,460
Additions		-
Retirements		(8,555)
Amortization of deferred amount of refunding, deferred bond financing costs and bond premium		100
Balance, June 30, 2013	$	65,005

Maturities of Bonds Payable

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

		Principal		Interest		Total Debt Service
Year Ending June 30,						
2014	$	9,280	$	2,439	$	11,719
2015		6,130		2,134		8,264
2016		6,375		1,896		8,271
2017		5,315		1,682		6,997
2018		5,515		1,483		6,998
2019-2023		25,540		4,301		29,841
2024-2028		7,115		589		7,704
2029-2032		565		54		619
		65,835		14,578		80,413
Unamortized bond premium		1,228		(1,228)		-
Unamortized deferred amount on refunding		(2,058)		2,058		-
	$	65,005	$	15,408	$	80,413

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(In Thousands)

The following summarizes the Authority's bonds outstanding at June 30, 2013 and 2012:

Description and Due Date	**Interest Rate**	**Original Value**	**2013**	2012
Series 05A Bonds 12/1/09-12/1/24	4.25 - 4.50	$ 37,955	$ 31,069	$ 33,019
Series 06A Bonds 12/1/06-12/1/19 (net of deferred loss on refunding of $205 and $234)	4.00	10,460	**5,621**	6,376
Series 06B Bonds 12/1/07-12/1/22 (net of deferred loss on refunding of $284 and $313)	4.00 - 4.25	9,770	**8,058**	8,706
Series 10A Bonds 12/1/16-12/1/30	3.50 - 6.25	2,355	**2,355**	2,355
Series 10B Bonds 12/1/11-12/1/22 (net of deferred loss on refunding of $231 and $254)	2.00 - 4.00	4,910	**4,124**	4,573
Series 12A Bonds 12/1/12-12/1/21 (net of deferred loss on refunding of $1,338 and $1,487)	1.50 - 4.00	19,055	**13,778**	18,431
Total bonds payable			**65,005**	73,460
Less current portion			**9,280**	8,555
Long-term portion			**$ 55,725**	$ 64,905

2005 Series A

Interest on the 2005 Series A Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2015 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2016 are subject to optional redemption in whole or in part on December 1, 2015. The bonds are secured by the funds, certain mortgaged property and all rights, titles and interests of the Authority as stated in the lease agreements, including all basic rent payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2006 Series A

Interest on the 2006 Series A Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2014 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2015 are subject to optional redemption in whole or in part on December 1, 2014. The bonds are secured by the funds, user charges and all rights, titles and interests of the Authority as lessor, including all basic lease payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

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2006 Series B

Interest on the 2006 Series B Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2015 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2016 are subject to optional redemption in whole or in part on December 1, 2015. The bonds are secured by the funds, user charges and all rights, titles and interests of the Authority as lessor, including all basic lease payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2010 Series A

Interest on the 2010 Series A Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on or before December 1, 2016 are not subject to optional redemption prior to maturity except under extraordinary circumstances. Bonds maturing on or after December 1, 2016 are subject to optional redemption in whole or in part. The bonds are secured by the funds, user charges and all rights, titles and interests of the Authority as lessor, including all basic lease payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2010 Series B

Interest on the 2010 Series B 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, user charges and all rights, titles and interests of the Authority as lessor, including all basic lease payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2012 Series A

Interest on the 2012 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, user charges and all rights, titles and interests of the Authority as lessor, including all basic lease payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

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(In Thousands)

Reserve Funds

	2013		2012	
	Required Reserve Balance	**Reserve Balance**	Required Reserve Balance	Reserve Balance
2005A	**$ 3,289**	**$ 3,289**	$ 3,289	$ 3,289
2006A	**1,046**	**1,046**	1,046	1,046
2006B	**977**	**977**	977	977
2010A	**236**	**236**	236	236
2010B	**491**	**491**	491	491
	$ 6,039	**$ 6,039**	$ 6,039	$ 6,039

The 2005, 2006 and 2010 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 and the State Historical Society. These agreements require individual colleges and universities and State Historical Society to make debt service payments to NDBA.

State Historical Society portion of bonds payable included on the balance sheet of North Dakota Building Authority is $200:

	2005A Bonds	**Total**
State Historical Society	$ 200	$ 200
Total	$ 200	$ 200

These entities are only responsible for the principle amounts presented in the chart above.

Debt service requirements of the State Historical Society:

2014	$ -
2015	33
2016	-
2017	33
2018	-
2019-2023	100
2024	34
	$ 200

(continued on next page)

(In Thousands)

NOTE 5 - DUE TO COLLEGES, 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, 2013, and 2012, is as follows:

	2013	2012
University of North Dakota	**193**	224
	$ 193	$ 224

NOTE 6 - 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, 2013 and 2012 is as follows:

	2013	2012
Series 2002 C & D	**$ -**	$ 7
Current arbitrage payable	**$ -**	$ 7

(continued on next page)

(In Thousands)

NOTE 7 - PROJECT FINANCING

	2013	2012
Construction Funding		
University System		
University of North Dakota	**$ 648**	$ 371
	$ 648	$ 371

	2013	2012
Lease Receipts		
NDUS Office/Campuses	**$ 5,654**	$ 7,992
ITD	**2,677**	2,702
State Penitentiary	**680**	672
Health and Consolidate	**336**	336
Veterans Home	**207**	170
Adjutant General	**34**	34
Job Service	**218**	485
Attorney General	**383**	381
Extension Service	**-**	-
OMB	**332**	331
Parks and Recreation	**36**	37
Historical Society	**695**	693
BND	**-**	-
	$ 11,252	$ 13,833

(continued on next page)

(In Thousands)

NOTE 8 - 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, 2013, and 2012, were $13 and $44, respectively.

The Authority also obtains accounting services from the North Dakota Public Finance Authority. Fees paid for these services for the years ended June 30, 2013, and 2012, were $2 and $4, respectively.

NOTE 9 - COMMITMENTS

The Authority has committed funds to complete various construction and modernization programs at June 30, 2013 as follows:

	Amount
University of North Dakota	$ 385

NOTE 10 - 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.

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *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, 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, the financial statements of the business-type activities of the North Dakota Building Authority as of and for the year ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the North Dakota Building Authority's basic financial statements, and have issued our report thereon dated September 24, 2013.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the North Dakota Building Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Building Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Building Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Building Authority's financial statements are free from 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 *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Bismarck, North Dakota
September 24, 2013

CPAs & BUSINESS ADVISORS

NORTH DAKOTA BUILDING AUTHORITY
INDPENDENT AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED JUNE 30, 2013

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee require that certain items be addressed by independent certified public accountants performing audits of State agencies. The items and our responses regarding the June 30, 2013 audit of the Authority are as follows:

Audit Report Communications:

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

   Unmodified

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

   Yes.

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

   Yes.

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

   No

5. **Was action taken on prior audit findings and recommendations?**

   There were no prior year findings or recommendations.

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

   Yes, a separate management letter has been issued and is attached following page 28. There were no additional findings or recommendations noted in this letter.

Audit Committee Communications:

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

   None.

2. **Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.**

   None.

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

   None.

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

   None.

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

   None.

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

   None.

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

   None.

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

   Based on the audit procedures performed, the North Dakota Building Authority's critical information technology system is Microsoft Dynamics GP. There were no exceptions identified that were directly related to this application.

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

Eide Bailly LLP

Bismarck, North Dakota
September 24, 2013

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CPAs & BUSINESS ADVISORS

Independent Auditor's Communication to the Industrial Commission of North Dakota

To 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, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 11, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Building Authority are described in Note 1 to the financial statements. In the current year, the Authority implemented GASB 63 for financial reporting, no other accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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. There are no significant estimates affecting the financial statements.

Difficulties Encountered in Performing the Audit

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

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No misstatements were detected as a result of audit procedures.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 24, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Eide Bailly LLP

Bismarck, North Dakota
September 24, 2013