

NORTH DAKOTA BUILDING AUTHORITY

FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NORTH DAKOTA BUILDING AUTHORITY

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Balance Sheets	7
Statements of Revenues, Expenses and Changes in Fund Net Assets	8
Statements of Cash Flows	9
Notes to Financial Statements	10
EXHIBITS	
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 <i>Government Auditing Standards</i>	A-1 25
Independent Auditor's Specific Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee	A-2 27
Independent Auditor's Communication to the Industrial Commission of North Dakota	B-1 29



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, 2006 and 2005, 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, 2006 and 2005, 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 15, 2006 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.

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 15, 2006

NORTH DAKOTA BUILDING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006 AND 2005
(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, 2006 and 2005. Please read it in conjunction with the Authority's financial statements and footnotes, which are presented within this report.

FINANCIAL HIGHLIGHTS:

During the 2005 Legislative session, the Authority was authorized to provide bond financing for 15 construction projects. The Authority issued Series 2005A bonds in the amount of \$37,955 to finance the projects. The Authority also advance refunded the 1998A and 2000A bonds with the issuance of the \$10,460 Series 2006A bonds.

Cash has increased \$30,635 as a result of the bond issue. Many of the projects have just started construction and it is anticipated that cash balances will steadily decline as the projects progress. In addition, bonds payable have increased 27% to \$138,972.

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, 2006 AND 2005**

	2006	2005
ASSETS		
CURRENT ASSETS - RESTRICTED	\$ 43,407	\$ 12,310
NONCURRENT ASSETS - RESTRICTED	98,656	98,772
TOTAL ASSETS	\$ 142,063	\$ 111,082
 LIABILITIES		
CURRENT LIABILITIES	\$ 12,803	\$ 10,628
NONCURRENT LIABILITIES	129,260	100,454
TOTAL LIABILITIES	142,063	111,082
 FUND NET ASSETS	-	-
TOTAL LIABILITIES & FUND NET ASSETS	\$ 142,063	\$ 111,082

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 4 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 6 to the financial statements contains additional information.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Lease interest	\$ 4,202	\$ 4,654
Other	46	55
	<u>4,248</u>	<u>4,709</u>
NONOPERATING REVENUE		
Investment interest	<u>1,554</u>	<u>384</u>
TOTAL REVENUE	<u>5,802</u>	<u>5,093</u>
OPERATING EXPENSES		
Interest expense	5,736	5,057
Provision for Arbitrage Rebate due to IRS	1	(36)
Operating	65	72
	<u>5,802</u>	<u>5,093</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 the Authority's bond rating by Standard & Poor's was upgraded to AA. The Moody's Investment Services rating remains at Aa3.

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, 2006 AND 2005
(In Thousands)

ASSETS	2006	2005
CURRENT ASSETS - RESTRICTED		
Cash and cash equivalents at the Bank of North Dakota	\$ 32,959	\$ 2,324
Investments at the Bank of North Dakota	281	260
Leases receivable	9,491	9,185
Investment interest receivable, Bank of North Dakota	81	37
Lease interest receivable	595	504
Total restricted current assets	<u>43,407</u>	<u>12,310</u>
NONCURRENT ASSETS - RESTRICTED		
Cash and cash equivalents at the Bank of North Dakota	-	384
Investments at the Bank of North Dakota	12,912	9,378
Lease receivable	84,371	87,895
Deferred bond financing costs, net	1,373	1,115
Total restricted noncurrent assets	<u>98,656</u>	<u>98,772</u>
Total assets	<u>\$ 142,063</u>	<u>\$ 111,082</u>
LIABILITIES		
CURRENT LIABILITIES		
Due to state agencies	\$ 1,053	\$ 308
Due to colleges and universities	1,440	631
Bonds payable	9,715	9,185
Interest payable	595	504
Total current liabilities	<u>12,803</u>	<u>10,628</u>
NONCURRENT LIABILITIES		
Rebate due to IRS	3	2
Bonds payable	129,257	100,452
Total noncurrent liabilities	<u>129,260</u>	<u>100,454</u>
Total liabilities	<u>142,063</u>	<u>111,082</u>
FUND NET ASSETS	<u>-</u>	<u>-</u>
Total liabilities and fund net assets	<u>\$ 142,063</u>	<u>\$ 111,082</u>

NORTH DAKOTA BUILDING AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005
(In Thousands)

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Lease interest	\$ 4,202	\$ 4,654
Other	46	55
	<u>4,248</u>	<u>4,709</u>
OPERATING EXPENSES		
Interest expense	5,736	5,057
Expense (benefit) from arbitrage rebate due to IRS	1	(36)
Operating	65	72
	<u>5,802</u>	<u>5,093</u>
OPERATING LOSS	(1,554)	(384)
NONOPERATING REVENUE		
Investment interest	<u>1,554</u>	<u>384</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, 2006 AND 2005
(In Thousands)

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Receipts of rent	\$ 9,064	\$ 6,444
Receipts of additional rent and other	46	55
Payment to project vendors	(4,257)	(13,298)
Payments to service providers	(65)	(72)
Payment of rebate to IRS	-	(3)
Net cash from (used for) operating activities	<u>4,788</u>	<u>(6,874)</u>
NONCAPITAL FINANCING ACTIVITIES		
Proceeds from issuance of bonds payable	48,601	-
Principal payment on bonds payable	(19,135)	(6,205)
Bond financing costs	(392)	-
Interest paid on bonds payable	(5,642)	(4,992)
Net cash from (used for) non-capital financing activities	<u>23,432</u>	<u>(11,197)</u>
INVESTING ACTIVITIES		
Interest received	5,586	3,732
Proceeds from sale and maturity of investment securities	13,893	14,975
Purchase of investment securities	(17,448)	(13,895)
Net cash from investing activities	<u>2,031</u>	<u>4,812</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	30,251	(13,259)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,708</u>	<u>15,967</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 32,959</u>	<u>\$ 2,708</u>
RECONCILIATION OF OPERATING LOSS TO TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (1,554)	\$ (384)
Adjustments to reconcile operating loss		
Amortization of bond financing costs	134	111
Net amortization of bond premium and deferred loss	(131)	(126)
Reclassification of interest income and expense to other activities	1,531	418
Changes in assets and liabilities:		
Lease receivable	3,253	(6,242)
Arbitrage rebate payable	1	(36)
Due to state agencies	744	(703)
Due to colleges and universities	810	88
NET CASH FORM (USED FOR) OPERATING ACTIVITIES	<u>\$ 4,788</u>	<u>\$ (6,874)</u>

NORTH DAKOTA BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(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, 2006, 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	\$ 32,959	\$ 32,959	\$ -	\$ -	\$ -
Certificates of deposit recorded as investments	<u>13,193</u>	<u>1,348</u>	<u>7,312</u>	<u>1,961</u>	<u>2,572</u>
	<u>\$ 46,152</u>	<u>\$ 34,307</u>	<u>\$ 7,312</u>	<u>\$ 1,961</u>	<u>\$ 2,572</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	\$ 32,959	\$ 281	\$ 33,240
Non-current assets - restricted	<u>-</u>	<u>12,912</u>	<u>12,912</u>
	<u>\$ 32,959</u>	<u>\$ 13,193</u>	<u>\$ 46,152</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>2006</u>	<u>2005</u>
Construction	\$ 29,707	\$ 1,997
Debt service	3,252	711
	<u>\$ 32,959</u>	<u>\$ 2,708</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, 2006, future minimum lease payments under agreements are as follows:

2007	\$ 9,491
2008	10,525
2009	10,570
2010	9,380
2011	9,591
2012-2016	32,121
2017-2021	12,184
	<u>93,862</u>
	<u>\$ 93,862</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 - LONG-TERM DEBT

Changes in Bonds Payable

The following is a summary of changes in bonds payable for the years ended June 30, 2006 and 2005:

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	109,637
Additions	48,601
Retirements	19,135
Amortization of deferred amount of refunding, deferred bond financing costs and bond premium	<u>(131)</u>
Balance, June 30, 2006	<u>\$ 138,972</u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

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,			
2007	\$ 9,715	\$ 5,830	\$ 15,545
2008	10,525	5,421	15,946
2009	10,750	4,977	15,727
2010	11,055	4,473	15,528
2011	10,725	3,970	14,695
2012-2016	41,385	13,999	55,384
2017-2021	27,795	6,743	34,538
2022-2024	16,555	1,330	17,885
	<u>138,505</u>	<u>46,743</u>	<u>185,248</u>
Unamortized bond premium	1,616	(1,616)	-
Unamortized deferred amount on refunding	<u>(1,149)</u>	<u>1,149</u>	<u>-</u>
	<u>\$ 138,972</u>	<u>\$ 46,276</u>	<u>\$ 185,248</u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

The following summarizes the Authority's bonds outstanding at June 30, 2006 and 2005:

<u>Description and Due Date</u>	<u>Interest Rate</u>	<u>Original Value</u>	<u>2006</u>	<u>2005</u>
Series 98A Bonds 12/1/04-6/1/19	4.40 - 5.125	\$ 8,360	\$ -	6,625
Series 98B Bonds 12/1/04-6/1/11	4.50 - 5.00	11,340	5,750	6,880
Series 98C Bonds 12/1/04-12/1/09	4.00 - 4.35	3,400	1,360	1,685
Series 00A Bonds 12/1/04-12/1/19	5.125 - 5.60	4,400	-	3,835
Series 01A Bonds 12/1/04-12/1/22	4.00 - 5.125	13,200	12,045	12,505
Series 02A Bonds 12/1/04-12/1/22	3.50 - 5.35	9,595	8,950	9,275
Series 02B Bonds 12/1/04-12/1/06	4.50 - 5.20	1,535	405	795
Series 02C Bonds 8/15/04-8/15/14	3.00 - 4.30	10,665	8,724	9,394
Series 02D Bonds 12/1/04-12/1/16 (net of deferred loss on refunding of \$740 and \$807)	3.00 - 4.50	16,425	12,368	13,136
Series 03A Bonds 6/1/04-6/1/10	5.25	15,145	9,653	11,940
Series 03B Bonds 12/1/05-12/1/22	2.00 - 5.00	13,080	12,621	13,123
Series 03C Bonds 12/1/05-12/1/13	3.50 - 5.25	20,000	18,499	20,444
Series 05A Bonds 12/1/09-12/1/24	4.25 - 4.50	37,955	38,494	-
Series 06A Bonds 12/1/06-12/1/19 (net of deferred loss on refunding of \$409)	4.00	10,460	10,103	-
Total bonds payable			138,972	109,637
Less current portion			9,715	9,185
Long-term portion			\$ 129,257	\$ 100,452

(continued on next page)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

1998 Series A and 2000 Series A (Defeased Debt)

February 15, 2006, the Authority issued \$10,460 Lease Revenue Refunding Bonds, 2006A. The proceeds of the issue were for an advance refunding of 1998 Series A and 2000 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 \$438. 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 fourteen years by \$440 and resulted in an economic gain of \$288. As of June 30, 2006, there were bonds of \$9,950 outstanding.

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.

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.

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.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

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.

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.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

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.

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 loan agreements, including all basic rent payments, investment earnings on the funds and any other income derived by the Authority with respect to the loans.

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 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)

Reserve Funds

	2006		2005	
	Required Reserve Balance	Reserve Balance	Required Reserve Balance	Reserve Balance
1998A	\$ -	\$ -	\$ 663	\$ 663
1998B	1,134	1,134	1,134	1,134
1998C	340	340	340	340
2000A	-	-	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
2005A	3,289	3,289	-	-
2006A	1,046	1,046	-	-
	<u>\$ 15,050</u>	<u>\$ 15,050</u>	<u>\$ 11,758</u>	<u>\$ 11,762</u>

* Bank of North Dakota Letter of Credit

The 1998, 2000, 2001, 2002, 2003, 2005 and 2006 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.

College and university and State Historical Society portion of bonds payable included on the balance sheet of North Dakota Building Authority is \$3,090 and their portion including interest of \$45 is:

	1993 A Bonds	2001 A Bonds	2005A Bonds	Total
North Dakota State University	\$ 111	\$ -	\$ -	\$ 111
University of North Dakota	57	-	-	57
North Dakota State College of Science	63	-	-	63
Minot State University	394	1,460	-	1,854
Williston State College	-	750	-	750
State Historical Society	-	-	300	300
Total	<u>\$ 625</u>	<u>\$ 2,210</u>	<u>\$ 300</u>	<u>\$ 3,135</u>

(continued on next page)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

Debt service requirements of the colleges and universities and State Historical Society:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 651	\$ 20	\$ 671
2008	344	15	359
2009	694	10	704
2010	359	-	359
2011	392	-	392
2012-2016	484	-	484
2017-2021	100	-	100
2022-2024	66	-	66
	<u>\$ 3,090</u>	<u>\$ 45</u>	<u>\$ 3,135</u>

NOTE 5 - 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, 2006, and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Dickinson State University	\$ 312	\$ 402
Minot State University - Bottineau	627	-
North Dakota State College of Science	398	-
North Dakota State University	35	-
University of North Dakota	68	229
Department of Corrections	513	308
Office of Management and Budget	346	-
State Historical Society	172	-
Parks and Recreation Department	22	-
	<u>\$ 2,493</u>	<u>\$ 939</u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

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, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Series 2000 A	\$ <u>3</u>	\$ <u>2</u>

NOTE 7 - PROJECT FINANCING

	<u>2006</u>	<u>2005</u>
Construction Funding		
University System		
Dickinson State University	\$ 1,368	\$ 3,948
Mayville State University	-	111
Minot State University - Bottineau	964	-
North Dakota State College of Science	398	-
North Dakota State University	35	-
University of North Dakota	154	885
Valley City State University	-	400
Other		
Attorney General	371	-
Department of Corrections	1,005	1,793
Department of Health	-	904
Information Technology Department	-	4,645
Office of Management and Budget	701	-
Parks and Recreation Department	44	-
State Historical Society	772	-
	<u>\$ 5,812</u>	<u>\$ 12,686</u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

	<u>2006</u>	<u>2005</u>
Lease Receipts		
NDUS Office/Campuses	\$ 7,616	\$ 7,418
ITD	2,704	-
State Penitentiary	1,443	1,911
Health and Consolidate	195	192
National Guard	29	61
Soldiers Improvement	116	234
Job Service	241	273
Human Services	841	1,757
	<u>\$ 13,185</u>	<u>\$ 11,846</u>

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, 2006, and 2005, were \$51 and \$27. For the years ending June 30, 2006, and 2005, expenses of \$41 and \$27 are reflected in the statement of revenues, expenses and changes in fund nets assets and \$10 and \$0 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, 2006, and 2005, were \$7 and \$1.

The Authority also obtains accounting services from the North Dakota Public Finance Authority. Fees paid for these services for the years ended June 30, 2006, and 2005, were \$4 and \$4.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

NOTE 9 - COMMITMENTS

The Authority has committed funds to complete various construction and modernization programs at June 30, 2006 as follows:

	<u>Amount</u>
Attorney General	\$ 3,262
Department of Corrections	626
Historical Society	5,828
Office of Management and Budget	2,454
Parks and Recreation	306
Dickinson State University	3,122
Minot State University - Bottineau	1,536
North Dakota State College of Science	337
North Dakota State University	3,465
Research/Extension Centers	2,710
University of North Dakota	2,447
	<hr/>
	\$ <u>26,093</u>

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.



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 the basic financial statements of the **North Dakota Building Authority** as of and for the year ended June 30, 2006 and have issued our report thereon dated August 15, 2006. 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*.

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

1050 E Interstate Ave. ■ PO Box 1914 ■ Bismarck, North Dakota 58502-1914 ■ Phone 701.255.1091 ■ Fax 701.224.1582 ■ EOE

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 15, 2006
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, 2006**

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, 2006 audit of the Authority are as follows:

Audit Report Communications:

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

Unqualified

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. There were no recommendations stated in the management 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 these 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 financial accounting, reporting, or auditing matter that could be significant to the financial statements.**

None

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

None

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

None

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

The agency does not consult with any other accountants regarding auditing or accounting matters.

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

None

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

August 15, 2006
Bismarck, North Dakota