

NORTH DAKOTA BUILDING AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

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 24
Independent Auditor’s Specific Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee	A-2 26
Independent Auditor’s Communication to the Industrial Commission of North Dakota	B-1 28

INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

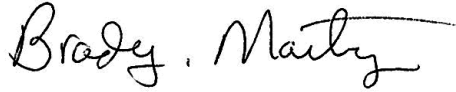
We have audited the accompanying balance sheet of the North Dakota Building Authority (a component unit of the State of North Dakota) as of June 30, 2007 and the related statements of revenues, expenses and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of the North Dakota Building Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The June 30, 2006 financial statements were audited by other auditors whose report, dated August 15, 2006, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Dakota Building Authority as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2007 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.



BRADY, MARTZ & ASSOCIATES, P.C.

September 17, 2007

NORTH DAKOTA BUILDING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007 and 2006
(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, 2007 and 2006. Please read it in conjunction with the Authority's financial statements and footnotes, which are presented within this report.

FINANCIAL HIGHLIGHTS:

The 2007 Legislative session authorized one construction project for the coming biennium. During the fiscal year ended 2007, the Authority advance refunded a portion of the 2001A bonds with the issuance of \$9,770 Series 2006B bonds. 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 decreased \$13,218 to \$19,741 at June 30, 2007 as a result of the construction projects progressing. Many of the projects have started construction and others are set to commence soon. It is anticipated that cash balances will steadily decline as the projects continue 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 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 SHEETS
JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS - RESTRICTED	\$ 33,124	\$ 43,407
NONCURRENT ASSETS - RESTRICTED	99,212	98,656
TOTAL ASSETS	\$ 132,336	\$ 142,063
 LIABILITIES		
CURRENT LIABILITIES	\$ 13,812	\$ 12,803
NONCURRENT LIABILITIES	118,524	129,260
TOTAL LIABILITIES	132,336	142,063
 FUND NET ASSETS	-	-
TOTAL LIABILITIES & FUND NET ASSETS	\$ 132,336	\$ 142,063

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.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Lease interest	\$ 4,002	\$ 4,202
Other	53	46
	<u>4,055</u>	<u>4,248</u>
NONOPERATING REVENUE		
Investment interest	<u>1,612</u>	<u>1,554</u>
TOTAL REVENUE	<u>5,667</u>	<u>5,802</u>
OPERATING EXPENSES		
Interest expense	5,582	5,736
Provision for Arbitrage Rebate due to IRS	3	1
Operating	82	65
	<u>5,667</u>	<u>5,802</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 year, there were no changes to the Authority's bond rating.

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, 2007 AND 2006
(In Thousands)

ASSETS	<u>2007</u>	<u>2006</u>
CURRENT ASSETS - RESTRICTED		
Cash and cash equivalents at the Bank of North Dakota	\$ 19,741	\$ 32,959
Investments at the Bank of North Dakota	2,244	281
Leases receivable	10,496	9,491
Investment interest receivable, Bank of North Dakota	92	81
Lease interest receivable	551	595
	<u>33,124</u>	<u>43,407</u>
NONCURRENT ASSETS - RESTRICTED		
Investments at the Bank of North Dakota	10,712	12,912
Lease receivable	87,116	84,371
Deferred bond financing costs, net	1,384	1,373
	<u>99,212</u>	<u>98,656</u>
Total restricted current assets		43,407
Total restricted noncurrent assets	<u>99,212</u>	<u>98,656</u>
Total assets	<u>\$ 132,336</u>	<u>\$ 142,063</u>
LIABILITIES		
CURRENT LIABILITIES		
Due to state agencies	\$ 1,900	\$ 1,053
Due to colleges and universities	821	1,440
Bonds payable	10,540	9,715
Interest payable	551	595
	<u>13,812</u>	<u>12,803</u>
Total current liabilities		12,803
NONCURRENT LIABILITIES		
Rebate due to IRS	1	3
Bonds payable	118,523	129,257
	<u>118,524</u>	<u>129,260</u>
Total noncurrent liabilities		129,260
Total liabilities	<u>132,336</u>	<u>142,063</u>
FUND NET ASSETS		
	<u>-</u>	<u>-</u>
Total liabilities and fund net assets	<u>\$ 132,336</u>	<u>\$ 142,063</u>

NORTH DAKOTA BUILDING AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2007 AND 2006
(In Thousands)

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Lease interest	\$ 4,002	\$ 4,202
Other	53	46
	<u>4,055</u>	<u>4,248</u>
OPERATING EXPENSES		
Interest expense	5,582	5,736
Expense from arbitrage rebate due to IRS	3	1
Operating	82	65
	<u>5,667</u>	<u>5,802</u>
OPERATING LOSS	(1,612)	(1,554)
NONOPERATING REVENUE		
Investment interest	<u>1,612</u>	<u>1,554</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, 2007 AND 2006
(In Thousands)

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Receipts of rent	\$ 9,239	\$ 9,064
Receipts of additional rent and other	53	46
Payment to project vendors	(12,167)	(4,257)
Payments to service providers	(82)	(65)
Payment of rebate to IRS	(5)	-
Net cash from (used for) operating activities	<u>(2,962)</u>	<u>4,788</u>
NONCAPITAL FINANCING ACTIVITIES		
Proceeds from issuance of bonds payable	9,316	48,601
Principal payment on bonds payable	(19,120)	(19,135)
Bond financing costs	(154)	(392)
Interest paid on bonds payable	(5,588)	(5,642)
Net cash from (used for) non-capital financing activities	<u>(15,546)</u>	<u>23,432</u>
INVESTING ACTIVITIES		
Interest received	5,053	5,586
Proceeds from sale and maturity of investment securities	1,347	13,893
Purchase of investment securities	(1,110)	(17,448)
Net cash from investing activities	<u>5,290</u>	<u>2,031</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(13,218)	30,251
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>32,959</u>	<u>2,708</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 19,741</u>	<u>\$ 32,959</u>
RECONCILIATION OF OPERATING LOSS TO TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (1,612)	\$ (1,554)
Adjustments to reconcile operating loss		
Amortization of bond financing costs	143	134
Net amortization of bond premium and deferred loss	(105)	(131)
Reclassification of interest income and expense to other activities	1,542	1,531
Changes in assets and liabilities:		
Lease receivable	(3,156)	3,253
Arbitrage rebate payable	(2)	1
Due to state agencies	847	744
Due to colleges and universities	(619)	810
NET CASH FORM (USED FOR) OPERATING ACTIVITIES	<u>\$ (2,962)</u>	<u>\$ 4,788</u>

NORTH DAKOTA BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006
(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, 2007, the Building Authority had the following deposits (amount in thousands):

	Bank Balance	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Cash	\$ 19,741	\$ 19,741	\$ -	\$ -	\$ -
Certificates of deposit recorded as investments	12,956	2,244	8,140	1,526	1,046
	<u>\$32,697</u>	<u>\$ 21,985</u>	<u>\$ 8,140</u>	<u>\$ 1,526</u>	<u>\$ 1,046</u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

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

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Current assets - restricted	\$ 19,741	\$ 2,244	\$ 21,985
Non-current assets - restricted	-	10,712	10,712
	<u>\$ 19,741</u>	<u>\$ 12,956</u>	<u>\$ 32,697</u>

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>2007</u>	<u>2006</u>
Construction	\$ 18,063	\$ 29,707
Debt service	1,678	3,252
	<u>\$ 19,741</u>	<u>\$ 32,959</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, 2007, future minimum lease payments under agreements are as follows:

2008	\$ 10,496
2009	10,606
2010	8,898
2011	9,046
2012	9,460
2013-2017	36,147
2018-2022	12,683
2023	276
	<u>97,612</u>
	<u>\$ 97,612</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, 2007 and 2006:

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	138,972
Additions	9,316
Retirements	(19,120)
Amortization of deferred amount of refunding, deferred bond financing costs and bond premium	<u>(105)</u>
Balance, June 30, 2007	<u>\$ 129,063</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,			
2008	\$ 10,540	\$ 5,363	\$ 15,903
2009	10,785	4,918	15,703
2010	11,090	4,412	15,502
2011	10,760	3,907	14,667
2012	9,460	3,483	12,943
2013-2017	38,740	12,000	50,740
2018-2022	26,250	5,397	31,647
2023-2024	11,530	683	12,213
	<u>129,155</u>	<u>40,163</u>	<u>169,318</u>
Unamortized bond premium	1,415	(1,415)	-
Unamortized deferred amount on refunding	<u>(1,507)</u>	<u>1,507</u>	<u>-</u>
	<u>\$ 129,063</u>	<u>\$ 40,255</u>	<u>\$ 169,318</u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

The following summarizes the Authority's bonds outstanding at June 30, 2007 and 2006:

<u>Description and Due Date</u>	<u>Interest Rate</u>	<u>Original Value</u>	<u>2007</u>	<u>2006</u>
Series 98B Bonds 12/1/04-6/1/11	4.50 - 5.00	\$ 11,340	\$ 4,595	\$ 5,750
Series 98C Bonds 12/1/04-12/1/09	4.00 - 4.35	3,400	1,020	1,360
Series 01A Bonds 12/1/04-12/1/22	4.00 - 5.125	13,200	2,160	12,045
Series 02A Bonds 12/1/04-12/1/22	3.50 - 5.35	9,595	8,610	8,950
Series 02B Bonds 12/1/04-12/1/06	4.50 - 5.20	1,535	-	405
Series 02C Bonds 8/15/04-8/15/14	3.00 - 4.30	10,665	8,030	8,724
Series 02D Bonds 12/1/04-12/1/16 (net of deferred loss on refunding of \$673 and \$740)	3.00 - 4.50	16,425	11,587	12,368
Series 03A Bonds 6/1/04-6/1/10	5.25	15,145	7,246	9,653
Series 03B Bonds 12/1/05-12/1/22	2.00 - 5.00	13,080	12,108	12,621
Series 03C Bonds 12/1/05-12/1/13	3.50 - 5.25	20,000	16,483	18,499
Series 05A Bonds 12/1/09-12/1/24	4.25 - 4.50	37,955	38,463	38,494
Series 06A Bonds 12/1/06-12/1/19 (net of deferred loss on refunding of \$380 and \$409)	4.00	10,460	9,418	10,103
Series 06B Bonds 12/1/07-12/1/22 (net of deferred loss on refunding of \$455)	4.00 - 4.25	9,770	9,343	-
Total bonds payable			129,063	138,972
Less current portion			10,540	9,715
Long-term portion			\$ 118,523	\$ 129,257

(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, 2007, there were bonds of \$9,315 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 lease 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 lease payments, investment earnings on the funds and any other income derived by the Authority with respect to the lease.

2001 Series A (Defeased Debt)

November 15, 2006, the Authority issued \$9,770 Lease Revenue Refunding Bonds, 2006B. The proceeds of the issue were for an advance refunding of a portion of the 2001 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 \$483. 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 \$627 and resulted in an economic gain of \$520. As of June 30, 2007, there were bonds of \$9,405 outstanding.

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 lease 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 lease 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 lease 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 lease 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 lease 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 lease 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 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.

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.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

Reserve Funds

	2007		2006	
	Required Reserve Balance	Reserve Balance	Required Reserve Balance	Reserve Balance
1998B	\$ 1,134	\$ 1,134	\$ 1,134	\$ 1,134
1998C	340	340	340	340
2001A	120	120	1,097	1,097
2002A	864	864	864	864
2002B	-	-	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	3,289	3,289
2006A	1,046	1,046	1,046	1,046
2006B	977	977	-	-
	<u>\$ 14,912</u>	<u>\$ 14,912</u>	<u>\$ 15,050</u>	<u>\$ 15,050</u>

* Bank of North Dakota Letter of Credit

The 1998, 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 \$2,439 and their portion including interest of \$25 is:

	1993 A Bonds	2001 A Bonds	2005A Bonds	Total
North Dakota State University	\$ 56	\$ -	\$ -	\$ 56
University of North Dakota	29	-	-	29
North Dakota State College of Science	32	-	-	32
Minot State University	196	1,251	-	1,447
Williston State College	-	600	-	600
State Historical Society	-	-	300	300
Total	<u>\$ 313</u>	<u>\$ 1,851</u>	<u>\$ 300</u>	<u>\$ 2,464</u>

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>
2008	\$ 344	\$ 15	\$ 359
2009	694	10	704
2010	359	-	359
2011	392	-	392
2012	209	-	209
2013-2017	309	-	309
2018-2022	66	-	66
2023-2024	66	-	66
	<u>\$ 2,439</u>	<u>\$ 25</u>	<u>\$ 2,464</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, 2007, and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
Dickinson State University	\$ 70	\$ 312
Minot State University - Bottineau	-	627
North Dakota State College of Science	-	398
North Dakota State University	710	35
University of North Dakota	41	68
Office of the Attorney General	133	-
Department of Corrections	122	513
Office of Management and Budget	400	346
State Historical Society	1,245	172
Parks and Recreation Department	-	22
	<u>\$ 2,721</u>	<u>\$ 2,493</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, 2007 and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
Series 2000 A	\$ 1	\$ 3

NOTE 7 - PROJECT FINANCING

	<u>2007</u>	<u>2006</u>
Construction Funding		
University System		
Dickinson State University	\$ 2,665	\$ 1,368
Minot State University - Bottineau	1,536	964
North Dakota State College of Science	337	398
North Dakota State University	675	35
University of North Dakota	268	154
Other		
Attorney General	133	371
Department of Corrections	322	1,005
Office of Management and Budget	2,281	701
Parks and Recreation Department	307	44
State Historical Society	4,052	772
	<u>\$ 12,576</u>	<u>\$ 5,812</u>
	<u>2007</u>	<u>2006</u>
Lease Receipts		
NDUS Office/Campuses	\$ 7,217	\$ 7,616
ITD	2,696	2,704
State Penitentiary	1,498	1,443
Health and Consolidate	330	195
National Guard	30	29
Soldiers Improvement	116	116
Job Service	233	241
Human Services	807	841
	<u>\$ 12,927</u>	<u>\$ 13,185</u>

NOTES TO FINANCIAL STATEMENTS
(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, 2007, and 2006, were \$49 and \$51. For the years ending June 30, 2007, and 2006, expenses of \$44 and \$41 are reflected in the statement of revenues, expenses and changes in fund nets assets and \$5 and \$10 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, 2007, and 2006, were \$3 and \$7.

The Authority also obtains accounting services from the North Dakota Public Finance Authority. Fees paid for these services for the years ended June 30, 2007, and 2006, were \$5 and \$4.

NOTE 9 - COMMITMENTS

The Authority has committed funds to complete various construction and modernization programs at June 30, 2007 as follows:

	<u>Amount</u>
Attorney General	\$ 3,129
Department of Corrections	303
Historical Society	1,776
Office of Management and Budget	173
Dickinson State University	457
North Dakota State University	5,500
University of North Dakota	2,179
	<u>\$ 13,517</u>

The 2007 legislature authorized the Authority to bond up to \$2,575 during the 2007-2009 biennium for the Veteran's Home construction project.

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.

**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 financial statements of the North Dakota Building Authority as of and for the year ended June 30, 2007, which collectively comprise the North Dakota Building Authority's basic financial statements and have issued our report thereon dated September 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

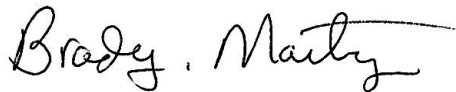
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit 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*.

This report is intended solely for the information and use of the North Dakota Industrial Commission, 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.



BRADY, MARTZ & ASSOCIATES, P.C.

September 17, 2007

**NORTH DAKOTA BUILDING AUTHORITY
AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED JUNE 30, 2007**

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, 2007 audit of the Authority are as follows:

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.

No.

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

Brady, Marty

BRADY, MARTZ & ASSOCIATES, P.C.

September 17, 2007

**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, 2007, and have issued our report thereon dated September 17, 2007. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

As stated in our engagement letter dated June 30, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts, may exist and not be detected by us.

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

SIGNIFICANT ACCOUNTING POLICIES

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by North Dakota Building Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2007. We noted no transactions entered into by the North Dakota Building Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

ACCOUNTING ESTIMATES

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

AUDIT ADJUSTMENTS

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

DISAGREEMENTS WITH MANAGEMENT

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

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

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

ISSUES DISCUSSED PRIOR TO RETENTION OF INDEPENDENT AUDITORS

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

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit. Rather, we received excellent cooperation on a timely basis from management and accounting personnel regarding information and client-prepared schedules that we requested. The timetable set by management was reasonable under the circumstances and client personnel were available when needed.

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

Brady, Marty

BRADY, MARTZ & ASSOCIATES, P.C.

September 17, 2007