

NORTH DAKOTA BUILDING AUTHORITY

FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NORTH DAKOTA BUILDING AUTHORITY

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

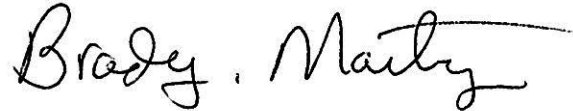
We have audited the accompanying financial statements of the North Dakota Building Authority, a component unit of the State of North Dakota, as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of North Dakota Building Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audits 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 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 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, 2010 and 2009, 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 September 28, 2010 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.

A handwritten signature in cursive script that reads "Brady, Martz". The signature is written in black ink and is positioned above the printed name of the firm.

BRADY, MARTZ & ASSOCIATES, P.C.

September 28, 2010

NORTH DAKOTA BUILDING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010 and 2009
(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, 2010, 2009 and 2008. Please read it in conjunction with the Authority's financial statements and footnotes, which are presented within this report.

FINANCIAL HIGHLIGHTS:

There were no new construction projects or bond issues in the years ended June 30, 2010, 2009 and 2008. The 2009 Legislature authorized the Authority to bond up to \$2,575 during the 2009-2011 biennium for the Veteran's Home Construction. It is anticipated bonds for this project will be issued in the next fiscal year.

Cash has decreased \$654 to \$3,278 at June 30, 2010 and \$6,886 to \$3,932 at June 30, 2009, as a result of the construction projects progressing. Many of the projects authorized during the 2005 Legislative session have completed construction and others are nearing completion. It is anticipated that cash balances will steadily decline as the projects continue to progress.

Current investments at the Bank of North Dakota has decreased \$3,321 at June 30, 2010 as a result of paying bond requirements with funds from maturing investments.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands)

CONDENSED BALANCE SHEETS
JUNE 30, 2010, 2009 AND 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
ASSETS			
CURRENT ASSETS - RESTRICTED	\$ 16,872	\$ 22,740	\$ 29,254
NONCURRENT ASSETS - RESTRICTED	<u>78,169</u>	<u>85,759</u>	<u>91,568</u>
TOTAL ASSETS	<u>\$ 95,041</u>	<u>\$ 108,499</u>	<u>\$ 120,822</u>
LIABILITIES			
CURRENT LIABILITIES	\$ 9,465	\$ 12,059	\$ 13,160
NONCURRENT LIABILITIES	<u>85,576</u>	<u>96,440</u>	<u>107,662</u>
TOTAL LIABILITIES	<u>95,041</u>	<u>108,499</u>	<u>120,822</u>
FUND NET ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL LIABILITIES & FUND NET ASSETS	<u>\$ 95,041</u>	<u>\$ 108,499</u>	<u>\$ 120,822</u>

Cash and Investments

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

Leases Receivable

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

Bonds Payable

In order to provide state agencies with funds to finance projects, the Authority has issued bonds to facilitate the purchase of the lease. The bonds payable are included in the restricted current and noncurrent liabilities of the preceding statement. The bonds are direct obligations of the Authority and are secured by leases purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions. Further details are contained in Note 4 to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(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, 2010, 2009 AND 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
OPERATING REVENUES			
Lease interest	\$ 3,876	\$ 4,206	\$ 4,237
Other	32	26	38
	<u>3,908</u>	<u>4,232</u>	<u>4,275</u>
NONOPERATING REVENUE			
Investment interest	<u>526</u>	<u>765</u>	<u>1,175</u>
TOTAL REVENUE	<u>4,434</u>	<u>4,997</u>	<u>5,450</u>
OPERATING EXPENSES			
Interest expense	4,326	4,905	5,352
Provision for Arbitrage Rebate due to IRS	32	27	28
Operating	76	65	70
	<u>4,434</u>	<u>4,997</u>	<u>5,450</u>
CHANGE IN NET ASSETS	-	-	-
TOTAL FUND NET ASSETS, BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUND NET ASSETS, END OF YEAR	<u>\$ -</u>	<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
(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 State Legislature at the beginning of each legislative session. The Authority has continuing appropriation from monies received from the sale of indebtedness, lease payments and revenues generated by projects authorized by the legislature for the acquisition of authorized projects and the payment of rentals for these projects.

The Authority's bond rating is AA for the year ending June 30, 2010. During the year ending June 30, 2009, the Authority's bond rating changed from AA- to AA.

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, 2010 AND 2009
(In Thousands)

ASSETS	2010	2009
CURRENT ASSETS - RESTRICTED		
Cash and cash equivalents at the Bank of North Dakota	\$ 3,278	\$ 3,932
Investments at the Bank of North Dakota	4,406	7,727
Leases receivable	8,809	10,573
Investment interest receivable, Bank of North Dakota	42	50
Lease interest receivable	337	458
Total restricted current assets	<u>16,872</u>	<u>22,740</u>
NONCURRENT ASSETS - RESTRICTED		
Investments at the Bank of North Dakota	5,599	5,599
Lease receivable	71,604	79,054
Deferred bond financing costs, net	966	1,106
Total restricted noncurrent assets	<u>78,169</u>	<u>85,759</u>
Total assets	<u>\$ 95,041</u>	<u>\$ 108,499</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 3	\$ -
Due to colleges and universities	108	455
Rebate due to IRS	87	56
Bonds payable	8,930	11,090
Interest payable	337	458
Total current liabilities	<u>9,465</u>	<u>12,059</u>
NONCURRENT LIABILITIES		
Bonds payable	<u>85,576</u>	<u>96,440</u>
Total liabilities	<u>95,041</u>	<u>108,499</u>
FUND NET ASSETS		
Total liabilities and fund net assets	<u>\$ 95,041</u>	<u>\$ 108,499</u>

NORTH DAKOTA BUILDING AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009
(In Thousands)

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Lease interest	\$ 3,876	\$ 4,206
Other	32	26
	<u>3,908</u>	<u>4,232</u>
OPERATING EXPENSES		
Interest expense	4,326	4,905
Expense from arbitrage rebate due to IRS	32	27
Operating	76	65
	<u>4,434</u>	<u>4,997</u>
OPERATING LOSS	(526)	(765)
NONOPERATING REVENUE		
Investment interest	526	765
CHANGE IN NET ASSETS	-	-
TOTAL FUND NET ASSETS, BEGINNING OF YEAR	-	-
TOTAL FUND NET ASSETS, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>

NORTH DAKOTA BUILDING AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009
(In Thousands)

	2010	2009
OPERATING ACTIVITIES		
Receipts of rent	\$ 10,276	\$ 10,738
Receipts of additional rent and other	32	26
Payment to project vendors	(731)	(6,061)
Payments to service providers	(76)	(65)
Net cash from operating activities	<u>9,501</u>	<u>4,638</u>
NONCAPITAL FINANCING ACTIVITIES		
Principal payment on bonds payable	(12,920)	(10,785)
Interest paid on bonds payable	(4,411)	(4,919)
Net cash used for non-capital financing activities	<u>(17,331)</u>	<u>(15,704)</u>
INVESTING ACTIVITIES		
Interest received	3,855	4,643
Proceeds from sale and maturity of investment securities	8,833	8,459
Purchase of investment securities	(5,512)	(8,922)
Net cash from investing activities	<u>7,176</u>	<u>4,180</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(654)	(6,886)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,932	10,818
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,278	\$ 3,932
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (526)	\$ (765)
Adjustments to reconcile operating loss		
Amortization of bond financing costs	140	138
Net amortization of bond premium and deferred loss	(104)	(104)
Reclassification of interest income and expense to other activities	415	664
Changes in assets and liabilities:		
Lease receivable	9,889	5,520
Arbitrage rebate payable	31	28
Accounts payable	3	-
Due to state agencies	-	27
Due to colleges and universities	(347)	(870)
NET CASH FROM OPERATING ACTIVITIES	\$ 9,501	\$ 4,638

NORTH DAKOTA BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009
(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 State Legislature at the beginning of each legislative session. The State Legislature enacts the budgets of the various State departments through passage of specific appropriation bills. The Governor has line item veto powers over all legislation subject to legislative override. Once passed and signed, the appropriation becomes the Authority's financial plan for the next two years. The Authority has continuing appropriation for monies received from the sale of indebtedness, lease payments and revenues generated by projects authorized by the legislature for the acquisition of authorized projects and the payment of rentals for these projects.

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, 2010, 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	\$ 3,278	\$ 3,278	\$ -	\$ -	\$ -
Certificates of deposit recorded as investments	10,005	4,406	3,027	2,572	-
	<u>\$13,283</u>	<u>\$ 7,684</u>	<u>\$ 3,027</u>	<u>\$ 2,572</u>	<u>\$ -</u>

As of June 30, 2009, 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	\$ 3,932	\$ 3,932	\$ -	\$ -	\$ -
Certificates of deposit recorded as investments	13,326	7,727	3,027	2,572	-
	<u>\$17,258</u>	<u>\$ 11,659</u>	<u>\$ 3,027</u>	<u>\$ 2,572</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

The above cash and investments are recorded in the balance sheet as follows as of June 30, 2010:

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Current assets - restricted	\$ 3,278	\$ 4,406	\$ 7,684
Non-current assets - restricted	-	5,599	5,599
	<u>\$ 3,278</u>	<u>\$ 10,005</u>	<u>\$ 13,283</u>

The above cash and investments are recorded in the balance sheet as follows as of June 30, 2009:

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Current assets - restricted	\$ 3,932	\$ 7,727	\$ 11,659
Non-current assets - restricted	-	5,599	5,599
	<u>\$ 3,932</u>	<u>\$ 13,326</u>	<u>\$ 17,258</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 of an outside party. The Building Authority's deposits are uncollateralized and all of the deposits are with the Bank of North Dakota. The deposits at the Bank of North Dakota are backed by the full faith and credit of the State of North Dakota.

Cash is restricted for the following purposes:

	<u>2010</u>	<u>2009</u>
Construction	\$ 3,148	\$ 3,795
Debt service	130	137
	<u>\$ 3,278</u>	<u>\$ 3,932</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 at the Bank of North Dakota.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

NOTE 3 - LEASES RECEIVABLE

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

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

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

The Authority is not required to make any expenditures in connection with the leases of the facilities. Upon expiration of a lease, the facility is conveyed to the appropriate agency. At June 30, 2010, future minimum lease payments under agreements are as follows:

2011	\$	8,809
2012		9,460
2013		9,195
2014		9,464
2015		6,065
2016-2020		26,588
2021-2025		10,832
		<hr/>
	\$	80,413
		<hr/> <hr/>

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.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

NOTE 4 - LONG-TERM DEBT

Changes in Bonds Payable

The following is a summary of changes in bonds payable for the years ended June 30, 2010 and 2009:

Balance, June 30, 2008	\$ 118,419
Additions	-
Retirements	(10,785)
Amortization of deferred amount of refunding, deferred bond financing costs and bond premium	(104)
Balance, June 30, 2009	107,530
Additions	-
Retirements	(12,920)
Amortization of deferred amount of refunding, deferred bond financing costs and bond premium	(104)
Balance, June 30, 2010	<u>\$ 94,506</u>

Maturities of Bonds Payable

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

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
Year Ending June 30,			
2011	\$ 8,930	\$ 3,861	\$ 12,791
2012	9,460	3,483	12,943
2013	9,195	3,101	12,296
2014	9,590	2,703	12,293
2015	7,005	2,344	9,349
2016-2020	29,160	7,763	36,923
2021-2025	21,570	2,170	23,740
	<u>94,910</u>	<u>25,425</u>	<u>120,335</u>
Unamortized bond premium	728	(728)	-
Unamortized deferred amount on refunding	(1,132)	1,132	-
	<u>\$ 94,506</u>	<u>\$ 25,829</u>	<u>\$ 120,335</u>

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

The following summarizes the Authority's bonds outstanding at June 30, 2010 and 2009:

<u>Description and Due Date</u>	<u>Interest Rate</u>	<u>Original Value</u>	<u>2010</u>	<u>2009</u>
Series 98B Bonds 12/1/04-6/1/11	4.75 - 5.00	\$ 11,340	\$ -	\$ 2,695
Series 98C Bonds 12/1/04-12/1/09	4.25 - 4.35	3,400	-	295
Series 01A Bonds 12/1/04-12/1/10	4.25 - 4.50	13,200	580	1,135
Series 02A Bonds 12/1/04-12/1/22	4.30 - 5.25	9,595	6,130	6,995
Series 02C Bonds 8/15/04-8/15/14	3.75 - 4.30	10,665	5,207	6,176
Series 02D Bonds 12/1/04-12/1/16 (net of deferred loss on refunding of \$471 and \$538)	3.75 - 4.50	16,425	8,615	9,642
Series 03A Bonds 6/1/04-6/1/10	5.25	15,145	-	1,507
Series 03B Bonds 12/1/05-12/1/22	2.50 - 5.00	13,080	10,346	10,963
Series 03C Bonds 12/1/05-12/1/13	3.50 - 5.25	20,000	9,966	12,222
Series 05A Bonds 12/1/09-12/1/24	4.25 - 4.50	37,955	36,684	38,404
Series 06A Bonds 12/1/06-12/1/19 (net of deferred loss on refunding of \$292 and \$321)	4.00	10,460	7,640	8,150
Series 06B Bonds 12/1/07-12/1/22 (net of deferred loss on refunding of \$369 and \$398)	4.00 - 4.25	9,770	9,338	9,346
Total bonds payable			94,506	107,530
Less current portion			8,930	11,090
Long-term portion			\$ 85,576	\$ 96,440

(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, 2010, these bonds were paid off.

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. As of June 30, 2010, these bonds were paid off.

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. As of June 30, 2010, these bonds were paid off.

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, 2010, 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 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. As of June 30, 2010, these bonds were paid off.

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.

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.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

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

	2010		2009	
	Required Reserve Balance	Reserve Balance	Required Reserve Balance	Reserve Balance
1998B	\$ -	\$ -	\$ 958	\$ 958
2001A	120	120	120	120
2002A	864	864	864	864
2002C	1,067	1,067	1,067	1,067
2002D	1,526	1,526	1,526	1,526
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	977	977
	<u>\$ 11,924</u>	<u>\$ 11,924</u>	<u>\$ 12,882</u>	<u>\$ 12,882</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 \$1,043:

	2001 A Bonds	2005A Bonds	Total
Minot State University	\$ 626	\$ -	\$ 626
Williston State College	150	-	150
State Historical Society	-	267	267
Total	<u>\$ 776</u>	<u>\$ 267</u>	<u>\$ 1,043</u>

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

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

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

2011	\$ 392
2012	209
2013	242
2014	0
2015	33
2016-2020	67
2021-2025	100
	<hr/>
	<u>\$ 1,043</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, 2010, and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
North Dakota State University	\$ -	\$ 430
Dickinson State University	39	-
University of North Dakota	69	25
	<hr/>	<hr/>
	<u>\$ 108</u>	<u>\$ 455</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, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Series 2000 A	\$ -	\$ 1
Series 2002 C & D	<u>87</u>	<u>55</u>
Current arbitrage payable	<u><u>\$ 87</u></u>	<u><u>\$ 56</u></u>

NOTE 7 - PROJECT FINANCING

	<u>2010</u>	<u>2009</u>
Construction Funding		
University System		
Dickinson State University	\$ 190	\$ -
North Dakota State University	3	2,620
University of North Dakota	193	220
Other		
Attorney General	-	1,798
State Historical Society	-	10
	<u><u>\$ 386</u></u>	<u><u>\$ 4,648</u></u>

	<u>2010</u>	<u>2009</u>
Lease Receipts		
NDUS Office/Campuses	\$ 6,699	\$ 8,690
ITD	2,700	2,701
State Penitentiary	1,539	1,487
Health and Consolidate	336	332
National Guard	34	34
Soldiers Improvement	-	124
Job Service	356	357
Attorney General	61	87
Extension Service	282	-
OMB	311	-
Parks and Recreation	36	-
Historical Society	389	125
Human Services	911	498
	<u><u>\$ 13,654</u></u>	<u><u>\$ 14,435</u></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, 2010, and 2009, were \$42 and \$42, respectively.

The Authority also obtains accounting services from the North Dakota Public Finance Authority. Fees paid for these services for the years ended June 30, 2010, and 2009, were \$3 and \$4, respectively.

NOTE 9 - COMMITMENTS

The Authority has committed funds to complete various construction and modernization programs at June 30, 2010 as follows:

	<u>Amount</u>
University of North Dakota	\$ 1,414
	<u>\$ 1,414</u>

The 2009 legislature authorized the Authority to bond up to \$2,575 during the 2009-2011 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, a component unit of the State of North Dakota, as of and for the year ended June 30, 2010, which collectively comprise the North Dakota Building Authority's basic financial statements and have issued our report thereon dated September 28, 2010. 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.

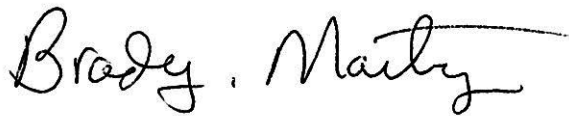
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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.

A handwritten signature in cursive script that reads "Brady, Martz". The signature is written in black ink and is positioned above the printed name of the firm.

BRADY, MARTZ & ASSOCIATES, P.C.

September 28, 2010



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**NORTH DAKOTA BUILDING AUTHORITY
AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED JUNE 30, 2010**

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, 2010 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.

No.

Audit Committee Communications:

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

None.

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

None.

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

None.

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

None.

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

None.

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

None.

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

None.

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

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

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



BRADY, MARTZ & ASSOCIATES, P.C.

September 28, 2010



**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, 2010, and have issued our report thereon dated September 28, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standard*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you May 21, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Building Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 28, 2010.

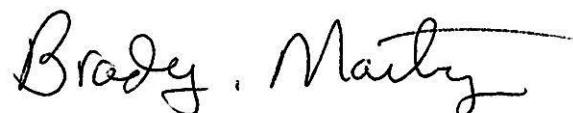
Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

This 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, MARTZ & ASSOCIATES, P.C.

September 28, 2010