

In the opinion of Bond Counsel, assuming compliance with the tax covenants described herein, interest on the Series A Bonds is excludable from gross income for the purpose of federal income taxation under existing law, and interest on the Series A Bonds is exempt from all State of North Dakota taxes except privilege taxes imposed on banks, trust companies and building and loan associations. Interest is not an item of tax preference in determining federal alternative minimum tax applicable to individuals and corporations; however, interest is includable in the calculation of certain federal taxes imposed on corporations. The Series A Bonds have not been designated as "qualified tax-exempt obligations" for financial institutions pursuant to Section 265(b)(3) of the Code. For further discussion, see "TAX MATTERS" herein.

NORTH DAKOTA BUILDING AUTHORITY
\$9,595,000
LEASE REVENUE BONDS, 2002 SERIES A
(the "Series A Bonds")

DATED: April 1, 2002**DUE:** December 1, as shown on the inside cover page

The Series A Bonds are issuable as fully registered Bonds and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series A Bonds. Purchases of Series A Bonds will be made in book-entry only form, in the principal amount of \$5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC participants. Beneficial owners of the Series A Bonds will not receive physical delivery of bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Series A Bonds. Interest is payable on December 1, 2002 and on each June 1 and December 1 thereafter. So long as DTC or its nominee is the registered owner of the Series A Bonds, payments of the principal or redemption price of and interest on the Series A Bonds will be made directly to DTC. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. See "THE BONDS--Book-Entry-Only System."

The Series A Bonds are subject to optional redemption and extraordinary optional redemption prior to maturity upon the occurrence of certain events as described under "THE BONDS - Redemption" herein.

The Series A Bonds are being issued to finance the acquisition, improving, equipping or construction of certain facilities (the "Projects") for the State Board of Higher Education, the North Dakota State Department of Health and Job Service North Dakota (the "Agencies"), as described under "THE PROJECTS" herein. The Industrial Commission of North Dakota, acting in its capacity as the North Dakota Building Authority (the "Issuer"), will lease back the Projects to the Agencies pursuant to the Lease Back Agreements (the "Lease") under which the semiannual rental payments due under the Lease (the "Basic Rent") to be paid by each Agency, subject to biennial appropriations by the North Dakota Legislature, will be sufficient in amount and payable at such times to pay principal of and interest on the Series A Bonds when due.

The Series A Bonds are issued under and are equally and ratably secured by a Trust Indenture and Assignment of Lease Rentals (the "Series A Indenture") both between the Issuer and the Bank of North Dakota as trustee (the "Trustee"). The Series A Bonds are limited obligations of the Issuer payable solely from the revenues and receipts received pursuant to the Lease, which are produced from biennial appropriations (if any) by the North Dakota Legislature, any money available to the lessee not requiring appropriation, any money generated from charges made for use of the Projects, any revenue derived by the Industrial Commission from the operation of the Projects, and other funds or amounts held by the Trustee as security for the Series A Bonds. Payment of the principal of and interest on the Series A Bonds when due will be insured by a municipal bond insurance policy to be issued by MBIA simultaneously with the delivery of the Series A Bonds.



The Lease specifically provides that nothing therein shall be construed to require the North Dakota Legislature to appropriate any moneys to pay any Rent thereunder and that the Agencies shall not be obligated to pay such Rent except to the extent appropriated for each biennium. THE OBLIGATION OF THE AGENCIES TO PAY ANY RENT, AS HEREIN DEFINED, UNDER ITS LEASE IS SUBJECT TO BIENNIAL APPROPRIATIONS BY THE NORTH DAKOTA LEGISLATURE AS PROVIDED IN SUCH LEASE. NEITHER THE OBLIGATION OF THE AGENCIES TO PAY SUCH RENTS NOR THE OBLIGATION OF THE ISSUER TO PAY THE SERIES A BONDS WILL CONSTITUTE A DEBT OF THE STATE OF NORTH DAKOTA OR ANY AGENCY OR POLITICAL SUBDIVISION OF THE STATE OF NORTH DAKOTA WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION. THE ISSUANCE OF THE SERIES A BONDS DOES NOT DIRECTLY OR CONTINGENTLY OBLIGATE THE AGENCIES TO PAY ANY RENT BEYOND THAT APPROPRIATED FOR THE CURRENT BIENNIUM OF THE STATE. THE ISSUER HAS NO TAXING POWER. See "BONDOWNERS' RISKS" herein.

The Series A Bonds are offered when, as and if issued by the Issuer subject to the approving legal opinion of Cook Wegner & Wike PLLP, Bismarck, North Dakota, Bond Counsel, as to validity and tax exemption. Certain legal matters will be passed upon for the Issuer by the Attorney General of the State of North Dakota. The Series A Bonds will be available for delivery at The Depository Trust Company in New York, New York on or about April 10, 2002.

An account group managed by **U.S. Bancorp Piper Jaffray** has agreed to purchase the Series A Bonds for an aggregate price of \$9,449,993.76.

U.S. Bancorp Piper Jaffray
Wells Fargo Brokerage Services LLC
Edward Jones

NORTH DAKOTA BUILDING AUTHORITY

\$9,595,000

Lease Revenue Bonds, 2002 Series A

MATURITY SCHEDULE

\$7,390,000 Serial Bonds

<u>Maturity</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP</u>
2003	\$155,000	3.500%	2.650%	658906 LC 4
2004	165,000	3.500%	3.200%	658906 LD 2
2005	325,000	4.250%	3.650%	658906 LE 0
2006	340,000	4.250%	3.900%	658906 LF 7
2007	790,000	4.250%	4.150%	658906 LG 5
2008	825,000	4.300%	4.300%	658906 LH 3
2009	865,000	4.625%	4.440%	658906 LJ 9
2010	910,000	4.625%	4.530%	658906 LK 6
2011	945,000	4.650%	4.610%	658906 LL 4
2012	335,000	4.650%	4.700%	658906 LM 2
2013	345,000	4.700%	4.750%	658906 LN 0
2014	325,000	4.850%	4.900%	658906 LP 5
2015	335,000	5.000%	5.000%	658906 LQ 3
2016	355,000	5.000%	5.100%	658906 LR 1
2017	375,000	5.125%	5.200%	658906 LS 9

\$815,000 5.20% Term Bond due December 1, 2019 priced to yield 5.30% CUSIP No.: 658906 LU 4
\$1,390,000 5.25% Term Bond due December 1, 2022 priced to yield 5.35% CUSIP No.: 658906 LX 8

In the opinion of Bond Counsel the Series B Bonds are subject to federal income taxes but not State of North Dakota taxes. For further discussion, see "TAX MATTERS" herein.

NORTH DAKOTA BUILDING AUTHORITY
\$1,535,000
TAXABLE LEASE REVENUE BONDS, 2002 SERIES B
(the "Series B Bonds")

DATED: April 1, 2002

DUE: December 1, as shown on the inside cover page

The Series B Bonds are issuable as fully registered Bonds and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series B Bonds. Purchases of Series B Bonds will be made in book-entry only form, in the principal amount of \$5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC participants. Beneficial owners of the Series B Bonds will not receive physical delivery of bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Series B Bonds. Interest is payable on December 1, 2002 and on each June 1 and December 1 thereafter. So long as DTC or its nominee is the registered owner of the Series B Bonds, payments of the principal or redemption price of and interest on the Series B Bonds will be made directly to DTC. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. See "THE BONDS--Book-Entry-Only System."

The Series B Bonds are subject to extraordinary optional redemption prior to maturity upon the occurrence of certain events as described under "THE BONDS - Redemption" herein.

The Series B Bonds are being issued to finance the acquisition, improving, equipping or construction of certain facilities (the "Projects") for the State Board of Higher Education, as described under "THE PROJECTS" herein. The Industrial Commission of North Dakota, acting in its capacity as the North Dakota Building Authority (the "Issuer"), will lease back the Projects to the Agencies pursuant to the Lease Back Agreements (the "Lease") under which the semiannual rental payments due under the Lease (the "Basic Rent") to be paid by each Agency, subject to biennial appropriations by the North Dakota Legislature, will be sufficient in amount and payable at such times to pay principal of and interest on the Series B Bonds when due.

The Series B Bonds are issued under and are equally and ratably secured by a Trust Indenture and Assignment of Lease Rentals (the "Series B Indenture") both between the Issuer and the Bank of North Dakota as trustee (the "Trustee"). The Series B Bonds are limited obligations of the Issuer payable solely from the revenues and receipts received pursuant to the Lease, which are produced from biennial appropriations (if any) by the North Dakota Legislature, any money available to the lessee not requiring appropriation, any money generated from charges made for use of the Projects, any revenue derived by the Industrial Commission from the operation of the Projects, and other funds or amounts held by the Trustee as security for the Series B Bonds.

The Lease specifically provides that nothing therein shall be construed to require the North Dakota Legislature to appropriate any moneys to pay any Rent thereunder and that the Agencies shall not be obligated to pay such Rent except to the extent appropriated for each biennium. THE OBLIGATION OF THE AGENCIES TO PAY ANY RENT, AS HEREIN DEFINED, UNDER ITS LEASE IS SUBJECT TO BIENNIAL APPROPRIATIONS BY THE NORTH DAKOTA LEGISLATURE AS PROVIDED IN SUCH LEASE. NEITHER THE OBLIGATION OF THE AGENCIES TO PAY SUCH RENTS NOR THE OBLIGATION OF THE ISSUER TO PAY THE SERIES B BONDS WILL CONSTITUTE A DEBT OF THE STATE OF NORTH DAKOTA OR ANY AGENCY OR POLITICAL SUBDIVISION OF THE STATE OF NORTH DAKOTA WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION. THE ISSUANCE OF THE SERIES B BONDS DOES NOT DIRECTLY OR CONTINGENTLY OBLIGATE THE AGENCIES TO PAY ANY RENT BEYOND THAT APPROPRIATED FOR THE CURRENT BIENNIUM OF THE STATE. THE ISSUER HAS NO TAXING POWER. See "BONDOWNERS' RISKS" herein.

The Series B Bonds are offered when, as and if issued by the Issuer subject to the approving legal opinion of Cook Wegner & Wike PLLP, Bismarck, North Dakota, Bond Counsel, as to validity and tax exemption. Certain legal matters will be passed upon for the Issuer by the Attorney General of the State of North Dakota. The Series B Bonds will be available for delivery at The Depository Trust Company in New York, New York on or about April 10, 2002.

Wells Fargo Brokerage Services LLC has agreed to purchase the Series B Bonds for an aggregate price of \$1,531,180.10.

Wells Fargo Brokerage Services LLC

NORTH DAKOTA BUILDING AUTHORITY

\$1,535,000

Taxable Lease Revenue Bonds, 2002 Series B

MATURITY SCHEDULE

<u>Maturity</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP</u>
2003	\$365,000	4.000%	3.870%	658906 LY 6
2004	375,000	4.500%	4.510%	658906 LZ 3
2005	390,000	5.000%	5.080%	658906 MA 7
2006	405,000	5.200%	5.220%	658906 MB 5

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. No broker, dealer, salesperson or other person has been authorized by the Industrial Commission of North Dakota acting in its capacity as the North Dakota Building Authority (the “Issuer”), the State of North Dakota (the “State”) or the Financial Advisor to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing.

The information set forth herein has been obtained from the Issuer, the State, and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Issuer, the State or the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions or that they will be realized. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the State or in the information or opinions set forth herein since the date of this Official Statement.

TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>
Roster of State Officials	ii
Introduction to the Official Statement	1
Bondowners’ Risks.....	6
Limited Obligations.....	7
Expiration or Termination of Lease	7
Delays in Exercising Remedies	8
Destruction of a Project.....	9
Depreciation and Lack of Residual Value.....	9
Bond Ratings	9
The Projects.....	9
Job Service North Dakota Project	10
Estimated Sources and Uses of Funds.....	11
The Bonds.....	11
General Provisions	11
Book-Entry-Only System	12
Redemption Provisions.....	13
Payment of the Bonds.....	14
Security for the Bonds	15
The Lease and the Indenture	15
Maintenance and Insurance of the Projects	16
Reserve Fund.....	17
Bond Insurance for the Series A Bonds	17
Tax Matters.....	19
Litigation	20
Approval of Legal Proceedings	20
Continuing Disclosure	20
Ratings.....	21
Underwriting	21
Financial Advisor	21
Additional Information.....	22
Appendix A - General Information Regarding the State of North Dakota	
Appendix B - Summary of Certain Provisions of the Indenture and the Lease	
Appendix C - Audited General Purpose Financial Statements of the State of North Dakota for the Fiscal Year Ended June 30, 2001	
Appendix D - General Information Concerning Job Service North Dakota	
Appendix E - General Information Concerning the North Dakota State Board of Higher Education, Its Facilities and Programs	
Appendix F - General Information Concerning the North Dakota State Department of Health	
Appendix G - Form of Legal Opinions	
Appendix H - Form of Undertakings to Provide Continuing Disclosure	
Appendix I - Specimen Financial Guaranty Insurance Policy	

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

STATE OF NORTH DAKOTA



ELECTED OFFICIALS

Governor John Hoeven
 Lieutenant Governor Jack Dalrymple
 Secretary of State Alvin A. Jaeger
 Attorney General Wayne Stenehjem
 Public Service Commissioner Tony Clark
 Public Service Commissioner Leo Reinbold
 Public Service Commissioner Susan Wefald
 Commissioner of Agriculture Roger Johnson
 Tax Commissioner Rick Clayburgh
 State Auditor Robert R. Peterson
 Insurance Commissioner Jim Poolman
 Superintendent of Public Instruction Wayne Sanstead
 State Treasurer Kathi Gilmore

THE INDUSTRIAL COMMISSION OF NORTH DAKOTA
ACTING AS THE NORTH DAKOTA BUILDING AUTHORITY

MEMBERS

Governor John Hoeven Chairman
 Attorney General Wayne Stenehjem Member
 Commissioner of Agriculture Roger Johnson Member

AUTHORIZED OFFICERS

Karlene Fine Rod Backman
 Executive Director and Secretary Director
 Industrial Commission of North Dakota Office of Management and Budget

BOND COUNSEL

Cook Wegner & Wike PLLP
 Bismarck, North Dakota

FINANCIAL ADVISOR TO THE INDUSTRIAL COMMISSION

Evensen Dodge, Inc.
 Minneapolis, Minnesota

TRUSTEE, REGISTRAR AND PAYING AGENT

Bank of North Dakota
 Bismarck, North Dakota

INTRODUCTION TO THE OFFICIAL STATEMENT

The following information is furnished solely to provide limited introductory information regarding the North Dakota Building Authority (the "Issuer") \$9,595,000 Lease Revenue Bonds, 2002 Series A (the "Series A Bonds") and \$1,535,000 Taxable Lease Revenue Bonds, 2002 Series B (the "Series B Bonds") (collectively, the "Bonds"), and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto.

Issuer: The Industrial Commission of North Dakota, acting as the North Dakota Building Authority.

Dated Date: April 1, 2002.

Purpose: The Bonds are being issued to finance the acquisition, improving, equipping, or construction of certain facilities (the "Projects") for the State Board of the Higher Education, the North Dakota State Department of Health and Job Service North Dakota, as provided in Senate Bill No. 2023 enacted by the Fifty-Seventh Legislative Assembly. Bond proceeds will also be used to provide funds for deposit into the Reserve Fund, to capitalize interest on the Bonds, to pay costs of issuance and to repay interim borrowing.

Security: The Bonds are issued pursuant to a Trust Indenture and Assignment of Lease Rentals (the "Indenture") dated as of March 28, 2002 between the Issuer and the Bank of North Dakota, as Trustee, pursuant to which the Issuer will pledge to the Trustee all of the Issuer's interest in the Projects and as lessor under the Lease Back Agreements (the "Lease") dated as of March 28, 2002, including the right to receive Basic Rent thereunder, for the payment of the principal of and interest on the Bonds. The Bonds are limited obligations of the Issuer payable solely from revenues received pursuant to the Lease which are produced from biennial appropriations by the North Dakota Legislature. See "SECURITY FOR THE BONDS." Summary definitions of certain capitalized terms appear below.

Optional Redemption: ***Series A Bonds:*** The Series A Bonds maturing on or before December 1, 2011 are not subject to optional redemption prior to maturity except under extraordinary circumstances as described herein under "THE BONDS--Redemption Provisions." Bonds maturing on or after December 1, 2012 are subject to redemption at the option of the Issuer in whole or in part on December 1, 2011 and on any business day thereafter at a price of par plus accrued interest.

Series B Bonds: The Series B Bonds are not subject to optional redemption prior to maturity except under extraordinary circumstances as described herein under "THE BONDS--Redemption Provisions."

Extraordinary Optional Redemption:

In the event of damage, destruction or condemnation of the Projects as provided in the Lease, the Bonds will be subject to redemption prior to stated maturity, in whole or in part on the first day of any month, at a redemption price equal to 100% of the principal amount of such Bonds to be redeemed plus accrued interest thereon to the Redemption Date, at the option of the Issuer as directed by the affected Agency in the event that Agency elects under the Lease or any Amended Lease to redeem the Bonds rather than repair or rebuild the affected Projects.

Sinking Fund Redemptions: Series A Bonds maturing on December 1, 2019 are subject to sinking fund redemption of a price equal to 100% of the principal amount of the Series A Bonds to be redeemed plus accrued interest on December 1 as shown below:

Sinking Fund Redemption Date (December 1)	Principal Amount
2018	\$395,000
2019 (Final Maturity)	420,000

Series A Bonds maturing on December 1, 2022 are subject to sinking fund redemption of a price equal to 100% of the principal amount of the Series A Bonds to be redeemed plus accrued interest on December 1 as shown below:

Sinking Fund Redemption Date (December 1)	Principal Amount
2020	\$440,000
2021	465,000
2022 (Final Maturity)	485,000

- Denominations:** \$5,000 or integral multiples thereof.
- Record Date:** The 15th day of the month preceding the payment date.
- Principal Payments:** *Series A Bonds:* Due annually on December 1, 2003 through 2022.
Series B Bonds: Due annually on December 1, 2003 through 2006.
- Interest Payments:** Semiannually on June 1 and December 1 of each year, commencing December 1, 2002. Interest on the Bonds will be capitalized through June 1, 2003.
- Tax Status:** *Series A Bonds:* Generally exempt from federal and North Dakota income taxes (see "TAX MATTERS" herein). The Series A Bonds will not be designated qualified tax-exempt obligations under Section 265(b)(3) of the Code.

Series B Bonds: The Series B Bonds will be subject to federal income taxes and be generally exempt for North Dakota income taxes (see "TAX MATTERS" herein). The Series B Bonds will not be designated as qualified tax-exempt obligations.
- Professional Consultants:** *Bond Counsel:* Cook Wegner & Wike PLLP
Bismarck, North Dakota

Financial Advisor: Evensen Dodge, Inc.
Minneapolis, Minnesota

*Trustee, Registrar and
Paying Agent:* Bank of North Dakota
Bismarck, North Dakota
- Legal Matters:** Legal matters incident to the authorization and issuance of the Bonds are subject to the opinion of Cook Wegner & Wike PLLP, Bond Counsel, as to validity and tax exemption. The opinion will be substantially in the form set forth in Appendix G attached hereto.

Authority for Issuance:	The Bonds are being issued pursuant to Chapter 54-17.2 of the North Dakota Century Code.
Continuing Disclosure:	The Issuer has agreed with the Bondholders to provide ongoing disclosure of certain information. See “CONTINUING DISCLOSURE” herein.
Conditions Affecting Issuance of Bonds:	The Bonds are offered when, as and if issued, subject to the approving legal opinion of Cook Wegner & Wike PLLP, Bismarck, North Dakota.
Delivery:	On or about April 10, 2002.
Book-Entry Only:	The Bonds will be issued as book-entry-only securities through The Depository Trust Company.
Selected Definitions:	<p>“Additional Rent” Additional amounts due under the Lease relating to administrative matters under the Indenture and certain costs of operating and maintaining the Projects.</p> <p>“Agencies” Job Service North Dakota, the North Dakota State Department of Health and the North Dakota State Board of Higher Education.</p> <p>“Basic Rent” Semiannual rental payments due under the Lease.</p> <p>“Indenture” The Trust Indentures and Assignments of Lease Rentals dated as of March 28, 2002 between the Issuer and the Bank of North Dakota, as trustee. This includes both the Series A Indenture and the Series B Indenture.</p> <p>“Initial Term” The term of the Lease commencing on the date of the sale of the Bonds and expiring on June 30, 2003.</p> <p>“Lease” The Lease Back Agreements dated as of March 28, 2002 between the Issuer and the Agencies.</p> <p>“Projects” The facilities, the acquisition or construction of, which are being financed with the proceeds of the Bonds.</p> <p>“Renewal Term” Each of the consecutive two-year renewal terms following the Initial Term, commencing on July 1.</p> <p>“Rent” The aggregate of Basic Rent and Additional Rent.</p> <p>“Trustee” Bank of North Dakota.</p>

The information set forth herein has been obtained from the Issuer and other sources which are believed to be reliable, but it is not to be construed as a representation by the Financial Advisor or the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Final Official Statement nor any sale made thereafter shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or in any other information contained herein, since the date hereof.

Questions regarding the Bonds or the Official Statement can be directed to, and additional copies of the Official Statement, the Issuer’s audited financial reports and the Indenture, Lease and General Authorization Resolution may

be obtained from, Evensen Dodge, Inc., 650 Third Avenue South, Suite 1800, Minneapolis, Minnesota 55402 (612) 338-3535, the Issuer's financial advisor, or Karlene Fine, Executive Director and Secretary, Industrial Commission of North Dakota, State Capitol, 600 East Boulevard, Bismarck, North Dakota 58505 (701) 328-3722.

(The remainder of this page has been left blank intentionally.)

OFFICIAL STATEMENT

NORTH DAKOTA BUILDING AUTHORITY

\$9,595,000

LEASE REVENUE BONDS, 2002 SERIES A

\$1,535,000

TAXABLE LEASE REVENUE BONDS, 2002 SERIES B

This Official Statement, including the cover page and Appendices hereto (the “Official Statement”), is furnished to prospective purchasers in connection with the sale and delivery by the Industrial Commission of North Dakota acting as the North Dakota Building Authority (the “Issuer”) of \$9,595,000 aggregate principal amount of Lease Revenue Bonds, 2002 Series A (the “Series A Bonds”) and \$1,535,000 aggregate principal amount of Taxable Lease Revenue Bonds, 2002 Series B (the “Series B Bonds”) (collectively, the “Bonds”). The Issuer was created pursuant to Chapter 571 of the 1985 Session Laws of the State of North Dakota for the purpose of acquiring, owning, constructing, reconstructing, extending, rehabilitating or improving buildings, related structures, parking facilities, equipment, improvements, real and personal property and interests therein primarily for the use of the State of North Dakota (the “State”) and its agencies and instrumentalities. See “The Industrial Commission of North Dakota” at Appendix A.

The Bonds are being issued pursuant to Chapter 54-17.2 of the North Dakota Century Code, known as the North Dakota Building Authority Act (the “Act”), and as authorized by Senate Bill No. 2023 enacted by the Fifty-Seventh Legislative Assembly and an authorizing resolution of the Issuer adopted on March 14, 2002 (the “General Authorization Resolution”). Proceeds of the Bonds will be used to (i) finance the Projects for the Agencies, as provided in Senate Bill No. 2023; (ii) provide moneys for deposit into the Reserve Fund established with respect to the Bonds; (iii) provide moneys which, with the investment earnings thereon, will capitalize interest on the Bonds; (iv) pay costs of issuance related to the Bonds; and (v) repay interim borrowing.

With respect to the Bonds, certain higher education projects located on the campuses of the institutions of the State Board of Higher Education will be let by the Issuer to the State Board of Higher Education pursuant to a Lease Back Agreement I (the “Lease Back Agreement I”) dated as of March 28, 2002 and pursuant to a Lease Back Agreement II (the “Lease Back Agreement II”) dated as of March 28, 2002. A project managed by Job Service North Dakota will also be let by the Issuer to Job Service North Dakota pursuant to a Lease Back Agreement III (the “Lease Back Agreement III”) dated as of March 28, 2002. A project managed by the North Dakota State Department of Health will also be let by the Issuer to the North Dakota State Department of Health pursuant to a Lease Back Agreement IV (the “Lease Back Agreement IV”) dated as of March 28, 2002. These agreements are referred to collectively as the “Lease”.

The Bonds are issued under and are equally and ratably secured by the Trust Indentures and Assignments of Lease Rentals dated as of March 28, 2002 (the “Indenture”), by and between the Issuer and the Bank of North Dakota, as trustee (the “Trustee”). Pursuant to the Indenture, the Issuer has mortgaged, pledged and assigned to the Trustee, among other things, its right, title and interest in and to the Projects and as lessor under the Lease, including the right to receive the Basic Rent thereunder, as security for the payment of the principal of and interest on the Bonds.

Under its Lease, the Agencies have agreed to make semiannual rental payments (“Basic Rent”). The Basic Rent payable under each Lease will be sufficient to pay the principal of and interest on the Bonds coming due in each fiscal year, but only if and to the extent that the North Dakota Legislature (the “Legislature”) biennially appropriates funds or there is available any other funds authorized by law sufficient to pay the Basic Rent plus such additional amounts related to administrative matters under the Indenture and, if necessary, certain costs to operate and maintain each of the Projects (the “Additional Rent”) as are required to be paid pursuant to the Lease.

The Basic Rent and the Additional Rent are hereinafter collectively referred to as the “Rent.” An Event of Nonappropriation will occur under the Indenture if the Legislature fails to appropriate sufficient moneys for the

payment of any Rent under the Lease during any Renewal Term. If an Event of Nonappropriation has occurred and continues without cure until the following August 1, unless such Agency has certified to the Authority and the Trustee that it will pay the Rent when due from sources other than appropriation by the Legislative Assembly of the State, provided the Legislative Assembly of the State has not specifically terminated the Lease, the Event of Nonappropriation will become an Event of Default under the Indenture, and will entitle the Trustee to exercise the remedies available under the Indenture. See “BONDOWNERS’ RISKS -- Expiration or Termination of the Lease “ herein.

The Bonds are limited obligations of the Issuer payable solely from the revenues and receipts received pursuant to each Lease, which are produced from biennial appropriations (if any) by the Legislature, other funds or amounts held by the Trustee as security for the Bonds under the Indenture and/or any other funds available and authorized by law. Each Lease specifically provides that nothing therein shall be construed to require the Legislature to appropriate any moneys to pay any Rent thereunder and that each Agency shall not be obligated to pay such Rent except to the extent appropriated for each biennium. THE OBLIGATION OF THE AGENCIES TO PAY ANY RENT UNDER ITS LEASE IS SUBJECT TO BIENNIAL APPROPRIATION BY THE LEGISLATURE AS PROVIDED IN SUCH LEASE. NEITHER THE OBLIGATION OF THE AGENCIES TO PAY SUCH RENT NOR THE OBLIGATION OF THE ISSUER TO PAY THE BONDS WILL CONSTITUTE A DEBT OF THE STATE OR ANY AGENCY OR POLITICAL SUBDIVISION OF THE STATE OF NORTH DAKOTA WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION. THE ISSUANCE OF THE BONDS DOES NOT DIRECTLY OR CONTINGENTLY OBLIGATE THE AGENCIES TO PAY ANY RENT BEYOND THAT APPROPRIATED FOR THE CURRENT BIENNIUM OF THE STATE. THE ISSUER HAS NO TAXING POWER. For certain economic and financial information with respect to the State, see Appendix A and Appendix C hereto.

Each Agency has covenanted in its Lease to include in its submission to the Governor for inclusion by the Governor in the biennial executive budget of the State for each year of each biennium during the term of such Lease, as a line item for Rent, an amount fully sufficient to pay the Basic Rent required to be paid in each year of the biennium and certain Additional Rent, less any amounts derived from the net revenues and income of the Project, if any. For each biennium in which the Legislature appropriates funds to pay Rent, the State is legally committed to pay semiannually to the Trustee the specified Rent as described above. For information with respect to Job Service North Dakota, see Appendix D. For information with respect to the North Dakota State Board of Higher Education, see Appendix E. For information with respect to the North Dakota State Department of Health, see Appendix F.

Capitalized terms used herein have the same meaning as ascribed to them in the Lease and the Indenture. See “Certain Definitions” in Appendix B hereto.

BONDOWNERS’ RISKS

Purchase of the Bonds involves certain investment risks which are discussed throughout this Official Statement. Accordingly, each prospective Bond purchaser should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision. Certain of these risks are described below.

Limited Obligations

The Bonds are payable from the aggregate of Basic Rent due under each Lease, payable from budgeted expenditures of the State subject to biennial appropriations (if any) by the Legislature from general funds and non-general funds as required by Senate Bill No. 2023, other funds or amounts held by the Trustee as security for the Bonds under the Indenture and/or any other funds available and authorized by law. The Lease will commence as of the date of the sale of the Bonds and will expire on June 30, 2003 (the “Initial Term”), subject to successive automatic extensions under the provisions of the Lease of the term of the Lease for consecutive two-year renewal terms commencing on July 1. Upon conclusion of the Initial Term, the Lease Back Agreement I with respect to the Series A Bonds will be subject to automatic two-year renewal terms commencing on July 1 of the years 2003, 2005, 2007 and 2009 and a final renewal term commencing July 1, 2011 and ending December 2, 2011. Upon conclusion of the Initial Term, the Lease Back Agreement I with respect to the Bonds will be subject to automatic two-year renewal terms commencing on July 1 of the year 2003 and a final renewal term commencing July 1, 2005 and ending December 2, 2006. Upon conclusion of the Initial Term, the Lease Back Agreement II with respect to the Series A Bonds will be subject to automatic two-year renewal terms commencing on July 1 of the years 2003, 2005, 2007, 2009 and 2011 and a final renewal term commencing July 1, 2013 and ending December 2, 2013. Upon conclusion of the Initial Term, the Lease Back Agreement III and Lease Back Agreement IV with respect to the Series A Bonds will be subject to automatic two-year renewal terms commencing on July 1 of the years 2003, 2005, 2007, 2009, 2011, 2013, 2015, 2017 and 2019 and a final renewal term commencing July 1, 2021 and ending December 2, 2022. Each renewal term is referred to individually as a “Renewal Term” and collectively as the “Renewal Terms”. The State’s obligation under a Lease does not constitute a general obligation or other indebtedness of the State or any agency or political subdivision of the State within the meaning of any constitutional or statutory provision or limitation. The Issuer has no taxing power.

There is no assurance that the Legislature will appropriate sufficient funds to extend the term of a Lease for any additional Renewal Terms. Accordingly, the likelihood that there will be sufficient funds to pay the principal of and interest on the Bonds depends upon certain factors which are beyond the control of the Bondowners, including (a) the continuing need of the State and the Agencies for the Projects, (b) the economic and demographic conditions within the State, (c) the ability of the State to generate sufficient funds from sales taxes, personal and corporate income taxes and other taxes and other sources of revenue to pay obligations associated with the Lease and other obligations of the State (whether now existing or hereafter created) and (d) the value of any of the Projects if relet, assigned or conveyed in an eviction or other enforcement proceeding initiated by the Trustee in the event of the termination of a Lease as a result of the occurrence of certain events described below or the expiration of the Initial Term or any Renewal Term if the Legislature does not appropriate sufficient funds to extend the term of a Lease as provided therein.

The obligation of each Agency under a Lease will be satisfied solely from funds of that Agency or for the benefit of the Agency which the Legislature appropriates biennially for such use or other funds that are legally available for such use. Neither the Indenture nor any Lease limits the ability of the State to incur additional obligations against its revenues.

The term of a Lease is automatically extended unless specifically terminated by the Legislative Assembly of the State. If a Lease is terminated, the affected Agency will have no obligation under its Lease to pay any further Rent or any other payments with respect to any Lease or the Bonds. However, the termination of a Lease will result in the occurrence of an Event of Default under the Lease. See “Expiration or Termination of the Lease” below.

Expiration or Termination of Lease

The Lease will expire on June 30 of each odd-numbered year commencing June 30, 2003 as described under “BONDOWNERS’ RISKS - Limited Obligations” above, but is automatically renewed for each next succeeding Renewal Term, unless specifically terminated by the Legislative Assembly of the State. In the event that the State chooses not to extend the term of a Lease for any Renewal Term, the obligation of the State and the affected Agency to pay any Rent under the Lease will terminate on the June 30 occurring at the end of that Renewal Term. In addition, a default under the Lease and an election by the Trustee to terminate the possessory interest of the affected

Agency under the Lease will cause a termination of that Agency's right of possession of the Projects under such Lease. If the Lease is terminated as the result of an Event of Nonappropriation or Event of Default, the Trustee is to use moneys in the Reserve Fund to make payments of principal of and interest on the Bonds coming due to the extent of moneys then held in such fund.

An Event of Nonappropriation, which is not cured as provided in the Indenture, with respect to any of the Projects constitutes an Event of Default under the Indenture. The Indenture further provides that an Event of Default under a Lease constitutes an Event of Default under such Indenture. See "THE INDENTURE -- Events of Default" in Appendix B.

In the event that the Agency's right of possession of Projects under a Lease is terminated for any reason, the obligation of that Agency to pay Rent under the Lease will continue throughout the Renewal Term then in effect, but not thereafter, and the Bonds will be payable, among other sources, from any moneys as may be available by way of recovery from that Agency of the Rent which is due throughout the Renewal Term then in effect. Should the Lease expire at the end of a Renewal Term without any extension for the next succeeding Renewal Term or if any event occurs as described above pursuant to which the Trustee terminates an Agency's right of possession of the Projects under the Lease, the Trustee may enter and take possession of the Projects as provided in the Indenture and subject to the provisions of the Act. The Projects constitute special purpose facilities to be used in connection with the operation of the Agency. No assurance can be given that the Trustee could relet, assign or convey its interest in the Projects for the amount necessary (after taking into account moneys legally available from other sources) to pay principal of and interest due on the Bonds. In the event of a reletting of any of the Projects, the net proceeds, together with other moneys then held by the Trustee under the Indenture (with certain exceptions as provided in such Indenture), are required to be used to pay the Bonds to the extent of such moneys. No assurance can be made as to the amount of funds available from any such source for the payment of the principal of or interest on the Bonds. A potential purchaser of the Bonds should not assume that it will be possible to relet the Projects after the expiration or termination of any Agency's right of possession of such Projects under a Lease as described above in an amount equal to the aggregate principal amount of the Bonds then outstanding plus accrued interest thereon or that any such amount will be paid on a timely basis. In this regard, it should be noted that (a) the State will retain title to the land, buildings and improvements financed from the proceeds of sale of the Bonds and that the exercise of such remedies with respect to such land and buildings to protect the Trustee's interest in the Projects consequently is limited, (b) the Projects may be subject to ad valorem and other property taxation if leased or owned by someone other than an agency of the State and (c) the Projects may not be suitable for general commercial use and zoning restrictions could limit use of the Projects.

Delays in Exercising Remedies

A termination of an Agency's right of possession of Projects under a Lease as a result of an Event of Default or expiration of the term of a Lease at the end of a Renewal Term without an extension for the next succeeding Renewal Term will give the Trustee the right to possession of, and the right to relet such Projects in accordance with the provisions of the Lease and the Indenture. However, the enforceability of the Lease and the Indenture is subject to equitable principles affecting the enforcement of creditors' rights generally and liens securing such rights, the police powers of the State and the exercise of judicial authority by State or federal courts. Because of such use and the delays inherent in obtaining judicial remedies, it should not be assumed that these remedies could be accomplished rapidly. Any delays in the ability of the Trustee to obtain possession of the Projects, of necessity, will result in delays in any payment of principal of or interest on the Bonds after the expenditure of amounts on deposit in the Reserve Fund.

Destruction of a Project

All of the Projects are to be insured by policies (including casualty and property damage insurance) as provided in each Lease in an amount equal to the greater of the Discharge Price or the full replacement cost of the Projects. In the event of the damage to or destruction of any of the Projects, each Agency is nevertheless required to continue to pay Rent during the biennium for which the Legislature had appropriated moneys, subject to the State's right with respect to the Projects at the end of each biennium to terminate the Lease by the Legislature's failure to appropriate sufficient funds to extend the term of such Lease. In such event, the Agency will decide whether to apply the proceeds from any available insurance (and any other legally available source) to replace, repair or rebuild such Projects or whether to apply the available proceeds to redemption of Bonds. If the net proceeds from insurance or certain other sources are not used to repair or replace such Projects, the Agency may cause such proceeds to be paid to the Trustee for the redemption of the Bonds (or a portion thereof) as provided in the Indenture, but the Agency will nevertheless be required to continue to pay Rent under the Lease until the Bonds have been paid in full, subject to biennial appropriation by the Legislature. There can be no assurance either as to the adequacy of or timely payment under property damage insurance in effect at that time. Furthermore, there can be no assurance that such insurance proceeds will be sufficient to redeem the Bonds in whole or that the Trustee will be able to realize any additional funds from the affected Projects at that time. See "THE LEASE -- Insurance and Condemnation of Projects -- Damage, Destruction and Condemnation of Projects" in Appendix B hereto.

Depreciation and Lack of Residual Value

As a result of the depreciation of certain components of the Projects and the difficulty of removing various components of the Projects, it is probable that upon the occurrence of an Event of Nonappropriation, an Event of Default under a Lease or the Indenture or termination of a Lease for any reason, if the Trustee were to lease the affected Projects, the rentals available from such leasing would not be sufficient to pay all outstanding Bonds in full.

Bond Ratings

There is no assurance that the ratings assigned to the Bonds at the time of original issuance (see "RATINGS" herein) will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for or marketability of the Bonds.

THE PROJECTS

Senate Bill No. 2023 authorized the financing of several capital projects at various State facilities. These Projects will be financed from the proceeds of the Bonds.

<u>Facility</u>	<u>Project Description</u>	<u>Amount</u>
Job Service North Dakota	Bismarck Service Delivery Office	\$2,302,000
Department of Health	Laboratory Addition	2,700,000
University of North Dakota	Energy Conservation Projects	3,990,785
North Dakota State University	Energy Conservation Projects	<u>296,348</u>
Total of Authorized Projects		<u>\$9,289,133</u>

Job Service North Dakota Project

Job Service North Dakota will construct a 17,000 square foot office building located on one level with parking sufficient to accommodate nearly 100 cars in Bismarck, North Dakota to provide customer services for the Bismarck-Mandan area. The Legislature authorized funding of \$2,302,000, which includes land purchase, architectural and engineering services, and construction costs. Construction of this building is to begin the summer of 2002 with occupancy to take place by January 2003.

Department of Health Project

The Department of Health will build an addition of approximately 12,300 square feet of laboratory space to the Department of Health's current chemistry and crime laboratory building in east Bismarck. Portions of the microbiology and chemistry laboratories needing bio-safety levels 3 and 2 ventilation capabilities will be moved into this addition. This includes critical viral and bacterial analysis, organic chemistry analysis, and trace metal analysis. The total cost of the Department of Health Project is \$3,523,878 of which \$2,700,000 will come from proceeds of the Bonds and \$823,878 from recently received federal funds. Construction is scheduled to begin in the fall of 2002 with occupancy to take place in June 2003.

University of North Dakota Energy Conservation Project

The University of North Dakota Energy Conservation Project consists of a number of smaller projects in over 24 buildings on the University of North Dakota campus in Grand Forks. These projects include mechanical, controls and lighting retrofit, installation of variable frequency drives on equipment at the steam plant, and installation of generator sets. It is estimated, upon completion of this Project by June 30, 2003, the campus will experience annual utility savings of over \$640,000.

North Dakota State University Energy Conservation Project

The North Dakota State University Energy Conservation Project consists of a number of smaller projects to a number of buildings on the North Dakota State University campus in Fargo. These projects include lighting retrofit and controls, installation of vending machine controls, pneumatic room controls, energy management controls, additional insulation, computer and monitor operational shutdown and high pressure steam shutdown. It is estimated, upon completion of this Project by June 30, 2003, the campus will experience annual utility savings of over \$42,000.

(The remainder of this page has been left blank intentionally.)

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources of funds from the proceeds to be received from the sale of the Bonds and the estimated uses of such funds are shown in the following schedule:

Sources of Funds:	<u>Series A Bonds</u>	<u>Series B Bonds</u>
Principal Amount of Bonds	\$9,595,000.00	\$1,535,000.00
Reoffering Premium	<u>120.65</u>	<u>--</u>
Total Sources	<u>\$9,595,120.65</u>	<u>\$1,535,000.00</u>
Uses of Funds:		
Deposit to the Construction Fund:		
State Board of Higher Education	\$2,992,458.00	\$1,294,675.05
Job Service North Dakota	1,774,422.56	--
North Dakota State Department of Health	2,700,000.00	--
Deposit to Reserve Fund	863,773.69	138,185.79
Capitalized Interest to June 1, 2003	515,094.31	82,239.95
Underwriter's Discount	93,426.89	3,023.95
Insurance Premium Paid by Underwriter	51,700.00	--
Original Issue Discount	--	795.95
Repayment of Interim Financing	532,700.57	--
Costs of Issuance	71,544.63	15,455.37
Contingency	<u>--</u>	<u>623.94</u>
Total Uses	<u>\$9,595,120.65</u>	<u>\$1,535,000.00</u>

THE BONDS

General Provisions

The Series A Bonds and the Series B Bonds will be issued in the aggregate principal amounts of \$9,595,000 and \$1,535,000, respectively, will be dated April 1, 2002, and will bear interest (computed on the basis of a 360-day year consisting of twelve 30-day months) at the rates specified on the inside cover page of this Official Statement, payable on December 1, 2002 and semiannually thereafter on June 1 and December 1 of each year (collectively, the "Bond Payment Dates"), and mature on the dates, all as set forth on the inside cover page of this Official Statement. The Bonds are issuable only in fully registered form without coupons in the denomination of \$5,000 or any integral multiple thereof.

The principal of the Bonds is payable at the principal trust office of the Trustee, as paying agent, in Bismarck, North Dakota, or at any paying agent appointed by the Issuer as provided in the Indenture, upon presentation and surrender thereof. Interest on the Bonds will be paid to the person who is the registered owner thereof as of the close of business on the 15th day of the month next preceding such Bond Payment Date (the "Record Date") and will be paid by check or draft drawn on the Trustee, or on any paying agent appointed by the Issuer as provided in the Indenture, and mailed on each Bond Payment Date to the registered owner thereof at the address on the registration books maintained by the Trustee notwithstanding the cancellation of any such Bond upon any exchange or transfer thereof subsequent to the Record Date and prior to such Bond Payment Date. The principal of, if any, and interest on the Bonds will be paid in lawful money of the United States of America.

Book-Entry-Only System

The information contained in the following paragraphs of this subsection “Book-Entry Only System” has been extracted from a schedule prepared by Depository Trust Company (“DTC”) entitled “SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY ONLY ISSUANCE.” The Issuer makes no representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered certificate will be issued for each annual maturity of the Bonds, each in the aggregate principal amount of such annual maturity, and such certificates will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations (“Direct Participants”). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC or Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s

consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer or the Trustee, disbursements of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

NEITHER THE ISSUER, THE TRUSTEE, ANY BORROWER NOR THE UNDERWRITER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS; (3) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS; (4) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER; OR (5) THE SELECTION BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNER TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF BONDS.

Redemption Provisions

Optional Redemption

The Series A Bonds maturing on or before December 1, 2011 are not subject to call and redemption prior to maturity, except as described under "Extraordinary Optional Redemption Upon the Occurrence of Certain Events" below. The Series A Bonds maturing on or after December 1, 2012 are subject to redemption from moneys deposited to the credit of the Bond Fund pursuant to the Lease, at the option of the Issuer in whole or in part on December 1, 2011 and on any business day thereafter, by direction of the Issuer, at a Redemption Price equal to 100% of the principal amount of Series A Bonds to be redeemed plus accrued interest thereon to the Redemption Date.

The Series B Bonds are not subject to call and redemption prior to maturity, except as described under "Extraordinary Optional Redemption Upon the Occurrence of Certain Events" below.

Sinking Fund Redemption. Series A Bonds maturing on December 1, 2019 are subject to sinking fund redemption in part by lot at a Redemption Price equal to 100% of the principal amount of the Series A Bonds to be redeemed together with accrued interest thereon to the Redemption Date on December 1 of each of the following years and in the following amounts:

Sinking Fund Redemption Date (December 1)	Principal Amount
2018	\$395,000
2019 (Final Maturity)	420,000

Series A Bonds maturing on December 1, 2022 are subject to sinking fund redemption in part by lot at a Redemption Price equal to 100% of the principal amount of the Series A Bonds to be redeemed together with accrued interest thereon to the Redemption Date on December 1 of each of the following years and in the following amounts:

Sinking Fund Redemption Date (December 1)	Principal Amount
2020	\$440,000
2021	465,000
2022 (Final Maturity)	485,000

The Series B Bonds are not subject to sinking fund redemption.

Extraordinary Optional Redemption Upon the Occurrence of Certain Events. In the event of damage, destruction or condemnation of the Projects as provided in the Lease, the Bonds will be subject to redemption prior to stated maturity, in whole or in part on the first day of any month, at a Redemption Price equal to 100% of the principal amount of such Bonds to be redeemed plus accrued interest thereon to the Redemption Date, at the option of the Issuer as directed by the affected Agency in the event that Agency elects under the Lease or any Amended Lease to redeem the Bonds rather than to repair or rebuild the affected Projects.

Selection of Bonds for Redemption. Outstanding Bonds subject to redemption shall, unless otherwise directed by the Issuer, be redeemed in inverse order of serial maturity. If less than all of the Bonds of a serial maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by lot in such manner as the Trustee shall deem fair and appropriate, in denominations of not less than \$5,000.

Notice of Redemption. Notice of redemption shall be given by the Trustee by registered or certified mail with return receipt requested, postage prepaid, mailed not less than 30 days before the Redemption Date to each owner of Bonds to be redeemed at the address of such owner appearing in the Register; but neither failure to give such notice by mail nor defect in any notice so mailed shall affect the validity of the proceedings for redemption of any Bond not affected by such failure or defect.

Payment of the Bonds

Each Lease requires semiannual Basic Rent to be paid by each Agency to the Issuer which, when aggregated, represents the total amount of principal of and interest on the Bonds, which Basic Rent has been assigned to the Trustee pursuant to the Indenture. See “SECURITY FOR THE BONDS--The Lease and the Indenture” herein. The aggregate amount of such Basic Rent payable under each Lease is designed to be sufficient to pay the principal of and interest on the Bonds becoming due during the term of such Lease (assuming that the Legislature appropriates sufficient funds in each biennium for the succeeding biennium to automatically extend the term of such Lease).

The following table shows the scheduled Basic Rent payable under the Lease for each series of Bonds for the entire term of the Lease (assuming that the Legislature appropriates biennially sufficient moneys to pay Basic Rent under the Lease coming due during the stated term of the Lease), which are equal to the payments of principal of and interest on the Bonds of each series:

Scheduled Basic Rent

Fiscal Year Ending June 30	Series A Bonds		Series B Bonds		Total Basic Rent
	Principal Component	Interest Component	Principal Component	Interest Component	
2004	\$ 155,000.00	\$ 448,465.00	\$ 365,000.00	\$ 64,735.00	\$ 1,033,200.00
2005	165,000.00	442,865.00	375,000.00	48,997.50	1,031,862.50
2006	325,000.00	433,071.25	390,000.00	30,810.00	1,178,881.25
2007	340,000.00	418,940.00	405,000.00	10,530.00	1,174,470.00
2008	790,000.00	394,927.50	--	--	1,184,927.50
2009	825,000.00	360,402.50	--	--	1,185,402.50
2010	865,000.00	322,661.88	--	--	1,187,661.88
2011	910,000.00	281,615.01	--	--	1,191,615.01
2012	945,000.00	238,600.01	--	--	1,183,600.01
2013	335,000.00	208,840.01	--	--	543,840.01
2014	345,000.00	192,943.76	--	--	537,943.76
2015	325,000.00	176,955.01	--	--	501,955.01
2016	335,000.00	160,698.76	--	--	495,698.76
2017	355,000.00	143,448.76	--	--	498,448.76
2018	375,000.00	124,964.38	--	--	499,964.38
2019	395,000.00	105,085.00	--	--	500,085.00
2020	420,000.00	83,895.00	--	--	503,895.00
2021	440,000.00	61,425.00	--	--	501,425.00
2022	465,000.00	37,668.75	--	--	502,668.75
2023	<u>485,000.00</u>	<u>12,731.25</u>	<u>--</u>	<u>--</u>	<u>497,731.25</u>
Total	<u>\$9,595,000.00</u>	<u>\$4,650,203.83</u>	<u>\$1,535,000.00</u>	<u>\$155,072.50</u>	<u>\$15,935,276.33</u>

SECURITY FOR THE BONDS

The Lease and the Indenture

The Bonds are payable from Basic Rent due under each Lease, payable from budgeted expenditures of the State subject to biennial appropriations (if any) by the Legislature from general funds and non-general funds as required by Senate Bill No. 2023, and certain other revenues as provided in the Indenture. The term of the Lease will commence as of the date of the sale of the Bonds and will expire on June 30, 2003, subject to successive automatic extensions under the provisions of such Lease, unless specifically terminated by the State Legislative Assembly. For circumstances under which a Lease may be terminated, see "THE LEASE--Term of the Lease" in Appendix B. In the opinion of Bond Counsel, neither the Lease, nor the Bonds constitute a general obligation or indebtedness of the State within the meaning of any constitutional or statutory debt limitation. The State has not pledged its credit to the payment of the Lease, or the Bonds, and the State is not directly or contingently obligated to apply money from, or to levy or pledge, any form of taxation to the payment of the Lease, or the Bonds. The Issuer has no taxing power.

The Issuer, as lessor under each Lease and pursuant to the Indenture, will assign to the Trustee its right, title and interest as lessor under each Lease and all Basic Rent payable under the Leases for the benefit of the owners of the Bonds. The Issuer has also granted to the Trustee for the benefit of the owners of the Bonds a mortgage lien on, or a security interest in, or both, in the Projects and in and to certain specified funds held under the Indenture and any Additional Security.

So long as the term of the Lease has not expired on June 30, 2003 by its terms, each Agency is required under the Lease to pay semiannually to the Trustee specified Basic Rent for the Projects leased to the Agency under such Lease. The aggregated Basic Rent payable under the Lease, represents an amount sufficient to pay the principal of and interest on the Bonds.

Each Agency has covenanted in its Lease to cause to be included in the Governor's budget submitted to the Legislature for each successive biennium for so long as such Lease is in effect a request or requests for a sufficient amount to permit the Agency to discharge all of its obligations under the Lease for each succeeding Renewal Term. See "THE LEASE -- Lease of Projects -- Covenant to Request Appropriations" in Appendix B hereto. The Issuer has covenanted in the Indenture that, upon notification from the Trustee, the Issuer will request that the Legislature include in the executive budget of the State a sufficient amount for payment of Rent pursuant to the Lease if any Agency has failed to comply with its covenant to request such an appropriation as described above.

In the event the Legislature does not appropriate sufficient funds to extend the term of the Lease and such Lease thereby expires by its terms at the end of a Renewal Term, the affected Agency will have no further payment obligation under the Lease, except for the Rent which is payable prior to the termination of the Lease. Upon such expiration, the Trustee may exercise one or more of the rights provided in the Lease and the Indenture, including an option to take possession of and operate and maintain the Projects, subject to the limitations prescribed by the Indenture, and apply any proceeds realized by such action to the payment of principal of outstanding Bonds and accrued interest thereon. Due to the nature of the Projects, it is unlikely that revenues realized from the repossession, operation and maintenance of the Projects would be sufficient to pay then outstanding Bonds in full. See "BONDOWNERS' RISKS" herein. Should such a shortfall occur, the Bonds would be paid ratably as to interest and principal as described under "THE INDENTURE -- Remedies on Default -- Application of Moneys" in Appendix B hereto.

Maintenance and Insurance of the Projects

Each Agency has agreed in its Lease, at its own expense, to maintain, manage and operate the Projects and all improvements thereon in good order, condition and repair, ordinary wear and tear excepted. Each Agency will provide or cause to be provided all security service, custodial service, power, gas, telephone, light, heating, water and all other public utility services. As provided in the Lease, the Issuer, the Trustee and the owners of the Bonds will not have any obligation to incur any expense of any kind or character for the management, operation or maintenance of the Projects during the term of such Lease.

The Projects are required to be insured to the extent described under "THE LEASE -- Insurance and Condemnation of Projects -- Insurance" in Appendix B hereto. All net proceeds (including any moneys derived from any self-insurance program) from policies of insurance required by the Lease or condemnation awards will be deposited into the Repair and Replacement Fund under the Indenture if the affected Agency elects to proceed with the repair and restoration of the affected Projects as described under (a) below or into the Bond Fund under the Indenture if the Agency elects to effect the redemption of a portion or all of the Bonds then outstanding as described under (b) below. Within 90 days after any such damage, destruction or taking, the Agency is required under the Lease to notify the Trustee in writing of the Agency's intent as to the application and disbursement of such funds as follows:

- (a) to the prompt repair, replacement or restoration of the damaged or destroyed portion of the Projects with the understanding as provided in the Lease that if the net proceeds of insurance or condemnation awards are not sufficient to pay the costs of repair, replacement or restoration in full, the Agency will nonetheless complete the same and will pay that portion of the cost thereof in excess of the amount of such net proceeds or condemnation awards, but only from legally available moneys; or

- (b) to the redemption, in whole or in part, of the principal of and interest on the then outstanding Bonds as described under “THE BONDS--Redemption--Extraordinary Optional Redemption Upon the Occurrence of Certain Events” above.

Reserve Fund

A Reserve Fund is established by the Indenture for each series of Bonds and will be fully funded at the time of original issuance of the Bonds, from proceeds of the sale of the Bonds in an amount equal to the Reserve Fund Requirement. The Series A Bonds maturing on December 1, 2022 and accrued interest thereon is expected to be paid, in part, from amounts then held in the Reserve Fund. The Series B Bonds maturing on December 1, 2006 and accrued interest thereon is expected to be paid, in part, from amounts then held in the Reserve Fund.

Amounts in the Reserve Fund are to be used for the payment of principal of and interest on the Bonds to the extent amounts in the Bond Fund under the Indenture are insufficient therefor and for certain other purposes as specified in the Indenture. See “THE INDENTURE--Funds and Accounts--Reserve Fund” in Appendix B hereto.

Bond Insurance for the Series A Bonds

The following information has been furnished by MBIA Insurance Corporation (the "MBIA") for use in this Official Statement. Reference is made to Appendix I for a specimen of the MBIA's policy.

The MBIA's policy unconditionally and irrevocable guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series A Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series A Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series A Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series A Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Series A Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Series A Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Series A Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series A Bonds or presentment of such other proof of ownership of the Series A Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series A Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series A Bonds in any legal proceeding related to payment of insured amounts on the Series A Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the

Paying Agent payment of the insured amounts due on such Series A Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA

MBIA Insurance Corporation (“MBIA”) is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States, and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions amount affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading “Bond Insurance for the Series A Bonds”. Additionally, MBIA makes no representation regarding the Series A Bonds or the advisability of investing in the Series A Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Information

The following documents filed by the Company with the Securities and Exchange Commission (the “SEC”) are incorporated herein by reference:

1. The Company’s Annual Report on Form 10-K for the year ended December 31, 2000;
2. The Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001; and
3. The report on Form 8-K filed by the Company on January 30, 2001.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Series A Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filing (including (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2000, (2) the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, and (3) the report on Form 8-K filed by the Company on January 30, 2001) are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2000, MBIA has admitted assets of \$7.6 billion (audited), total liabilities of \$5.2 billion (audited), and total capital and surplus of \$2.4 billion (audited) determined in accordance with statutory accounting

practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2001, MBIA has admitted assets of \$8.4 billion (unaudited), total liabilities of \$6.0 billion (unaudited), and total capital and surplus of \$2.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch, Inc. rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series A Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series A Bonds. MBIA does not guaranty the market price of the Series A Bonds nor does it guaranty that the ratings on the Series A Bonds will not be revised or withdrawn.

There can be no assurances that payments made by the Insurer representing interest on the Series A Bonds will be excluded from gross income, for federal tax purposes, in the event of nonappropriation by the Issuer.

TAX MATTERS

Series A Bonds:

In the opinion of Bond Counsel, assuming compliance with the tax covenants described below, under existing law, interest on the Series A Bonds is excludable from the "gross income" of the owners thereof for purposes of federal and State of North Dakota income taxation (other than the privilege tax measured by net income imposed on banks, trust companies and building and loan associations by North Dakota Century Code, Chapter 57-35.3).

Noncompliance following issuance of the Series A Bonds with certain requirements of the Internal Revenue Code of 1986 as amended (the "Code") may result in the inclusion of interest on the Series A Bonds in the federal and North Dakota "gross income" of the owners thereof retroactive to the date of issuance of the Series A Bonds. The Issuer and the Agency have covenanted to comply with such requirements.

The Code imposes an alternative minimum tax with respect to individuals and corporations on alternative minimum taxable income. Interest on the Series A Bonds will not be treated as a preference item in calculating the federal alternative minimum taxable income of individuals and corporations. The Code provides, however, that 75 percent of the interest on bonds held by corporations will be included for purposes of calculating the alternative minimum tax that may be imposed with respect to corporations.

Prospective purchasers of the Series A Bonds should also be aware that (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series A Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Series A Bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Series A Bonds, (iii) interest on the Series A Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income,

including interest on the Series A Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25 percent of the gross receipts of such Subchapter S corporation is passive investment income and (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Series A Bonds.

Series B Bonds:

The interest to be paid on the Series B Bonds is includable in the income of the recipient for purposes of the United States income taxation. The interest to be paid on the Series B Bonds is excludable from the “gross income” of the owners thereof for purposes of State of North Dakota income taxation.

LITIGATION

It is a condition of closing that the Issuer execute a certificate to the effect that there is no litigation pending or known to be threatened (i) to restrain or enjoin the issuance or delivery of the Bonds or the collection of revenues pledged under the Indenture, (ii) in any way contesting or affecting the authority for the issuance of the Bonds, the validity of the Bonds, the Lease or the Indenture, or (iii) in any way contesting the organization, existence or powers of the Issuer.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization, validity and enforceability of the Lease, as to the Issuer and the Agencies and the authorization and issuance of the Bonds are subject to the unqualified approving opinion of Cook Wegner & Wike PLLP, Bismarck, North Dakota, Bond Counsel. The opinions of Bond Counsel are attached to this Official Statement as Appendix G. Copies of the opinion will be available at the time of the initial delivery of the Bonds. Certain legal matters will be passed upon for the Issuer by the Attorney General.

CONTINUING DISCLOSURE

In the Bond Resolution, the Issuer will covenant for the benefit of all Bondholders to provide certain continuing disclosure information relating to the Bonds and the security therefor to permit the Underwriter of the Bonds to comply with the amendments to Rule 15c2-12 under the Securities and Exchange Act. At the time of the initial delivery of the Bonds, the Issuer will furnish an undertaking to provide continuing disclosure substantially in the form attached to this Official Statement as Appendix H.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Group ("S&P") will assign the Series A Bonds the ratings of "Aaa" and "AAA" respectively, based on the issuance by MBIA Insurance Corporation of its municipal bond insurance policy simultaneously with the delivery of the Series A Bonds. Moody's and S&P have assigned underlying ratings to the Series A Bonds and ratings to the Series B Bonds of "A1" and "A+", respectively. For an explanation of the significance of a particular rating, an investor should communicate directly with the appropriate rating agency. Such rating reflects only the views of such rating agency. The Issuer furnished to the agencies certain materials and information regarding the Issuer and the Bonds. Generally, rating agencies base their ratings on such material and information and on investigations, studies and assumptions by the rating agency. There is no assurance that a particular rating will remain in effect for any given period of time or that it will not be lowered, suspended or withdrawn entirely, if, in an agency's judgment, circumstances warrant. Any such downgrade change or suspension or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Issuer has sold the Series A Bonds at public sale to U.S. Bancorp Piper Jaffray, as Underwriter, for a price of \$9,449,993.76 and accrued interest. The Issuer has sold the Series B Bonds at public sale to Wells Fargo Brokerage Services LLC, as Underwriter, for a price of \$1,531,180.10 and accrued interest.

FINANCIAL ADVISOR

Evensen Dodge, Inc., of Minneapolis, Minnesota, has served as Financial Advisor to the Issuer in connection with the offering of the Bonds. The Financial Advisor will not participate in the underwriting of the Bonds.

(The remainder of this page has been left blank intentionally.)

ADDITIONAL INFORMATION

All of the summaries of the statutes, resolutions, opinions, contracts, agreements, financial and statistical data and other related documents described in this Official Statement are made subject to the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents, copies of which are publicly available for inspection during normal business hours at the offices of the Industrial Commission of North Dakota, Bismarck, North Dakota or Evensen Dodge, Inc., Minneapolis, Minnesota. This Official Statement is not to be construed as a contract or agreement between the Underwriter and the purchasers or owners of the Bonds.

The execution and delivery of this Official Statement has been duly authorized by the State.

STATE OF NORTH DAKOTA

/s/ John Hoeven
Governor John Hoeven, Chairman,
Industrial Commission of North Dakota

/s/ Wayne Stenehjem
Attorney General Wayne Stenehjem, Member
Industrial Commission of North Dakota

/s/ Roger Johnson
Commissioner of Agriculture Roger Johnson, Member
Industrial Commission of North Dakota

APPENDIX A

**General Information Regarding
The State of North Dakota**

THE INDUSTRIAL COMMISSION OF NORTH DAKOTA

The Legislature created the Industrial Commission of North Dakota (the “Commission”) in 1919 to conduct and manage, on behalf of the State, certain utilities, industries, enterprises and business projects established by State law. The North Dakota Building Authority Act (the “Act”) provides that the Commission, acting as the North Dakota Building Authority (the “Authority”), may negotiate the sale of the bonds of the Authority in such amounts and in such manner as may be provided by law for projects of the Authority. The Commission is responsible for the operation and management of certain other State enterprises, including the Bank of North Dakota, the North Dakota Mill and Elevator Association, the North Dakota Municipal Bond Bank, the North Dakota Housing Finance Agency and the North Dakota Student Loan Trust. The Commission performs regulatory functions through its Oil and Gas Division and Geological Survey and administers the Agricultural Revenue Bond Program. Effective August 1, 1997, the Commission also became the Farm Finance Agency. The Commission, effective July 1, 1991, among other powers, has the authority to borrow money and issue evidences of indebtedness for the purpose of funding lignite research, development and marketing projects, processes or activities directly related to lignite and products derived from lignite.

The members of the Commission are the Governor, the Attorney General and the Commissioner of Agriculture of the State. The Governor is the Chairman of the Commission, and a quorum for the transaction of business of the Commission consists of the Governor and one additional member. The present members of the Commission, all of whom have been elected to office for four-year terms expiring December 14, 2004 (with respect to the Governor) and December 31, 2004 (with respect to the other two members), are:

John Hoeven, Governor
Wayne Stenehjem, Attorney General
Roger Johnson, Commissioner of Agriculture

The Attorney General of the State serves as general counsel to the Commission. Each State enterprise under the control of the Commission employs and is operated by a separate staff or authorized agents under the supervision of the Commission.

The Commission’s mailing address is the Industrial Commission of North Dakota, State Capitol, 600 East Boulevard, Bismarck, North Dakota 58505, c/o Executive Director and its telephone number is (701) 328-3722.

NORTH DAKOTA STATE GOVERNMENT

The following description of State government is written with an emphasis on those functions of government that might have a direct bearing or effect on the financial condition of the State and the State’s ability to pay Rents under the Lease, but is not a detailed description of all functions of the State’s government.

General

The State of North Dakota is governed by its constitution, the present form of which was adopted in 1889 and which has been amended from time to time.

The legislative power of North Dakota is vested in the Legislative Assembly. Pursuant to the legislative redistricting plan adopted by the Fifty-seventh Session of the Legislative Assembly (2001 N.D. Sp. Sess. Laws ch. 691), the Legislative Assembly consists of a 47-member Senate elected for four-year terms and a 94-member House of Representatives elected for four-year terms from legislative districts established by law on the basis of population. The Legislative Assembly meets every two years, beginning on the first Tuesday after the first Monday

in January after the general election, or as otherwise determined by the Legislative Assembly, for a period not to exceed 80 legislative days. The people, however, reserve the power to propose measures and to approve or reject the same at the polls by initiative and to approve or reject at the polls by referendum any measure or any item, section, part or parts of any measure enacted by the Legislative Assembly.

The chief executive power of the State is vested in the Governor who, with a Lieutenant Governor, is elected on a joint ballot for a four year term. The Governor is responsible for all executive actions and for the execution of laws passed by the Legislative Assembly. Under the Constitution the Governor can veto legislation, which veto may be overridden by a two-thirds majority vote of each house of the Legislative Assembly. The constitutional veto power of the Governor also includes the power to “veto items in an appropriation bill”. The Governor has direct control of 14 departments of the Executive Branch, and chairs a number of State Commissions including the Industrial Commission, the Indian Affairs Commission and the State Water Commission.

The judicial powers of the state are vested in a unified judicial system consisting of the Supreme Court, the temporary court of appeals, district courts, and such other courts as are or may be created by law for cities. The Supreme Court, consisting of five justices elected for ten-year terms, may only exercise appellate jurisdiction except as otherwise specifically provided by statute or by the constitution. In the exercise of its original jurisdiction, the Supreme Court may issue writs of habeas corpus, mandamus, quo warrant to, certiorari, and injunction, and may exercise its original jurisdiction only in habeas corpus cases and in cases of strictly public concern involving questions affecting the sovereign rights of the state or its franchises or privileges. In the exercise of its appellate jurisdiction and in its superintending control over inferior courts, the Supreme Court may issue such original and remedial writs as are necessary to the proper exercise of such jurisdiction.

NORTH DAKOTA STATE FINANCES

State Fund Structure; Accounting Basis

The State maintains a general fund for the receipt of all unrestricted tax revenues from which the State appropriates moneys for the activities of the State. The State also maintains several hundred special funds (including trust funds) for tax revenues and federal revenues received by the State which are restricted as to use.

The State operates a statewide accounting and management information system. This system is an accrual system capable of providing information for preparation of statewide financial statements in accordance with generally accepted accounting principles (“GAAP”) for governmental units. The system maintains general ledger accounts for all of the State’s funds and also for the GAAP funds and account groups as recommended by the Governmental Accounting Standards Board. The Office of Management and Budget has been statutorily mandated to prepare annual statewide financial statements. The comprehensive annual financial report of the State for fiscal year 2001 is attached as Appendix C.

Budget Procedures

The focus of North Dakota’s budget format and process is on programs. The budget includes spending requests for general funds, federal funds and other state-appropriated revenues. State agencies submit their budget requests on a biennial basis to the Office of Management and Budget based on guidelines that are published by the Office of Management and Budget to assist in preparation. State agencies have complete discretion in the formulation of their budget requests. The agency director makes the final determination regarding overall formulation of the budget request. Once the budget request is submitted to OMB, a budget hearing is held for further clarification of budgetary data and discussion of outstanding issues and policy.

The Governor presents the executive budget to the Legislative Assembly for its consideration. The Legislative Assembly then makes changes to the executive budget in the course of its deliberations.

In addition, the Governor presents a capital budget recommendation separate from operating budget recommendations to the Legislature. Key components in the decision to prepare a formalized capital budget included statewide concerns of possible deferred building maintenance and the lack of long-term planning for new construction.

Non-Legislative Powers to Control Expenditures from Appropriations

By statute, the Director of the Office of Management and Budget exercises continual control over the execution of the budget affecting the departments and agencies of the executive branch of the State government. This control entails the analysis and approval of all commitments for conformity with the program provided in the budget, frequent comparison of actual revenues and budget estimates, and, on the basis of these analyses and comparisons, control of the rate of expenditures through a system of allotments. The allotment must be made by specific fund and all departments and agencies that receive moneys from that fund must be allotted moneys on a uniform percentage basis except that appropriation to the Department of Public Instruction for foundation aid, transportation aid and special education aid may only be allotted to the extent that the allotment can be offset by transfers from the foundation aid stabilization fund. Before an allotment is made which will reduce the amount of funds which can be disbursed pursuant to an appropriation or before an allotment disallowing a specific expenditure is made, the Director must find one or more of the following circumstances to exist:

1. The moneys and estimated revenues in a specific fund from which the appropriation is made are insufficient to meet all legislative appropriations from the fund.
2. The payment or the obligation incurred is not authorized by law.
3. The expenditure or obligation is contrary to legislative intent as recorded in any reliable legislative records, including:
 - a. Statements of legislative intent expressed in enacted appropriation measures or other measures enacted by the Legislative Assembly; and
 - b. Statements of purpose of amendment explaining amendments to enacted appropriation measures, as recorded in the journals of the Legislative Assembly.
4. Circumstances or availability of facts not previously known or foreseen by the Legislative Assembly which make possible the accomplishment of the purpose of the appropriation at a lesser amount than that appropriated.

The foregoing allotment system applies to the various funds maintained by the State and the departments and agencies which receive moneys from such funds. Except for certain appropriations to the Department of Public Instruction, any reduction in expenditures from appropriations is required to be on a uniform percentage basis among the departments and agencies that draw on any particular fund. The allotments are also subject to objection by the Budget Section of the Legislative Council.

A percentage reduction in the moneys available from any affected fund to any department, agency or institution in all three branches of the State government may also occur as a result of an initiated or referendum action pursuant to Article III of the Constitution of North Dakota.

Financial Controls

The State has financial controls over the appropriation and expenditure of funds. No moneys can be spent in excess of appropriations or without a cash balance in the particular fund from which the expenditure is to be made. In addition, by statute, no State institution, department, board, commission or bureau may disburse more than 75% of the operating and salary appropriations made by the Legislative Assembly for the biennium during the first eighteen months of the biennium. Under certain circumstances, an exception to this limitation may be authorized except for salaries and wages. The State's financial control is centered in the Office of Management and Budget, including pre-audit of claims. The post-audit function is carried out by the State Auditor, an elected official.

In order to meet the cash flow needs of State government, the Office of Management and Budget may issue certificates, notes or bonds in anticipation of revenue to special funds on deposit in the State Treasury. Any such borrowing must be approved by the Emergency Commission and be utilized for cash flow financing only and not to offset any projected deficits in State finances unless first approved by the Budget Section of the Legislative Council. The terms of any such issue may not exceed 180 days from the date of issuance, with principal and interest paid in full from the State general fund by the close of the biennium.

(The remainder of this page has been left blank intentionally.)

REVENUES AND EXPENDITURES OF NORTH DAKOTA

The following table sets forth a five-year analysis of the State's General Fund revenues and expenditures as of the end of each of the past five fiscal years.

Five-Year Analysis of General Fund Revenues and Expenditures

	Fiscal Year End June 30				
	1997	1998	1999	2000	2001
<u>Revenues</u>					
Taxes	\$ 646,167,720	\$ 705,385,031	\$ 684,654,913	\$ 734,974,065	\$ 755,449,647
Licenses & Permits	7,550,901	9,130,177	8,657,036	11,317,453	11,260,815
Intergovernmental	323,609	244,980	314,659	164,095	381,322
Sales and Services	1,585,748	1,603,631	1,606,971	1,408,547	1,891,369
Royalties and Rents	4,519,976	5,481,495	3,222,016	4,451,445	6,705,433
Fines and Forfeits	2,283,862	2,538,787	2,234,407	1,664,005	2,294,372
Interest and Investment Income	6,275,829	6,456,854	7,060,830	7,511,546	9,264,494
Miscellaneous	232,654	306,138	53,764	1,664,074	61,592
TOTAL REVENUES	\$ 668,940,099	\$ 731,147,093	\$ 707,804,596	\$ 763,155,230	\$ 787,309,404
<u>Expenditures</u>					
General Government	\$ 52,349,646	\$ 48,943,272	\$ 63,584,503	\$ 51,857,281	\$ 62,140,718
Education	254,472,214	269,078,165	270,305,831	288,446,110	284,909,751
Health and Human Services	160,549,472	167,143,804	183,052,329	166,163,619	185,861,396
Regulatory	5,195,620	5,509,119	5,399,367	5,909,924	6,250,073
Public Safety	24,087,054	27,972,292	31,695,743	44,230,789	40,616,062
Agriculture and Economic Development	5,053,026	5,107,912	5,801,158	5,399,415	5,576,666
Natural Resources	10,729,463	11,242,861	12,973,132	12,507,337	13,851,581
Highways	2,969,065	--	140,500	263,872	--
Interest and Other Charges	147,866	--	--	--	--
TOTAL EXPENDITURES	\$ 515,553,426	\$ 534,997,425	\$ 572,952,563	\$ 574,778,347	\$ 599,206,247
<u>Other Financing Sources (Uses)</u>					
Operating Transfers In	\$ 5,174,452	\$ 37,442,899	\$ 11,695,796	\$ 33,460,525	\$ 31,402,315
Operating Transfers Out	(167,640,325)	(204,932,308)	(200,007,664)	(194,061,401)	(231,297,905)
Operating Transfers to Component Units	2,969,065	(1,204,936)	(1,204,936)	(375,000)	(375,000)
Other	13,363	76,759	7,448	5,606	11,273
Total Other Financing Sources (Uses)	\$(159,483,445)	\$(168,617,586)	\$(189,509,356)	\$(160,970,270)	\$(200,259,317)
Revenues and Other Sources Over Expenditures and Other Uses	(6,096,772)	27,532,082	(54,657,323)	27,406,613	(12,156,160)
Beginning Cash Balance	121,118,461	115,021,689	142,553,771	87,896,448	118,632,571 ⁽¹⁾
Other Transfers in (Out)	--	--	--	--	--
FUND BALANCE – END OF YEAR	\$ 115,021,689	\$ 142,553,771	\$ 87,896,448	\$ 115,303,061	\$ 106,476,411

⁽¹⁾ Pursuant to GASB 33, the beginning fund balance was increased by \$3,329,510 to reflect the change in accounting for nonexchange transactions.

Source: Office of Management and Budget.

Analysis of General Fund Balances

The following table sets forth the cash balances (General Fund only) as of the end of each quarter, Fiscal Year 1997 through the second quarter of Fiscal Year 2002 (dollars in millions).

<u>Quarter</u>	<u>Fiscal</u> <u>1997</u>	<u>Fiscal</u> <u>1998</u>	<u>Fiscal</u> <u>1999</u>	<u>Fiscal</u> <u>2000</u>	<u>Fiscal</u> <u>2001</u>	<u>Fiscal</u> <u>2002</u>
First	\$19.5	\$66.7	\$94.3	\$45.4	\$50.8	\$24.8
Second	36.6	26.6	63.3	21.1	10.1	13.6
Third	47.5	23.6	60.3	15.2	32.4	--
Fourth	66.4	76.5	66.0	43.0	74.0	--

Source: Office of Management and Budget.

Analysis of Total State End of Biennium Balances

The following table sets forth the results of the financial operations of the State (including both General Fund and special fund revenues and expenditures) for the biennium periods 1993 to 1995, 1995 to 1997, 1997 to 1999 and 1999 to 2001.

	<u>1993-95</u>	<u>1995-97</u>	<u>1997-99</u>	<u>1999-01</u>
Cash Balance Beginning July 1	\$ 131,779,342	\$ 170,958,855	\$ 210,872,624	\$ 221,694,897
Collections	3,923,059,395	4,283,926,637	4,781,013,805	5,550,897,975
Transfer from Other Funds	0	0	0	0
Disbursements	(3,883,879,882)	(4,244,012,868)	(4,770,191,532)	(5,438,453,710)
Transfer to Other Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Cash Balance Ending June 30	<u>\$ 170,958,855</u>	<u>\$ 210,872,624</u>	<u>\$ 221,694,897</u>	<u>\$ 334,139,162</u>

Source: Biennial Reports of the State of North Dakota, Office of the Treasurer; July 1, 1993 to June 30, 1995; July 1, 1995 to June 30, 1997; July 1, 1997 to June 30, 1999; and July 1, 1999 to June 30, 2001.

(The remainder of this page has been left blank intentionally.)

2001-2003 General Fund Appropriations

<u>Purpose</u>		<u>Appropriation</u>
General Government		\$ 159,825,655
Education:		963,311,533
Public Institutions and Other	\$596,357,697	
Higher Education	366,953,836	
Health and Human Services		390,302,863
Regulatory		22,240,849
Public Safety		111,181,566
Agricultural, Economic Development, Extension and Research:		74,569,578
Extension and Research	51,742,895	
Other Agricultural and Economic Development	22,826,683	
Natural Resources		<u>25,551,669</u>
TOTAL		<u>\$1,746,983,713</u>

Source: Office of Management and Budget.

(The remainder of this page has been left blank intentionally.)

Sources of General Fund Revenues

Actual collections for the General Fund portion of State revenues for the 1995-97, 1997-99 and 1999-01 biennia and the State's Legislative forecasted revenue projections for the 2001-03 biennium are shown below.

Revenue Source	1995-1997 Actual Collections	1997-1999 Actual Collections	1999-2001 Actual Collections	2001-2003 Legislative Forecast
Sales and Use Tax	\$ 517,328,105	\$ 569,501,827	\$ 613,066,466	\$ 643,705,000
Motor Vehicle	88,142,913	94,863,089	109,115,230	113,531,000
Individual Income Tax	315,516,252	358,287,825	409,331,437	450,847,000
Corporate Income Tax	99,347,937	123,420,219	99,134,855	104,439,000
Business Privilege Tax	3,854,132	6,494,162	5,464,955	4,800,000
Cigarette and Tobacco Tax	45,030,090	44,091,170	41,706,350	38,796,000
Oil and Gas Production Tax	33,042,320	26,973,613	38,433,365	38,431,000
Oil Extraction Tax	21,987,655	16,703,114	23,566,635	23,569,000
Coal Severance Tax	22,245,267	22,596,137	22,173,854	0
Coal Conversion Tax	24,064,781	23,786,790	25,672,170	48,670,000
Insurance Premium Tax	36,968,670	33,133,216	39,113,433	39,896,000
Wholesale Liquor Tax	10,339,078	11,140,328	10,321,999	10,540,543
Gaming Tax	22,848,486	22,801,868	27,437,507	20,403,000
Departmental Collections	28,737,207	32,997,069	40,816,171	48,977,350
Interest Income	15,554,914	19,013,889	20,832,123	21,011,000
Mineral Leasing Fees	5,629,526	7,257,989	9,531,698	6,757,500
Bank of North Dakota Transfers	50,214,540	29,600,000	50,000,000	60,000,000
State Mill Transfers	1,000,000	3,000,000	3,000,000	6,000,000
Student Loan Trust Fund Transfers	0	0	0	9,000,000
Gas Tax Administration	1,071,878	1,128,872	1,380,608	1,363,392
Other Transfers ⁽¹⁾	<u>38,445,224</u>	<u>36,713,873</u>	<u>5,159,194</u>	<u>15,578,922</u>
Total	<u>\$1,381,368,975</u>	<u>\$1,483,505,050</u>	<u>\$1,595,258,050</u>	<u>\$1,706,315,707</u>

⁽¹⁾ Other transfers for the 1993-95 biennium consist of \$21,980,000 from the State Aid Distribution Fund, \$12,000,000 from the Fire and Tornado Fund, \$5,000,000 from the sale of school construction bonds, \$2,500,000 from the State Bonding Fund, \$2,500,000 from the Lands and Minerals Trust Fund, \$565,188 from the Capital Construction Fund, \$229,000 from the Pay Equity Fund and \$5,290,976 from other miscellaneous funds. Other transfers for the 1995-97 biennium consist of \$35,444,748 from the State Aid Distribution Fund, \$2,000,000 from the Lands and Minerals Trust Fund and \$1,000,476 from other miscellaneous funds. Other transfers for the 1997-99 biennium include \$28,016,830 from the State Aid Distribution Fund and \$5,500,000 from the Land and Minerals Trust Fund. Other transfers for the 1999-2001 biennium include \$3,000,000 from Land & Minerals Trust Fund, \$1,500,000 from the PERS Life Insurance Fund, \$200,000 from the Financial Institutions Regulatory Fund and \$2,150,000 from the Developmental Disability Loan Sale. Other transfers estimated for the 2001-03 biennium include \$3,545,102 from the Land and Minerals Trust Fund, \$300,000 from the Financial Institutions Regulatory Fund and \$9,733,820 from the Water Development Trust Fund.

Source: Office of Management and Budget.

Sources of Total State Appropriations

A comparison of the sources for the total appropriations made for the 1995-97, 1997-99, 1999-01 and 2001-03 biennia is presented below:

	1995-1997 Legislative <u>Appropriation</u>	1997-1999 Legislative <u>Appropriation</u>	1999-2001 Legislative <u>Appropriation</u>	2001-2003 Legislative <u>Appropriation</u>
General Fund	\$1,346,990,260	\$1,489,240,087	\$1,594,038,538	\$1,746,983,713
Special Funds	<u>2,244,169,894</u>	<u>2,485,367,317</u>	<u>3,215,299,301</u>	<u>3,025,896,983</u>
Total	<u>\$3,591,160,154</u>	<u>\$3,974,607,404</u>	<u>\$4,809,337,839</u>	<u>\$4,772,880,696</u>

Tax Structure

The State general fund receives the major share of its revenues from the following six taxes:

Sales and Use Tax. North Dakota currently imposes a State retail tax of 5% on the purchase price of most commodities, with food being the most notable exception. A 7% sales tax is levied upon retail sales of all alcoholic beverages. New farm machinery, irrigation equipment, new mobile homes and the purchase of qualifying manufacturing equipment are subject to a sales and use tax of 3%. The tax is collected by businesses and remitted to the State.

The history for sales and use tax rates during the past ten years is as follows:

1991 Session reduced the rate on natural gas from 5% as follows: 4% effective January 1, 1993; 3% effective January 1, 1994; and 2% effective January 1, 1995. Effective July 1, 1991, the 3% rate has been eliminated on manufacturing or processing machinery and equipment used by new or expanding manufacturers or agricultural processors.

1993 Session clarified and expanded the exemption for manufacturing machinery and equipment to include recycling machinery and equipment. Performances of community non-profit music or dramatic arts organizations held in a public facility were exempted. Items purchased by political subdivisions of another state were made taxable if the other state also taxes the items. A new highway contract privilege tax was established at 5% of the gross contract amount.

1994 Special Session broadened the qualifications for the manufacturing and equipment exemption to include machinery and equipment used primarily in the manufacturing operation from receipt of raw materials to any process before final transportation from the site. The exemption was expanded to include research and development equipment. A new exemption was created for materials used to construct an agricultural processing facility.

1995 Session redefined the application of sales and use tax on the sale and installation of carpet and drapes. The sale and installation of carpet, draperies or drapery hardware will always constitute a construction contract. The expiration provision for the sales and use tax exemption for recycling machinery and equipment was removed. The solid waste management surcharge was repealed effective July 1, 1995. The controlled substance tax was repealed effective July 1, 1995. The definition of a retail sale was amended to include tire retreading.

1997 Session enacted legislation enabling the Tax Commissioner to accept the filing of a sales tax return electronically.

1999 Session enacted legislation reducing the sales and use tax rate on used farm machinery and repair parts from three percent to one and one-half percent from May 1, 1999 through June 30, 2001. This is expected to impact General Fund revenues by approximately \$4.471 million during the 1999-2001 biennium. Also enacted by the 1999 Legislature was the Renaissance Zone Act. The provisions of this legislation include income and property tax exemptions in addition to income and financial institutions tax credits. At this time there is no estimate on the impact to the General Fund for exemptions for tax credits provided in this legislation.

2001 Session enacted legislation that continued the one and one-half percent sales tax rate on used farm machinery and repair parts through June 30, 2002. Beginning July 1, 2002, sales of used farm machinery and repair parts will be exempt from sales tax.

Individual Income Tax. A tax on income (defined as federal taxable income with adjustments) is imposed upon individuals and fiduciaries. The 2001 rates and brackets for married taxpayers filing joint return are as follows:

<u>2001</u>	
Up to \$45,200	Computed at 2.10%
\$45,200 to \$109,250	\$949.20 plus 3.92% of excess over \$45,200
\$109,250 to \$166,500	\$3,459.96 plus 4.34% of excess over \$109,250
\$166,500 to \$297,350	\$5,944.61 plus 5.04% of excess over \$166,500
Over \$297,350	\$12,539.45 plus 5.54% of excess over \$297,350

The same rates apply on different income brackets for taxpayers with filing statuses of single, married filing separately, or head of household. The income brackets are adjusted annually for inflation.

Individual income taxpayers have the option of using a long-form method of computing their state income tax liability. This method allows several deductions and tax credits not available on the standard form. The long form rates, imposed on federal taxable income with adjustments, range from 2.67% on income up to \$3,000 to 12.00% on income in excess of \$50,000. As these rates are substantially higher than those on the standard form, only 3% of all taxpayers file the long form.

Corporate Income Tax. All corporations doing business in the State are subject to a tax on the amount of net income derived from business done in the State. The current rates are as follows:

Up to \$3,000	Computed at 3%
\$3,000 to \$8,000	\$90 plus 4.5% of excess over \$3,000
\$8,000 to \$20,000	\$315 plus 6.0% of excess over \$8,000
\$20,000 to \$30,000	\$1,035 plus 7.5% of excess over \$20,000
\$30,000 to \$50,000	\$1,785 plus 9.0% of excess over \$30,000
Over \$50,000	\$3,585 plus 10.5% of excess over \$50,000

Oil Extraction Tax. The State imposes a 6.5% tax on the value (or selling price) of oil at the wellhead. This tax applies only to oil and not natural gas. New wells drilled after April 27, 1987 receive a 15-month holiday from this tax, and a subsequent reduction in the rate from 6.5% to 4%. In addition, a one-year exemption is available after a well has undergone a qualifying workover. The revenues from this tax are distributed 60% to the General Fund, 20% as provided in Article X, Section 24 of the North Dakota Constitution, and 20% to a resources trust fund. The Oil Extraction Tax went into effect January 1, 1981. Effective July 1, 1991, the Legislature expanded oil extraction tax incentives. Effective July 1, 1993, the Legislature loosened the definition of a qualifying workover project. Effective July 1, 1995, the Legislature again expanded oil exploration tax incentives.

Oil and Gas Production Tax. The State imposes a tax on oil and gas production at a rate equal to 5% of gross well value, payable on a monthly basis. Effective July 1, 1991, instead of gas being taxed at 5% of gross value at the well it will be taxed at four cents per non exempt mcf of gas produced. This rate will be adjusted annually to follow fluctuations in gas value by using the yearly producer price index for gas fuels.

Cigarette and Tobacco Products Tax. A tax of 44 cents per package is imposed on cigarettes with 41 cents per package going to the State General Fund and 3 cents to cities on a population basis. A tax equal to 28% of the wholesale price of other tobacco products is collected and distributed to the General Fund.

Below are descriptions of other major taxes and fees in North Dakota:

Alcohol and Beverage Tax. This tax is imposed on the wholesalers of alcoholic beverages for the privilege of doing business in the State. The tax is based on gallonage sold by wholesalers in the following amounts:

Beer sold in bulk containers	\$0.08/gallon
Beer sold in bottles, cans	\$0.16/gallon
Wine with less than 17% alcohol	\$0.50/gallon
Wine with between 17% and 24% alcohol	\$0.60/gallon
Sparkling wines	\$1.00/gallon
Distilled spirits	\$2.50/gallon
Straight distilled alcohol	\$4.05/gallon

Financial Institutions Tax. All financial institutions are required to file and pay a 7% tax on taxable income, in lieu of all other income taxes.

Coal Conversion Facilities Tax. Electrical generating plants which use coal and have a single generating unit with the capacity of 10,000 kilowatts or more (effective January 1, 2002) are taxed at a rate equal to 0.65 mill times 60% of installed capacity times the number of hours in the taxable period plus 0.25 mill per kilowatt hour of electricity produced for sale. This tax is in lieu of all ad valorem taxes except on land. Other energy installations which are subject to the coal conversion facilities tax include, but are not limited to, coal gasification plants, coal liquefaction plants and plants for the manufacture of fertilizer and other products, which use or are designed to use over 500,000 tons of coal per year. These types of plants pay a tax of 4.1% of gross receipts, or in the case of coal gasification plants, either 4.1% of gross receipts or \$.135 per 1,000 cubic feet of gas produced for sale, whichever is greater. A plant which is designed for coal beneficiation is taxed at the rate of \$.20 on each ton of beneficiated coal produced for sale or 1.25% of gross receipts, whichever is greater. This tax is collected on a monthly basis. A newly constructed coal conversion facility is exempt from the State's share of the coal conversion tax for five years and may be exempted from all or part of the county's share by resolution of the county commissioners.

Coal Severance Tax. This tax applies to coal severed from the ground for sale or for industrial purposes. Effective July 1, 2001, there is a \$0.375 per ton tax with an additional \$.02 per ton to be deposited into the Lignite Research Fund.

Estate Tax. North Dakota's estate tax is entirely contingent on credits which the federal government allows on federal estate taxes. Specifically, the federal government allows a credit for State estate taxes paid, a credit which is applied against the federal estate tax. North Dakota law now provides that its State estate tax will be equal to, but no more than, the credit allowed on federal estate tax returns.

Gaming Tax. A gaming tax is levied on the total adjusted gross proceeds from games of chance conducted by various licensed organizations. The tax rate is 5% for the first \$200,000 of adjusted gross proceeds, increasing to a maximum rate of 20% for adjusted gross proceeds in excess of \$600,000. In addition, a 4.5% excise tax is imposed on gross proceeds from pull tabs. In a special election held on December 6, 1989, a measure authorizing and regulating the use of electronic video gaming devices was defeated.

Insurance Premium Tax. This tax is on the gross amount of premiums, assessments, membership fees, subscriber fees, policy fees and finance and service charges received in North Dakota by any insurance company doing business in the State. The tax is imposed in an amount of 2% of life insurance, 1.75% with respect to accident and sickness insurance and 1.75% on all other lines of insurance, excluding annuity considerations.

Mineral Leasing Fees. This fee represents the money the State receives for the lease of the State's mineral interests. As of June 30, 2001, the State had rights to approximately 700,000 acres, of which approximately 13.7% was under lease.

Motor Vehicle Fuels Tax. North Dakota generally imposes a tax of 21 cents per gallon on all sales of motor vehicle fuels. The State also imposes a special fuels tax on certain other motor fuels, primarily diesel fuel. The special fuels tax is 21 cents per gallon if the fuel is for use in licensed vehicles or if it is sold to public contractors performing public-funded contracts. If the special fuels are sold for heating, agricultural, railroad or privately funded industrial purposes, the special fuels tax is 2% of the purchase price of these fuels. The 1995 Legislature enacted provisions for up to two cents additional tax on motor fuels and special fuels, dependent upon the availability of federal highway matching funds. The 1997 Legislature continued the two cent tax through December 31, 1999. The 1999 Legislature established the motor fuels tax at 21 cents per gallon a decrease of one cent per gallon.

The Legislature has established statutory limitations on the amount of general fund revenues that will be made available for lease payments during a biennium, tying the limitation to a percentage of a portion of the net sales, use, and motor vehicle excise tax collections during a biennium. In 1995 the Legislature set the limitation at no more than 11% of that portion of the sales, use and motor vehicle excise taxes representing collections from one cent of the five cent (per dollar) sales, use, and motor vehicle excise taxes. In 1997 the Legislature reduced the percentage limitation from 11% to 10% of that portion of the sales, use, and motor vehicle excise taxes representing collections from one cent of the five cent (per dollar) sales, use, and motor vehicle excise taxes. The percentage limitation remains at 10% currently. (Because these limitations are statutory, the Legislature is free to alter or even eliminate such limitations in future sessions.) Lease payments made by the University of North Dakota and North Dakota State University on behalf of their energy conservation projects are excluded from the statutory limitations on general fund revenues.

**NORTH DAKOTA STATE TAX DEPARTMENT
NET COLLECTIONS
FOR THE FISCAL YEARS ENDED JUNE 30, 1997 TO 2001**

<u>TAX TYPE</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Sales and Use Taxes ⁽¹⁾	\$358,900,354	\$363,095,256	\$383,173,850	\$390,332,981	\$ 398,639,332
Oil Extraction Tax	19,079,936	15,328,212	12,074,588	22,033,670	24,793,997
Gross Production Tax	34,772,117	29,521,309	22,705,995	38,464,671	46,029,027
Motor Fuels Taxes	103,727,317	105,131,399	103,050,448	111,937,585	112,685,871
Individual Income Tax	163,732,247	177,904,251	181,389,034	198,287,830	213,442,150
Corporation Income Tax	50,300,520	65,543,025	57,877,194	47,528,001	51,606,853
Coal Taxes ⁽²⁾	37,641,659	37,257,693	38,274,528	38,959,421	39,539,107
All Other Taxes and Fees ⁽³⁾	<u>82,364,267</u>	<u>86,067,863</u>	<u>106,892,031</u>	<u>109,509,989</u>	<u>117,682,317</u>
Total Net Collections	<u>\$850,518,417</u>	<u>\$879,849,008</u>	<u>\$905,437,668</u>	<u>\$957,054,148</u>	<u>\$1,004,418,654</u>

(1) Includes sales and use tax, motor vehicle excise tax and State Aid Distribution Fund.

(2) Includes coal severance tax and coal conversion facilities privilege tax.

(3) Includes cigarette tax, tobacco tax, estate tax, business and corporation privilege tax, financial institutions tax, telecommunications tax, transmission lines tax, city sales tax, city lodging tax, music and composition tax, sales and use tax and motor fuel tax cash bonds, motor fuel license fees, solid waste management fees, centennial tree contributions, organ transplant support contributions, drug tax, city restaurant and lodging, nongame wildlife contributions, and miscellaneous remittances.

Source: Comparative Statement of Collections, North Dakota State Tax Department.

NORTH DAKOTA STATE INDEBTEDNESS

Authorization and Debt Limits

Article X, Section 13 of the North Dakota Constitution provides that:

“The state may issue or guarantee the payment of bonds, provided that all bonds in excess of two million dollars shall be secured by first mortgage upon real estate in amounts not to exceed sixty-five percent of its value; or upon real and personal property of state-owned utilities, enterprises or industries, in amounts not exceeding its value, and provided further, that the State shall not issue or guarantee bonds upon property of state-owned utilities, enterprises or industries in excess of ten million dollars.

No further indebtedness shall be incurred by the state unless evidenced by a bond issue, which shall be authorized by law for certain purposes, to be clearly defined. Every law authorizing a bond issue shall provide for levying an annual tax, or make other provision, sufficient to pay the interest semiannually, and the principal within thirty years from the date of the issue of such bonds and shall specially appropriate the proceeds of such tax, or of such other provisions to the payment of said principal and interest, and such appropriation shall not be repealed nor the tax or other provisions discontinued until such debt, both principal and interest, shall have been paid. No debt in excess of the limit named herein shall be incurred except for the purpose of repelling invasion, suppressing insurrection, defending the State in time of war or to provide for the public defense in case of threatened hostilities.”

The State currently has no general obligation debt outstanding.

Previous North Dakota Building Authority Financings

The Industrial Commission of North Dakota acting as the North Dakota Building Authority previously issued and has outstanding as of December 31, 2001, Lease Revenue Bonds as follows:

1993 Series A:	
5.35% to 5.90% Serial Bonds, due June 1, 2002-2007	12,850,000
6.00% Term Bonds, due June 1, 2010	8,270,000
1993 Series B:	
4.80% to 5.40% Serial Bonds, due August 15, 2002-2008	5,260,000
5.45% Term Bonds, due August 15, 2011	2,830,000
5.50% Term Bonds, due August 15, 2014	3,370,000
1995 Series A:	
5.00% to 6.10% Serial Bonds, due December 1, 2002-2016	15,225,000
1998 Series A:	
4.40% to 5.125% Serial Bonds, due December 1, 2002-2013	\$ 4,640,000
5.125% Term Bonds, due December 1, 2018	2,910,000
1998 Series B:	
4.50% to 5.00% Serial Bonds, due December 1, 2002-2010	10,180,000
1998 Series C:	
3.75% to 4.35% Serial Bonds, due December 1, 2002-2009	2,590,000
2000 Series A:	

5.125% to 5.60% Serial Bonds, due December 1, 2002-2019	4,290,000
2001 Series A:	
4.00% to 5.125% Serial Bonds, due December 1, 2002-2018 and 2022	10,360,000
5.125% Term Bonds, due December 1, 2021	2,700,000
2001 Bond Anticipation Notes:	
4.28%, due June 30, 2003	<u>500,000</u>
Total Outstanding (Excluding the Bonds)	<u>\$85,975,000</u>

The 1993A Bonds were issued to advance refund and defease all outstanding maturities of the then outstanding 1990 Bonds (Series A, B and C) which were issued to finance the cost of the acquisition, construction of improvements and renovations of State facilities located on the campuses of the State Board of Higher Education, the State Penitentiary and the North Dakota Veterans' Home. The 1990 Bonds were called on June 1, 2000 at a price of par and in the amount of \$23,780,000. The total par amount of bonds refunded and defeased is \$31,845,000.

The 1993B Bonds were issued to finance the acquisition or construction of a replacement facility for Job Service North Dakota, various capital construction projects (including handicapped access and renovation of the Memorial Library at Minot State University) and prepayments of special assessments of the State Board of Higher Education, demolition, renovation and asbestos removal at Dakota Hall of the Youth Correctional Center of the Department of Corrections and Rehabilitation, and for construction of an armory and other renovation projects for the North Dakota National Guard.

The 1995A Bonds were issued to finance capital construction projects located on various campuses of the State Board of Higher Education.

The 1998A Bonds were issued to finance the acquisition, construction, improvement or equipping of certain facilities for the State Board of Higher Education and the Department of Corrections and Rehabilitation.

A portion of the 1998B Bonds were issued to advance refund the callable maturities, June 1, 2002 through 2011, of the then outstanding 1991 Series A Bonds. The 1991 Bonds were called on June 1, 2001 at a price of par and in the amount of \$9,495,000. The remainder of the 1998B Bonds were issued to advance refund the callable maturities, August 15, 2001 through 2007, of the then outstanding 1992 Series A Bonds. The 1992 Bonds were called on August 15, 2000 at a price of par and in the amount of \$1,755,000.

The 1998C Bonds were issued to finance a portion of the renovation and addition to the Ed James Wing of the medical school at the University of North Dakota for the State Board of Higher Education.

The 2000A Bonds were issued to finance a portion of the construction of an Animal Research Facility at North Dakota State University for the State Board of Higher Education and to fund a portion of the renovation of the Pine Cottage at the North Dakota Youth Correctional Center for the Department of Corrections and Rehabilitation.

The 2001A Bonds were issued to finance a portion of the construction of an addition to the Health and Wellness Center at Williston State College and to fund a portion of the renovation of Old Main at Minot State University for the State Board of Higher Education.

The 2001 Bond Anticipation Notes were issued to finance costs incurred by Job Service North Dakota prior to the issuance of the Bonds.

Building Authority bonds do not constitute an obligation of the State within the meaning of any constitutional or statutory provision. All of the Building Authority bonds listed above were issued under separate indentures of trust and are not on a parity with each other.

Revenue Debt

The State and certain State-created entities have the authority to incur debt supported by revenues derived from the assets of the various programs financed by such indebtedness. Only the Municipal Bond Bank Bonds listed below include a moral obligation provision. Such outstanding debt as of December 31, 2001 is shown below:

	<u>Outstanding</u>
State of North Dakota Student Loan Revenue Bonds	\$ 191,204,800
North Dakota Municipal Bond Bank Bonds ⁽¹⁾	146,080,000
North Dakota Housing Revenue Bonds, including accreted value	763,765,000
Board of Higher Education ⁽²⁾	53,014,000
North Dakota State Water Commission ⁽³⁾	45,629,980
Lignite Bonds ⁽³⁾	<u>4,600,000</u>
Total	<u>\$1,204,293,780</u>

(1) Section 6-09.4-10 of the North Dakota Municipal Bond Bank Act provides that in order to assure the maintenance of the required Debt Service Reserve in the Reserve Fund, if a reserve is required or implemented under or by the Act, there shall be appropriated by the Legislative Assembly and paid to the Bond Bank for deposit in said Fund, such sum, if any, as shall be certified by the Industrial Commission, as necessary to restore said Fund to an amount equal to the Required Debt Service Reserve.

(2) As of June 30, 2001.

(3) A portion of the outstanding North Dakota State Water Commission Bonds and the Lignite Bonds are supported by biennial legislative appropriations from special funds and not from revenues as set out above.

NORTH DAKOTA ECONOMY

General

North Dakota lies in the central portion of the Northern Plains with a land area of 70,665 square miles. Elevation in the northeast corner of the State is 750 feet above sea level and in the southwest corner of the State is 3,506 feet.

In the east, the Red River Valley is flat with fertile soil, and particularly suited to agricultural activity. Gently rolling hills characterize the glaciated plains in the central area of the State and west of this area is the Missouri Plateau.

With an average growing season of 120 days, relatively low growing season temperatures and an average growing season rainfall of 13 inches, North Dakota's climate is particularly conducive to the growing of grains. The premier farming area is located in the eastern part of the State, gradually displaced by ranching toward the west.

Agriculture

North Dakota's economy is dependent upon the well-being of agriculture. Agriculture is the state's chief source of revenue and composes one-third of the state's economic base (excluding federal activity). Crops make up two-thirds of the State's annual agricultural productivity; livestock makes up the rest.

Cash receipts for 2000 from the marketing of crops and livestock in the State totaled over \$2.69 billion, as compared to \$2.72 billion in 1999. Each dollar produced by agriculture turns over an additional three to four dollars of revenue in the business sector.

Historically, wheat has been the single most important source of agricultural income in North Dakota, and accounted for 19.29% of the total cash receipts in 2000. Cattle and calves ranked third, with 11.69% of the total and government payments ranked first with 30.3% of the total.

Agricultural exports totaled \$917.9 million in 1999 with wheat and wheat products accounting for 30.5% of the total. Sunflower seed and oil were the second most exported commodities in the State, followed by soybeans and products.

Below is a table which lists the major crops of North Dakota in 2000, the State's rank in national production of each of these crops, and the percentage of the national production of each of these crops that is grown in North Dakota.

State of North Dakota Major Crop Production 2000

<u>Crop</u>	<u>Rank in Nation</u>	<u>Percent of U.S. Production</u>
All Wheat	2 nd	14%
Durum Wheat	1 st	71%
Spring Wheat	1 st	42%
Barley	1 st	31%
Flaxseed	1 st	93%
All Sunflower	1 st	49%
Sunflower, Oil	1 st	47%
Sunflower, Non-Oil	1 st	61%
All Dry Edible Beans	1 st	29%
Pinto Beans	1 st	50%
Navy Beans	2 nd	34%
Canola	1 st	82%
Rye	4 th	8%
Dry Edible Peas	2 nd	38%
Sugar Beets	3 rd	16%
Oats	2 nd	13%
Lentils	3 rd	20%
Potatoes	6 th	5%
All Hay	12 th	3%
All Other Hay	13 th	3%
Alfalfa Hay and Mixtures	11 th	4%
Soybeans	11 th	2%
Corn for Silage	20 th	2%
Corn for Grain	16 th	1%
Honey	1 st	15%
Total Acreage of Principal Crops Harvested	4 th	7%

Source: North Dakota Agricultural Statistics Service.

North Dakota 2000 Cash Receipts From Crops and Livestock (\$000)

	<u>Receipts</u>	<u>Rank Among All States</u>
Crops	\$2,050,659	15 th
Livestock	<u>639,401</u>	37 th
Total Crops & Livestock	\$2,690,060	28 th
Government Payments	<u>1,170,234</u>	7 th
TOTAL	<u>\$3,860,294</u>	
<u>Five Leading Commodities⁽¹⁾:</u>		
Wheat	\$739,898	
Cattle/Calves	447,526	
Soybeans	254,892	
Sugarbeets	194,826	
Sunflowers	144,095	

⁽¹⁾ Receipts data in dollars are for 2000, the latest year for which data is available.

Source: North Dakota Agricultural Statistics and U.S. Department of Agriculture.

North Dakota Net Income Per Farm

<u>Year</u>	<u>Amount</u>
1999	\$13,676
1998	25,051
1997	5,133
1996	34,970
1995	11,609

Source: North Dakota Agricultural Statistics.

Energy and Mineral Resources

Commodities commercially produced in North Dakota include oil and gas, lignite, leonardite, sand and gravel, and clay.

Oil and gas have been produced in 19 counties from an estimated 934 separate pools that have been discovered in North Dakota since 1951. North Dakota's crude oil production reached its first peak in 1966 at 27 million barrels, then declined to 19.6 million barrels in 1974. An exploration boom began in the late 1970's, triggered by higher crude oil prices, a high success ratio for wildcat wells, and significant new discoveries such as Little Knife Field in 1976. Drilling peaked in 1981, with annual crude oil production reaching its all-time peak in 1984 at 52.7 million barrels.

The downward slide in crude oil production that began in 1985 continued through 1994, when production hit its lowest point since 1979. Production in 1994 was 27.6 million barrels with a daily average of 75,826 barrels. Exploration for new oil and production of existing resources continued to lag through much of the 1990's, a result of low crude oil prices, but production has risen to its current level of 84,728barrels/day in December, 2001 as a result of increasing horizontal drilling activity. North Dakota remains the nation's 9th ranking oil-producing state.

Lignite coal is the only rank of coal found in North Dakota in economic amounts. It underlies much of the western two-thirds of the state. Lignite is a "low-rank" coal, meaning it has been altered only slightly by heat and pressure,

is still relatively soft, and has a relatively low heat value. Lignite is generally high in moisture content and volatile matter. North Dakota lignite has a low sulfur content (generally less than one percent) and a low ash content.

Twenty-one North Dakota counties have strippable lignite reserves. The North Dakota Geological Survey estimates total strippable reserves of lignite at about 26 billion tons. This represents more than 60% of the recoverable lignite in the United States.

The earliest recorded economic production of lignite in North Dakota is for the year 1884, but small quantities had been mined for domestic use prior to that time. Production increased steadily, with some fluctuations, rising to above two million short tons in the late 1930's and above three million tons in the early 1950's. It remained at about that level into the early 1960's. Production turned sharply upward in the late 1960's and 1970's, chiefly to provide fuel for new electrical generating plants built in the state. By 1975, lignite production was about 11 million tons. Today, several large-scale plants are clustered near the plentiful water supply of Lake Sakakawea in west-central North Dakota.

A decade of rapidly increasing lignite production began in the mid-1970's, with production reaching about 25 million tons by 1985 and increasing to over 32 million tons by 1993. In 2001, coal production was 31 million tons. North Dakota currently ranks 10th among coal-producing states.

Nearly all the lignite produced in North Dakota is consumed in the state. About 79% of the lignite mined is used to generate electricity (13.5% is used to generate synthetic natural gas, and 7.5% is used to produce fertilizer products). Electricity from lignite-fired power plants is one of North Dakota's leading exports.

Source: North Dakota Industrial Commission, North Dakota Geological Survey.

Population and Labor Force

The 2000 population of North Dakota was estimated by the United States Census Bureau at 642,200. The State is divided into 53 counties with the City of Bismarck as the capitol of the State and county seat of Burleigh County.

North Dakota Population by Decade, 1950-1990, Current Estimate

<u>Year</u>	<u>Population</u>	<u>Percent Change</u>
1950	619,636	(3.5%)
1960	632,446	2.1%
1970	617,792	(2.3%)
1980	652,717	5.6%
1990	638,800	(2.1%)
2000	642,200	1.3%

2000 Population by Age

<u>Age</u>	<u>Population</u>	<u>Percent</u>
0-19	183,464	28.6%
20-24	50,503	7.9%
25-44	174,891	27.2%
45-64	138,864	21.6%
65+	<u>94,478</u>	<u>14.7%</u>
Total	<u>642,200</u>	<u>100.0%</u>

Source: U.S. Census Bureau.

Total average nonagricultural employment in the State in 2000 was approximately 327,100. Below is a table with North Dakota annual nonagricultural employment for the years 1996 through 2000.

North Dakota Annual Average Total Nonagricultural Employment

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Mining	4,100	4,200	3,900	3,500	3,750
Construction	<u>14,850</u>	<u>14,950</u>	<u>15,600</u>	<u>16,650</u>	<u>16,150</u>
Manufacturing:					
Durable Goods	12,100	13,450	13,950	14,350	15,200
Non-Durable Goods	<u>9,450</u>	<u>9,950</u>	<u>10,150</u>	<u>9,850</u>	<u>9,750</u>
Total Manufacturing	<u>21,550</u>	<u>23,400</u>	<u>24,100</u>	<u>24,200</u>	<u>24,950</u>
Total Goods Employment	<u>40,500</u>	<u>42,550</u>	<u>43,600</u>	<u>44,350</u>	<u>44,850</u>
Transportation, Comm. & Public Utilities	18,350	18,050	17,950	18,500	18,700
Wholesale Trade	21,200	21,550	21,700	21,850	21,400
Retail Trade	59,050	59,000	59,550	59,550	60,300
Finance, Insurance & Real Estate	14,300	14,750	15,800	16,400	16,600
Other Services	84,450	87,450	89,850	91,400	92,400
Government	<u>70,800</u>	<u>70,750</u>	<u>71,100</u>	<u>71,800</u>	<u>72,850</u>
Total Services Employment	<u>268,150</u>	<u>271,550</u>	<u>275,950</u>	<u>279,500</u>	<u>282,250</u>
Total Nonagricultural Employment	<u>308,650</u>	<u>314,100</u>	<u>319,550</u>	<u>323,850</u>	<u>327,100</u>

Source: North Dakota Job Service.

**Annual Average
Unemployment Rates**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
United States	5.4%	4.9%	4.5%	4.2%	4.0%
North Dakota	3.1%	2.5%	3.2%	3.4%	3.0%
Bismarck MSA	2.9%	2.5%	3.0%	3.0%	2.5%
Fargo MSA	2.5%	1.8%	1.7%	2.0%	2.0%
Grand Forks MSA	3.4%	3.6%	2.7%	3.0%	3.4%

Source: North Dakota Job Service.

Personal Income Trends

The table below shows trends in per capita personal income in current dollars in the State of North Dakota, the United States and other states in the Northern Plains Region.

Per Capita Personal Income

	<u>1980</u>	<u>1990</u>	<u>1995⁽¹⁾</u>	<u>1996⁽¹⁾</u>	<u>1997⁽¹⁾</u>	<u>1998⁽¹⁾</u>	<u>1999⁽¹⁾</u>	<u>2000⁽¹⁾</u>	<u>2000 Rank</u>
United States	\$9,940	\$18,667	\$23,272	\$24,286	\$25,427	\$26,909	\$27,859	\$29,451	--
North Dakota	7,641	15,320	18,890	20,908	20,506	22,785	23,053	24,780	38 th
Other Northern Plains States									
Minnesota	9,982	18,784	24,320	25,930	27,112	29,109	30,127	31,913	9 th
Iowa	9,346	16,683	20,991	22,469	23,503	24,531	24,945	26,376	33 rd
South Dakota	7,701	15,628	19,597	21,407	21,893	23,484	24,491	25,993	34 th
Montana	8,728	14,743	18,588	19,165	19,909	21,235	21,511	22,541	46 th

⁽¹⁾ Revised

Source: Department of Commerce, Bureau of Economic Analysis.

(The remainder of this page has been left blank intentionally.)

Taxable Sales and Purchases

Below is a table which sets forth the taxable sales and purchases within the State of North Dakota by sales category for the calendar years 1996-2000.

<u>Sales Category</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Mining, Construction, & Manufacturing	\$ 507,764,591	\$ 522,743,216	\$ 590,765,427	\$ 784,407,243	\$ 579,635,931
Transportation, Communication, & Public Utilities ⁽¹⁾	459,641,933	480,400,845	514,217,026	514,531,159	557,613,208
Wholesale & Retail Trade	4,487,459,975	4,714,754,818	4,657,277,531	4,847,392,217	4,957,739,151
Services	598,737,994	646,470,862	661,323,260	677,897,340	686,301,315
Other	<u>36,399,315</u>	<u>40,178,554</u>	<u>52,528,621</u>	<u>45,640,042</u>	<u>45,098,067</u>
Total	<u>\$6,090,003,808</u>	<u>\$6,404,548,295</u>	<u>\$6,476,111,865</u>	<u>\$6,869,868,001</u>	<u>\$6,826,387,672</u>

⁽¹⁾ Includes Gas and Sanitary Services.

Source: North Dakota Sales and Use Tax statistical report, North Dakota Tax Department.

(The remainder of this page has been left blank intentionally.)

(This page has been left blank intentionally.)

APPENDIX B

**Summary of Certain Provisions of
the Indenture and the Lease**

(This page has been left blank intentionally.)

**SUMMARY OF CERTAIN PROVISIONS OF
THE INDENTURES AND THE LEASE(S)**

The following is a brief summary of certain provisions of the Indentures and the Lease(s) and is not to be considered as a full statement of the provisions of the Indentures and the Lease(s). The summary is qualified by references to and is subject to the complete Indentures and Lease(s), copies of which may be examined at the offices of the Issuer and the Trustee.

THE INDENTURES ARE ESSENTIALLY IDENTICAL EXCEPT THE SERIES B INDENTURE OMITTS LANGUAGE APPLICABLE ONLY TO TAX EXEMPT BONDS AND ADDS LANGUAGE TO INDICATE THAT THE SERIES B INDENTURE IS SECURED ONLY BY A PROPORINATE SHARE OF THE AUTHORITY'S INTEREST IN THE PROJECT AND THE RENTAL STREAM FROM LEASE BACK AGREEMENT I.

**PART A
2002 SERIES A AND 2002 SERIES B INDENTURES
CERTAIN DEFINITIONS**

"Accountant" means a certified public accountant or accountants licensed by the State and employed or retained by the Authority.

"Act" means NDCC Chapter 54-17.2, as amended by the Legislative Assembly of the State.

"Additional Rent" means the rent to be paid pursuant to Section 3.5 of the Lease(s).

"Additional Security" means any right, title, or interest in property, real, personal or mixed, not acquired by the Authority by the expenditure of the proceeds from the sale of the Bonds, that is pledged to the security of the Bonds and made a part of the Trust Estate in lieu of or in addition to the security interest in the Project or Projects as described in the Lease(s).

"Administration Fund" means the Administration Fund established by Section 5.06 of the Indentures.

"Administrative Expenses" means the Authority's expenses of carrying out and administering its powers, duties and functions under the Lease(s) and the Indentures. Such expenses shall not include (i) Debt Service on the Bonds or on any other bonds, notes or other evidences of indebtedness of the State, or (ii) the Costs of Issuance, (iii) Bond Fees, or (iv) the fees, costs or expenses of the Authority, the Commission or the State with respect to any other bonds, notes or indebtedness of the Authority, the Commission or the State.

"Agency" means, whether one or more, Job Service North Dakota, the North Dakota State Department of Health and the North Dakota State Board of Higher Education, except for 2002 Series B which applies only to the North Dakota State Board of Higher Education.

"Agent" means, whether one or more, the person at any time designated to act on behalf of the Agency by written certificate furnished to the Authority and the Trustee, containing the specimen signature of such person. Such certificate may designate an alternate or alternates.

"Authority" means the Industrial Commission of North Dakota acting in its capacity as the North Dakota Building Authority created under and pursuant to the provisions of the Act or any body succeeding to its rights or duties under the Indentures.

"Authority Bonds" means (i) Bonds owned or held by the Authority or the State or held by the Trustee, or their agents, for the account of the Authority or the State or (ii) Bonds which the Authority has notified the Trustee, or which the Trustee knows, were purchased by another Person for the account of the Authority or the State with moneys furnished by the Authority or the State.

"Authority Certificate" or **"Authority Consent"** means, respectively, a written request, order, certificate or consent signed in the name of the Authority by an Authorized Officer and delivered to the Trustee.

"Authorized Officer" means the person or persons at any time designated to act on behalf of the Authority in the Bond Resolution.

"Balance" when used with reference to any Fund, means the aggregate sum of all assets deposited in and standing to the credit of such Fund, including, without limitation, Permitted Investments computed at the value of Permitted Investments; and lawful money of the United States; provided, however, that the Balance of the Bond Fund shall not include amounts standing to the credit thereof which are being held therein for: (a) the payment of past due and unpaid interest on and principal of Bonds and (b) the payment of interest on and principal of Bonds that are deemed no longer Outstanding as a result of the defeasance thereof pursuant to Section 10.01.

"Bank of North Dakota" means the State doing business as the Bank of North Dakota pursuant to Chapter 6-09 of the NDCC and any other board, body, commission or agency succeeding to the functions thereof under the Indentures.

"Bank of North Dakota Base Rate" means the interest rate established by the Bank of North Dakota Investment Committee on a weekly basis.

"Basic Rent" means the rent to be paid pursuant to Section 3.3 of the Lease(s).

"Bond Counsel" means any Counsel of nationally recognized standing in the field of law relating to exemption from federal income taxation with respect to municipal bonds.

"Bond Fees" means the fees, costs and expenses of the Trustee and Paying Agent, Independent Accountants, Bond Counsel or Registrar incurred by the Authority including the NDDBA Fee in carrying out and administering its powers, duties and functions under the Indentures and the Lease(s).

"Bond Fund" means the Bond Fund created under Section 5.01 of the Indentures.

"Bond Resolution" means the resolution of the Authority adopted by the Authority on February 19, 2002, authorizing the issuance and sale of the Bonds, as the same was amended and restated on March 14, 2002.

"Bond Year" means a one (1) year period beginning on December 1 and ending on November 30 of the next succeeding calendar year, or such other dates as designated by the Authority.

"Bonds" means the State of North Dakota, North Dakota Building Authority Lease Revenue Bonds, 2002 Series A and 2002 Series B, described in the Indentures and any additional bonds authorized to be issued thereunder.

"Building Authority Fund" means the Building Authority Fund established pursuant to Section 5.07 of the Indentures.

"Business Day" means any day other than a Saturday or Sunday or legal holiday, or a day on which the Trustee is required or authorized by law to remain closed or a day on which the New York Stock Exchange is closed.

"Certificate" means a certification in writing required or permitted by the provisions of the Lease(s) or the Indentures, signed and delivered to the Trustee or other proper person or persons. If and to the extent required by the provisions of Section 1.02 of the Indentures, each Certificate shall include the statements provided for in Section 1.02.

"Certified Resolution" means a copy of a resolution of the Authority, certified by the Secretary to the Commission to have been duly adopted by the Authority.

"Commission" means the Industrial Commission of North Dakota created by NDCC §54-17-01, and any other board, body, commission, agency or officer succeeding to the functions thereof to which the powers and duties granted or imposed by the Indentures shall be given by law.

"Completion Date" means the date certified as provided in Section 2.8 of the Lease(s).

"Condemnation" means the taking or requisition by governmental authority or by a person, firm or corporation acting under governmental authority and a conveyance made under threat of condemnation provided such conveyance is made with the approval of the Trustee, and condemnation award shall include payment for property taken or requisitioned or conveyed under threat of condemnation.

"Construction Fund" means the Construction Fund created in Section 4.01 of the Indentures .

"Costs of Project or Projects" means the aggregate of all Costs of the Project or Projects set out in Section 2.1 of the Lease(s).

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Authority and related to the authorization, sale and issuance of the Bonds and including, but not limited to printing costs, costs of preparation and reproduction of documents, filing fees, Trustee, Registrar and Paying Agents, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of the Bonds, any bond insurance premiums, any costs associated with obtaining title opinions or title insurance with respect to the Project or Projects, and any accrued interest paid in connection with or with respect to the initial investment of Bond proceeds, other costs incurred by the Authority in anticipation of the issuance of the Bonds and any other cost, charge or fee in connection with the issuance of the Bonds.

"Counsel" means an attorney duly admitted to practice law before the highest court of any state.

"Debt Service" means, as of any particular date and with respect to any particular period, the aggregate of the moneys to be paid or set aside on such date or during such period for the payment of the principal of, including any sinking fund redemptions of Term Bonds, premium, if any, and interest on the Bonds.

"Default" means default by the Authority in the performance or observance of any of the covenants, agreements or conditions on its part contained in the Indentures, exclusive of any notice or period of grace required to constitute a default as an "Event of Default" as described in Section 7.01 of the Indentures.

"Default in Payment" means an Event of Default described in paragraph (a) or (e) of Section 7.01 of the Indentures.

"Event of Default" means an event of default described in Section 7.01 of the Indentures which has not been cured.

"Event of Nonappropriation" means the failure, for whatever reason, of the Legislative Assembly of the State to appropriate sufficient moneys for the payment of Basic and Additional Rent under the Lease(s) during any Renewal Term of the Lease(s), wherein Basic and Additional Rent are payable, on or before the commencement of such Renewal Term.

"Excess Earnings" means, with regard to 2002 Series A, (a) investment earnings on obligations purchased with amounts deposited in any Fund created pursuant to the Indentures (other than the Bond Fund and Rebate Fund) in an amount equal to the difference between the excess of the aggregate amount earned during the Bond Year less the amount of investment earnings that would have been generated if the Yield on the investment of such amount during the Bond Year had been equal to the Bond Yield plus (b) any income attributable to the excess described in (a). The foregoing shall be interpreted and applied consistent with Section 148 of the Internal Revenue Code and Section 1.148 of the Treasury Regulations.

"Financial Newspaper" or **"Financial Journal"** means any newspaper or journal of general circulation carrying financial news circulated in the English language in New York, New York.

"Fiscal Year" means an Agency's fiscal year, and shall initially mean the 12-month period commencing on the first day of July in each year.

"Fund" means any of the Funds and their respective subaccounts, if any, established by the Indentures.

"Indentures" means the Trust Indentures, constituting the trust agreements between the Authority and the Bank of North Dakota, as Trustee, and including any Indentures amend or supplement entered into in accordance with the provisions of the Indentures.

"Independent" when used with respect to any specified Person, means a Person who (1) is in fact independent; (2) does not have direct financial interest or any material indirect financial interest in the Authority or State, other than the payment to be received under a contract for services to be performed by such Person; and (3) is not connected with the Authority or State as an official, officer, employee, promoter, underwriter, trustee, partner, affiliate, subsidiary, director or Person performing similar functions. Whenever it is herein provided that any Independent Person's opinion or certificate shall be furnished to the Trustee, such Person shall be appointed by the Authority or the Trustee, as the case may be, and such opinion or certificate shall state that the signer had read the definition and that the signer is Independent within the meaning of the Indentures.

"Interest Payment Date" means a date on which interest is payable on any Bond including any date upon which interest is payable under an acceleration of maturity pursuant to Section 7.02 of the Indentures.

"Interest Period" means any semiannual period prior to each Interest Payment Date.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder or applicable to the Bonds.

"Investment Agreement" means an agreement by and between the Authority and a bank, trust company, national banking association, insurance company or other financial institution, providing for the investment of moneys in any of the Funds.

"Lease" or **"Leases"** means the Lease Back Agreement I, dated as of the date of the Sale of the Bonds, between the Authority and the North Dakota State Board of Higher Education for energy conservation projects to be completed at the University of North Dakota, the Lease Back Agreement II, dated as of the date of the sale of the Bonds, between the Authority and the North Dakota State Board of Higher Education for energy conservation projects to be completed at North Dakota State University, the Lease Back Agreement III, dated as of the date of the Sale of the Bonds, between the Authority and Job Service North Dakota for the construction of an office building in Bismarck, North Dakota, to provide customer services, and the Lease Back Agreement IV, dated as of the date of the Sale of the Bonds, between the Authority and the North Dakota State Department of Health for the construction of a laboratory addition to its current building in Bismarck, North Dakota.

"Lease Term" means the duration of the leasehold estate created in the Lease(s) as specified under Article III thereof to the date of termination including early termination provided for therein.

"Leased Equipment" means any items of machinery, equipment, fixtures and related property required herein to be acquired and installed in the Project or Projects or elsewhere on the Site, and acquired, financed or refinanced with the proceeds from the sale of the Bonds or the proceeds of any payment by the Agency pursuant to Section 4.1 of the Lease(s).

"Maturity" means, when used with respect to any Bond, the date on which the principal of such Bond becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee, at the written direction of the Authority.

"NDBA Fee" means the administration fee payable to the Authority, as described in Section 8.27 of the Indentures.

"NDCC" means the North Dakota Century Code, as amended.

"Net Proceeds" when used with respect to any insurance or Condemnation award, means the proceeds from the insurance or Condemnation award remaining after payment of all expenses (including attorney's fees and any extraordinary expenses of the Trustee) incurred in the collection of such proceeds.

"Opinion of Counsel" means a written opinion of Counsel appointed by the Agency or Authority and acceptable to the Trustee or appointed by the Trustee. If, and to the extent required by the provisions of Section 1.02 of the Indentures, each Opinion of Counsel shall include the statements provided for in said Section 1.02.

"Original Purchaser" means the original purchaser or purchasers of the Bonds as set out in Exhibit C hereto.

"Outstanding" when used as of any particular time with reference to Bonds, means all Bonds theretofore authenticated and delivered by the Trustee under the Indentures except:

- (i) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;
- (ii) Bonds for the payment or redemption of which cash or direct obligations of or obligations fully guaranteed by the United States of America (which do not permit the redemption thereof at the option of the issuer) in the necessary amount shall have theretofore been deposited with the Trustee (whether upon or prior to the Stated Maturity or the Redemption Date of such Bonds), provided that if such Bonds are to be redeemed prior to the Stated Maturity thereof, notice of such redemption shall have been given pursuant to Article III of the Indentures, or provision satisfactory to the Trustee shall have been made for the giving of such notice; and
- (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the terms of Section 2.07 of the Indentures pertaining to replacement of Bonds.

"Owner" or **"Bondholder"** or **"Holder"** whenever employed herein with respect to a Bond means the person or persons in whose name such Bond shall be registered.

"Paying Agent" means the Bank of North Dakota or any successor paying agent designated in accordance herewith as a place at which principal of or interest on any Bond is payable, and, in the absence of any such designation, the Trustee.

"Permitted Encumbrances" means, as of any particular time, (i) the Indentures, (ii) utility, access and other easements and rights-of-way, mineral rights, restrictions and that the Agency certifies will not interfere with or impair the use of or operations being conducted in the Project or Projects or elsewhere on the Site, and (iii) such minor defects, irregularities, encumbrances, easements, and rights-of-way as normally exist with respect to properties similar in character to the Project or Projects and as do not in the Opinion of Counsel addressed to the Trustee, materially impair the property affected thereby for the purposes for which it was acquired or is held by the Authority.

"Permitted Investments" means,

(A) For all purposes, including defeasance investments in refunding escrow accounts:

- (1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (2) below); or
- (2) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America.

(B) For all purposes other than defeasance investments in refunding escrow accounts:

- (1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
 - (a) Export-Import Bank
 - (b) Farm Credit System Financial Assistance Corporation

- (c) Rural Economic Community Development Administration (formerly the Farmers Home Administration)
 - (d) General Services Administration
 - (e) U.S. Maritime Administration
 - (f) Small Business Administration
 - (g) Government National Mortgage Association (GNMA)
 - (h) U.S. Department of Housing & Urban Development (PHA's)
 - (i) Federal Housing Administration
 - (j) Federal Financing Bank; or
- (2) Direct Obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:
- (a) Senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
 - (b) Obligations of the Resolution Funding Corporation (REFCORP)
 - (c) Senior debt obligations of the Federal Home Loan Bank System
 - (d) Senior debt obligations of other Government Sponsored Agencies approved by the Authority; or
- (3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank.); or
- (4) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase; or
- (5) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P; or
- (6) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local government unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and
- (a) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P and Moody's or any successors thereto; or
 - (b) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and

(ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and any redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate. (Pre-refunded Municipal Obligations meeting the requirements of subsection (B) hereof may not be used as Permitted Investments for annual appropriation lease transactions without the prior written approval of S&P); or

- (7) General obligations of States with a rating of at least "A2 and A+" or higher by both Moody's and S&P; or
 - (8) Investment agreements or other forms of investments approved in writing by the Authority (supported by appropriate opinions of counsel) with notice to S&P and Moody's; and
 - (9) Deposits of the Bank of North Dakota which, as provided by North Dakota Century Code Section 6-09-10, are guaranteed by the State.
- (C) The value of the above investments shall be determined as follows: "Value", which shall be determined as of each Interest Payment Date, means that the value of any investments shall be calculated as follows:
- (1) As to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination;
 - (2) As to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;
 - (3) As to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and
 - (4) As to any investment not specified above: the value thereof established by prior agreement between the Authority and the Trustee.

"Person" means any individual, commission, partnership, joint venture, association, joint stock company, trust, incorporated organization or government or any agency or political subdivision thereof.

"Principal Office" means (i) when used with respect to the Trustee, the principal trust office of the Trustee, which office as of the date of execution of the Indentures is located at the address specified in Section 14.07 of the Indentures, and (ii) when used with respect to any other Person, the office designated in writing to the Trustee and the Authority.

"Principal Payment Date" means the Stated Maturity of principal of any Bond and the Redemption Date of any Bonds.

"Project" or **"Projects"** means the interests in real or personal property, or both, acquired, constructed, or improved with the Bond proceeds described in Exhibit A to the Lease(s) between the Authority and the Agency.

"Rebate Fund" means the Rebate Fund created under Section 5.08 of the Indentures.

"Record Date" means the fifteenth day of the month preceding each regular Interest Payment Date.

"Redemption Date" when used with respect to any Bond to be redeemed, means the date fixed for such redemption by or pursuant to the Indentures.

"Redemption Price" when used with respect to any Bond to be redeemed, means the price at which it is to be redeemed pursuant to Sections 3.01 or 3.02 of the Indentures.

"Register" means the Bond register maintained by the Registrar pursuant to Section 2.11 of the Indentures.

"Registrar" means the Bank of North Dakota or any successor bank or banking association having trust powers or trust company serving in such capacity under the terms of the Indentures and its successor or successors and any other bank or banking association having trust powers or trust company which may at any time be substituted in its place pursuant to the Indentures.

"Renewal Term" means any two-year renewal period of the Lease(s) as set out in the Lease(s).

"Repair and Replacement Fund" means the Repair and Replacement Fund established by Section 5.09 of the Indentures.

"Reserve Fund" means the Reserve Fund established by Section 5.02 of the Indentures.

"Reserve Fund Requirement" means that amount set out in Section 2.03(b) of the Indentures which, with regard to 2002 Series A, is not more than the maximum permitted by law and does not exceed the lesser of (i) the maximum annual Debt Service payments due on the Bonds; (ii) 125% of the average annual Debt Service on the Bonds; or (iii) 10% of the stated principal amount of the Bonds.

"S & P" means Standard and Poor's Corporation, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S & P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee, at the written direction of the Authority.

"Serial Bonds" means any Bonds designated as such in Exhibit D hereto payable in annual principal maturities as provided in Section 2.01 of the Indentures.

"Site" or **"Sites"** means any real property or a part of the Project or Projects described in the Lease(s) and Exhibit B attached hereto.

"State" means the State of North Dakota.

"Stated Maturity" when used with respect to any Bond, means the date specified in such Bond as the fixed date on which principal of such Bond is due and payable.

"Tax Certificate" means, with regard to 2002 Series A, the certification of the Authority dated as of the date of delivery of the Bonds to the Original Purchaser regarding compliance with the requirements of the Internal Revenue Code.

"Term Bonds" means any Bonds designated as such in Exhibit E hereto and payable through sinking fund redemption in amounts set out in Section 2.01 of the Indentures and redeemed as provided in Section 3.02(a) of the Indentures.

"Trust Estate" means interests in the Project or Projects and any Additional Security assigned under the Granting Clauses of the Indentures.

"Trust Funds" means, in the aggregate, all of the Funds.

"Trustee" means the Bank of North Dakota, Bismarck, North Dakota, and its successor or successors and any other bank, trust company or corporation which may at any time be substituted in its place, acting in its capacity as Trustee or Registrar pursuant to the Indentures.

"Yield" means, with regard to 2002 Series A, that discount rate which when computing the present worth of all payments of principal and interest to be paid on an obligation produces an amount equal to the purchase price of the obligation. With respect to the Bonds, the Yield shall be the discount rate at which the present value of payments on such Bonds is equal to the purchase price at par, less original issue discount, plus accrued interest, less any Bond insurance premium.

PART B

2002 SERIES A AND 2002 SERIES B INDENTURES

Section 1. Funds.

Section 1.01. Bond Fund. The Authority covenants that it will establish and maintain or cause to be established and maintained, so long as any of the Bonds are Outstanding, with the Trustee a separate Fund to be designated the Bond Fund which shall be held by the Trustee in trust for application only in accordance with the provisions of the Indentures and sub accounts therein for each of 2002 Series A and Series B.

The Trustee shall deposit into the appropriate sub accounts of the Bond Fund (i) the amount of Bond proceeds representing accrued interest paid on the Bonds on the date of purchase by the Original Purchaser, (ii) payments of Basic Rent received by the Trustee pursuant to the Lease(s), (iii) any Balance remaining in the Administration Fund relating to the Bonds as required by Section 5.06 of the Indentures, (iv) investment earnings as provided in Section 5.03 of the Indentures, (v) the money authorized to be transferred from the Reserve Fund thereunder, (vi) money transferred pursuant to Sections 3.01 and 3.02 of the Indentures for redemption of the Bonds, (vii) such amount as necessary to pay at the earliest redemption date after the Bond closing, the principal and any accrued interest on any interim borrowings, and (viii) any other moneys required by the terms of the Indentures to be deposited in the Bond Fund or paid to the Trustee under the Lease(s) or the Indentures for credit to the Bond Fund.

Section 1.02. Reserve Fund. The Authority covenants that it will establish and maintain, so long as any of the Bonds are Outstanding, with the Trustee a Fund to be designated the Reserve Fund. The Trustee shall, upon delivery of the Bonds to the Original Purchaser thereof from Bond proceeds, credit to the Reserve Fund the amounts designated in Section 2.03 of the Indentures and sub accounts therein for each of 2002 Series A and series B.

The Reserve Fund shall be used and applied solely for the payment of Debt Service on the Bonds, except as otherwise provided in Section 5.08(d) of the Indentures, upon transfer to the Bond Fund at any time when the Balance in the Bond Fund is insufficient to meet the requirements specified herein for payment of the principal of and interest on the Bonds; provided, however, that on the Stated Maturity or any Redemption Date of the Bonds, the moneys in the Reserve Fund may be applied to the payment of the maturing principal amount of such Bonds or to the Redemption Price (i) to the extent that such application will not reduce the Balance of the Reserve Fund below an amount equal to the Reserve Fund Requirement, or (ii) with respect to the retirement or redemption of Bonds within two years of the final Maturity of all Bonds, to the extent that such application will not reduce the Balance of the Reserve Fund below an amount at least equal to the remaining principal amount of all then Outstanding Bonds, whether or not other moneys are available for the payment of such maturing or redeemed Bonds; and provided, further, that at any time when the aggregate of the Balance in the Bond Fund and the Reserve Fund equal an amount sufficient to redeem or retire at maturity all of the then Outstanding Bonds at the next Redemption Date or Stated Maturity, as the case may be, applicable to such Bonds, said Balance may thereafter be applied to such redemption in advance of the Stated Maturity of such Bonds, or applied to such payment of Bonds at their Stated Maturity, as the case may be, and whether or not other moneys are available for such redemption or payment.

The Trustee, at the direction of the Authority, may make a pro rata reduction in the Reserve Fund Requirement on deposit in the Reserve Fund to conform with the ratio of the principal amount of Bonds outstanding to the original principal amount of the Bonds, provided that the Authority has confirmation that any rating on the Bonds will not be adversely affected thereby and the consent to such reduction from any insurer of the Bonds, and provided further that said amounts are not scheduled to pay debt service on any maturity of the Bonds.

Section 1.03. Administration Fund. The Authority covenants that it will establish and maintain, so long as any of the Bonds are Outstanding, with the Trustee a Fund to be designated the Administration Fund. The Trustee shall, upon delivery of the Bonds to the Original Purchaser thereof and from Bond proceeds, credit to the Administration Fund the amount specified in Section 2.03 of the Indentures. The Trustee shall also credit to the Administration Fund all amounts received pursuant to Section 3.5(a), (b) and (c) of the Lease(s).

Amounts in the Administration Fund shall, upon receipt by the Trustee of Authority Certificates directing the payment to designated payees in designated amounts for stated services, or in the case of reimbursement of the Authority for its expenses, to the Authority, and in each case certifying that such payment is authorized by the Indentures, be used for and applied only to pay Costs of Issuance, Administrative Expenses and Bond Fees or to reimburse another Fund or other source of the Authority, for the previous payment of such Costs of Issuance, Administrative Expenses or Bond Fees incurred before, on or after the date of delivery of the Bonds. Payments from the Administration Fund for such purposes shall be made by check or draft, but only in accordance with such Authority Certificates.

Section 1.04. Rebate Fund. With regard to 2002 Series A, the Authority covenants that it will establish and maintain, so long as any Bonds are Outstanding, with the Trustee a separate Fund to be designated the Rebate Fund. The Trustee shall credit to the Rebate Fund any Excess Earnings.

- (a) The Authority shall calculate or cause to be calculated by Counsel, by an Independent Accountant or by a rebate analyst acceptable to the Trustee at the times set forth below, the Excess Earnings and the Trustee shall within 30 days thereafter transfer to the Rebate Fund the amount equal to (i) the Excess Earnings, plus (ii) investment income attributable to the Excess Earnings, if any. In order to comply with Section 5.08 of the Indentures, the Trustee is authorized to obtain such opinions of Bond Counsel, reports of accountants and certificates of the Authority, and rely on the information contained in such reports or certificates which may be necessary for the purpose of this calculation. The expenses incurred by the Authority or the Trustee shall be borne or reimbursed by the Agency and paid as Additional Rent.
- (b) No determination of Excess Earnings shall be made with respect to the Bond Fund as long as the Bond Fund is depleted annually except for an amount not to exceed the greater of one-twelfth of annual Debt Service or one year's earnings on the Bond Fund.
- (c) The Trustee, acting on behalf of the Authority, shall make installment payments of the Excess Earnings at the times and in the amounts required by the Internal Revenue Code.
- (d) In the event that (i) insufficient moneys are credited to the Rebate Fund to make any rebate or other payment required by subsection (c) hereof, and (ii) the Trustee shall not have received an Opinion of Bond Counsel, filed with the Trustee within five Business Days after the occurrence of the event described in clause (i) above, to the effect that failure to make such rebate or other payment will not cause the interest on the Bonds to be subject to income taxation under the Internal Revenue Code, the Trustee shall withdraw immediately the amount of any such deficiency from the following Funds in the following order of priority:
 - (1) The Administration Fund
 - (2) The Reserve Fund
 - (3) The Bond Fund

In the event that the Trustee receives the opinion of Bond Counsel to the effect that all or a part of the Excess Earnings are not required to be rebated to the United States, the Trustee shall transfer any such amount held in the Rebate Fund to the Bond Fund, which amount shall be a credit against the next payment of Rent. Notwithstanding any provision of this Section, if the Authority shall provide to the Trustee an Opinion of Bond Counsel that any specified action required under this Section is no longer required or that some further or different action is required to maintain or assure the exclusion from federal gross income of interest with respect to the Bonds, the Trustee and the Authority may conclusively rely on such Opinion in complying with the requirements of this Section, and the provisions herein shall be deemed to be modified to that extent.

Section 1.05. Repair and Replacement Fund. The Authority covenants that it will establish and maintain with the Trustee a Fund to be designated the Repair and Replacement Fund if and to the extent it receives Net Proceeds of insurance or Condemnation awards.

Moneys held in the Repair and Replacement Fund will be applied by the Trustee to the payment of the costs of repair, replacement or restoration upon such terms as the Trustee may reasonably require. Any earnings on or income from the investment of moneys in the Repair and Replacement Fund shall be retained therein and expended for costs of repair, replacement or restoration. Any balance remaining in the Repair and Replacement Fund after the payment of all costs of any repair, replacement or restoration shall be transferred to the Bond Fund and used to pay the principal of the Bonds including the redemption of Term Bonds.

Section 2. Certain Covenants of the Authority.

The Authority covenants and agrees, so long as any of the Bonds shall be Outstanding and subject to the limitations on its obligations herein set forth, that:

Section 2.01. Payment of Bonds. It will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Indentures and the Bond Resolution and in each and every Bond

executed, authenticated and delivered thereunder; will pay or cause to be paid, solely from the Basic Rent, any pledged net revenues and income of the Project or Projects, the principal of, premium, if any, and interest on every Bond issued thereunder on the dates, at the places and in the manner prescribed in the Bonds in any coin or currency which, on the respective dates of payment is legal tender for the payment of public and private debts; and will cause any pledged net revenues and income to be deposited with the Trustee prior to the due date of each installment of principal and interest and prior to the Maturity of any Bond in amounts sufficient to pay such principal or interest due on the Bond; provided, however, that the principal of and interest on any Bond is not and shall not be deemed to represent a debt or pledge of the faith or credit or constitute an obligation of the State or grant to the Owner of any Bond any right to have the State or the Authority levy any taxes or appropriate any funds to the payment of principal of or interest on the Bonds, such payment to be made solely and only out of the revenues and income to be produced and received from the Basic Rent, any pledged net revenues and income of the Project or Projects, those moneys held by the Trustee thereunder and hereby appropriated to such payment, and/or any other funds available and authorized by law.

Section 2.02. Appropriation Request. It will, upon notification from the Trustee, request that the Legislative Assembly of the State include in the executive budget of the State sufficient moneys for the payment of Rent pursuant to the Lease(s), if the Agency has failed to comply with the requirements of Section 3.13 of the Lease(s) and if the amounts available to the Trustee will not be sufficient to pay the principal of and interest on the Bonds when due.

Section 2.03. Powers of the Authority. It is duly authorized under the Constitution and laws of the State to acquire, install, renovate, construct and lease the Project or Projects, to issue and sell the Bonds, to execute the Indentures and assign and pledge to the Trustee the Trust Estate, including any pledged net revenues and income of the Project or Projects, and to make the covenants as herein provided. All necessary action and proceedings on its part to be taken for the creation and issuance of the Bonds, and the execution and delivery of the Indentures have been duly and effectively taken and the Bonds in the hands of the Owners thereof are and will be valid and enforceable limited obligations of the Authority in accordance with their terms.

Section 2.04. Title or Other Real Property Interest and Possession. It is lawfully possessed of the Project or Projects, subject only to the provisions of the Act. Title to or other legally sufficient real property interest in the Project or Projects, including the Sites and any Additional Security, is vested in the Authority. There is no pledge of or lien or charge upon any pledged revenues or income of the Project or Projects pursuant to the Lease(s) other than the pledge and lien granted or assigned to the Trustee by the Indentures.

Section 2.05. Payment of Lawful Charges. It will, from time to time and before the same become delinquent, pay or cause the Agency to pay and discharge all taxes, assessments, governmental charges and claims for rent, royalties, labor, materials or supplies which if unpaid might by law become a lien or charge upon the Project or Projects, the Site, or any pledged revenues and income therefrom superior to, or which might interfere with, any pledge of and lien on the Trust Estate, including any pledged revenues and income of the Project or Projects, and covenants and security granted hereby; provided, however, that no such tax, assessment, charge or claims shall be required to be paid if the Authority shall not have funds legally available therefor or so long as the Authority or the Agency shall in good faith contest the validity thereof and provide security satisfactory to the Trustee against enforcement and for payment thereof.

Section 2.06. To Maintain the Project or Projects. It will not do or suffer to be done any act or thing whereby the Project or Projects might or could be encumbered or the usefulness thereof impaired, and will at all times cause the Project or Projects and the machinery, equipment, and the Site thereof to be maintained, preserved and kept in good condition, repair and working order and from time to time cause to be made, from funds legally available therefor, all necessary renewals, repairs, replacements and alterations.

Section 2.07. Concerning the Lease(s). It will not modify or amend or consent to modification or amendment of the provisions of the Lease(s) without the consent and approval of the Trustee. The consent of the Trustee may be given, if in its judgment the Bondholders will not be prejudiced thereby. The Authority shall take such action or cause and permit the Trustee to take such action as may be necessary or advisable to enforce the covenants, terms and conditions of the Lease(s), including the exercise of any right of repossession of the Project or Projects or termination of the Agency's rights as tenant under the Lease(s) if such action shall, in its discretion, be deemed to be in the best interest of the Authority or the Bondholders. The Authority shall do or cause to be done all things on its part as lessor under the Lease(s) so that the obligations of the Agency thereunder shall not be impaired or excused. If the Lease(s) shall terminate, the Authority shall use its best efforts to again lease the Project or Projects for the purposes and in accordance with the requirements of the Act subject to the rights of the Trustee.

Section 2.08. Not to Sell, Assign, Encumber or Pledge. Except as permitted by the terms of the Indentures, it will not sell, assign or encumber the Project or Projects, or permit the same to be sold, assigned or encumbered except for Permitted Encumbrances; will not mortgage or encumber the Project or Projects or pledge or assign any pledged revenues and income of the Project or Projects or any part thereof, or permit an encumbrance of the Project or Projects or the assignment or pledge of any pledged revenues thereof, if the mortgage, encumbrance, pledge or assignment might be or become a charge or lien on the Project or Projects or any pledged revenues and income of the Project or Projects prior or equal to the pledge and lien herein provided for the security of the Bonds or if such mortgage, pledge or assignment might interfere with the pledge and lien herein provided; or if such pledge, mortgage or lien would cause the Bonds to be an obligation of the State pursuant to the North Dakota Constitution, Article X, Section 13.

Section 2.09. To Observe Lawful Regulations. It will well and truly keep, observe and perform all obligations and regulations lawfully imposed upon it by law, contract or otherwise as a condition of continued enjoyment of its rights, privileges and franchises, leasehold interest in or title to the Project or Projects.

Section 2.10. Fire and Extended Coverage Insurance on the Project or Projects. The Authority will cause the Agency to procure and maintain, so long as any Bonds are Outstanding thereunder, insurance pursuant to the requirements of Article IV of the Lease(s).

Section 2.11. Repairs and Reconstruction. Unless the Agency exercises their option to prepay Rent for the purpose of redeeming a portion of the Bonds pursuant to Section 4.4 of the Lease(s), in the event of any loss or damage to or destruction or Condemnation of the Project or Projects, the Authority will promptly cause to be repaired, reconstructed or restored the damaged or destroyed portion thereof or portion of the Project or Projects taken by Condemnation, and will apply the Net Proceeds of the insurance policies or Condemnation awards solely for that purpose as provided in Section 4.4 of the Lease(s), by deposit to the Repair and Replacement Fund to be disbursed pursuant to Section 5.09 of the Indentures.

In the event the Net Proceeds, together with all other moneys legally available or previously paid by the Agency for such purpose, are insufficient to complete the repair, reconstruction or restoration of the Project or Projects the Agency will nonetheless complete the same and will pay that portion of the cost thereof in excess of the amount of the Net Proceeds, but only from legally available money.

Any amounts held by the Trustee or by the Authority and remaining in the Repair and Replacement Fund at the completion of, and payment for, such repair, reconstruction or restoration, shall be deposited in the Bond Fund and applied to the reduction of the principal of the Bonds, including redemptions of Term Bonds, in accordance with the provisions of the Indentures.

In the event the Agency pursuant to their rights under the Lease(s), or the Authority, shall not elect to repair, reconstruct or restore the damaged, destroyed or condemned property as above provided, the Trustee shall deposit the Net Proceeds in the Bond Fund and retire a portion of the Outstanding Bonds. Upon the deposit of Net Proceeds under this Section to the Bond Fund the Bonds shall be subject to redemption, and redemption shall be effected pursuant to the provisions of, in the manner, and with the effect provided in Article III of the Indentures.

Section 2.12. Further Assurances. The Authority will execute or cause to be executed any and all further instruments that may reasonably be requested by the Trustee and be authorized by law to perfect the pledge of and lien on the revenues and income of the Project or Projects granted in the Indentures, or intended so to be, or to vest in the Trustee the right to receive and apply the same to the payment or protection and security of the Bonds.

Section 2.13. Proper Books and Records. So long as any of the Bonds issued thereunder shall remain Outstanding and unpaid, the Authority shall cause to be kept proper books of account and records, in which full, true and correct entries will be made of all dealings and transactions relating to the leasing of the Project or Projects. Such books and records shall be open to inspection by the Trustee, the Bondholders, the Original Purchaser of the Bonds, and their agents and representatives. The Authority shall cause:

- (a) To be furnished to the Trustee, from time to time, such data regarding the income, expense and property relating to the Project or Projects and the Agency as the Trustee shall reasonably request.
- (b) To be furnished on or before 120 days after the end of each Fiscal Year the Authority's books of account which are to be audited by an Independent Accountant or firm of Independent Accountants as shall be reasonably acceptable to the Trustee, with a copy of each audit report, annual balance

sheet and income and expense statement showing in reasonable detail the financial condition of the Authority, at the close of such Fiscal Year, and summarizing in reasonable detail the income and expenses for such year, including the transactions relating to the Funds, to be filed promptly with the Trustee, and shall be available for inspection by any Bondholder.

Section 2.14. To Observe All Covenants and Terms -- Limitations on Authority's Obligations. It will not issue or permit to be issued any Bonds thereunder in any manner other than in accordance with the provisions of the Indentures and the Act and the agreements in that behalf herein contained, and will not suffer or permit any Default to occur under the Indentures, but will faithfully observe and perform all the conditions, covenants and requirements hereof under the Act. The Authority may issue other bonds or evidences of indebtedness for refunding the Bonds under the terms of the Indentures or issue evidences of indebtedness as may be from time to time authorized by the Legislative Assembly of the State pursuant to NDCC §54-17.2-13. Under the Act, and it is expressly agreed that, the Authority has no obligation to levy taxes for, or make any advance or payment or incur any expense or liability from its general funds in performing or causing performance of, any of the conditions, covenants or requirements of the Bonds or the Indentures or from any funds other than revenues and income of the Project, moneys in the Funds provided for herein or any other funds authorized by law.

Section 2.15. Project Use. With regard to 2002 Series A, the Authority shall not use the Project or Projects and the Site nor cause or consent to the use of the Project or Projects and the Site by the Agency or any subsequent tenant or sublessee in a manner other than as stated in the Lease(s) without first obtaining an Opinion of Bond Counsel stating that such action or consent when taken or given by the Authority will not result in actions or the use of the Project or Projects and the Site in a manner which would cause the interest payable on the Bonds to be includable in the gross income of the Owners for federal income tax purposes.

Section 3. Events of Default.

Each of the following events is hereby defined as, and is declared to be and to constitute an "Event of Default":

- (a) If Default shall be made in the due and punctual payment of any interest on any Bond or in the due and punctual payment of the principal, or redemption premium, if any, of any Bond, whether at the Stated Maturity thereof, or at the date fixed for redemption thereof (including, but not limited to, redemption of Term Bonds), or upon the Maturity thereof by declaration; or
- (b) If an "Event of Default" (as defined therein) occurs under Section 5.1(a) of the Lease(s); or
- (c) If Default shall be made in the due and punctual payment of any other moneys required to be paid to the Trustee under the provisions hereof and such Default shall have continued for a period of thirty (30) days without written waiver by the Trustee after written notice thereof, specifying such Default, shall have been given by the Trustee to the Authority and the Agency, or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the then Outstanding Bonds to the Authority, the Agency and the Trustee; or
- (d) If Default shall be made in the performance or observance of any other of the covenants, agreements or conditions on the part of the Authority in the Indentures, or in the Bonds contained, and such Default shall have continued for a period of thirty (30) days without written waiver by the Trustee after written notice thereof given in the manner provided in clause (c) above, provided that if the Default can be remedied but not within a period of 30 days after notice and if the Authority or the Agency has taken all action reasonably possible to remedy such Default within the 30 day period, the Default shall not become an Event of Default for so long as the Authority or the Agency shall diligently proceed to remedy the Default and in accordance with any directions or limitations of time made by the Trustee; or
- (e) If an Event of Nonappropriation has occurred and continues without cure until the following August 1, unless the Agency has certified to the Authority and the Trustee that it will pay the Rent when due from sources other than an appropriation by the Legislative Assembly of the State, provided the Legislative Assembly of the State has not specifically terminated the Lease(s).

An Event of Default described in paragraph (a) or (e) of this Section is herein called a "Default in Payment".

Section 4. Remedies on Default.

Section 4.01. Acceleration of Maturity. Upon the occurrence of a Default in Payment, the Trustee may, by notice in writing delivered to the Authority and the Agency declare the principal of all then Outstanding Bonds immediately due and payable, and such principal shall thereupon become and be immediately due and payable. Upon the occurrence of any Event of Default other than a Default in Payment, the Trustee shall at the written request of the Owners of not less than twenty five percent (25%) in aggregate principal amount of Bonds then Outstanding, by similar notice declare the principal of all Bonds then Outstanding immediately due and payable, and such principal shall thereupon become and be immediately due and payable.

The Owners of a majority in aggregate principal amount of Bonds then Outstanding thereunder shall have the right, by written notice to the Authority and to the Trustee, to annul any such declaration and destroy its effect at any time if all Covenants with respect to which the Default shall have been made shall be fully performed or made good, and all arrears of principal of and interest on all Bonds then Outstanding thereunder and the reasonable expenses and charges of the Trustee, its agents and attorneys, and all other obligations secured hereby (except the principal of any Bonds which have not then attained their Stated Maturity and interest accrued on such Bonds since the last Interest Payment Date) shall be paid, or the amount thereof shall be paid to the Trustee for the benefit of those entitled thereto. Upon any such declaration of acceleration, the Trustee shall draw upon amounts as shall be necessary to pay the principal of and interest on the Bonds at the date fixed for the payment thereof, pursuant to Sections 7.05 and 7.12 of the Indentures, and moneys from other sources which have been deposited with the Trustee.

Section 4.02. Application of Moneys. In the event that at any time the moneys held by the Trustee shall be insufficient for the payment of the principal of, premium, if any, and interest then due on the Bonds, such moneys (other than moneys held for the payment or redemption of particular Bonds) and all revenues of the Authority and other of its moneys received or collected for the benefit or for the account of Owners of the Bonds by the Trustee shall be applied first to the payment of any rebate owed to the United States Treasury and thereafter as follows:

- (a) Unless the principal of all of the Bonds shall have become due and payable, by declaration or otherwise, such moneys shall be applied first, to the payment to the persons entitled thereto of all installments of interest then due (including any interest on overdue principal) in order of the maturity of such installments, earliest maturities first, and, if the amounts available shall not be sufficient to pay in full any installments of interest maturing on the same date, then to the payment thereof ratably, according to the amount due thereon, to the persons entitled thereto, without any discrimination or preference; and, second, to the payment of the principal and premium of the Bonds then due and payable (if any) in the order of the Maturity thereof; such payments to be made ratably and proportionately to the persons entitled thereto without discrimination or preference and without regard to the series designation.
- (b) In case the principal of all of the Bonds shall have become due and payable, by declaration or otherwise and remain unpaid, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds without preference of principal over interest or interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by it at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless it deems another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Owner of any unpaid Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all Bonds and interest thereon have been paid under the provisions of this Section, and all expenses and charges of the Trustee have been paid, then the Balances in the Funds shall be paid to the Agency, or to the Authority as their interests may appear.

While in possession of the Project or Projects, the Trustee shall render annually to the Authority, and the Bondholders, at their addresses as set forth on the list required by the Indentures, a summarized statement of income and expenditures in connection therewith.

Section 4.03. Rights of Trustee. The Trustee shall upon the occurrence of any Event of Default or acceleration of the Bonds pursuant to Sections 7.01 or 7.02 of the Indentures have the right to foreclose the mortgage granted by the Indentures in the manner permitted by law, enter and take possession of the Project or Projects or any part thereof, with or without termination of the Lease(s), and have continuous access to the Site for the use of the Project or Projects, and may lease the Project or Projects to the State or any of its boards and agencies including the Agency subject to the requirements of the Act and the Lease(s). The Trustee shall be permitted to sell, convey or sublease its interest in the Project or Projects subject to the requirements of the Indentures and the Act.

Section 5. Payment, Defeasance and Release.

Section 5.01. Payment and Discharge of Indentures. If the Authority shall pay or provide for the payment of the entire indebtedness on all Bonds in any one or more of the following ways:

- (a) pay or cause to be paid the principal of, premium, if any, and interest on the Bonds at the time and in the manner stipulated therein and herein, or
- (b) provide for the payment of principal and interest on the Bonds by depositing with the Trustee, at any time before Maturity, amounts sufficient, either in cash or in direct obligations of the United States of America (which do not permit the redemption thereof at the option of the issuer) and the principal and interest on which when due and payable and without consideration of any reinvestment thereof shall be sufficient, to pay the entire amount due or to become due thereon for principal and interest to Maturity of all the Bonds Outstanding, or
- (c) deliver to the Trustee (1) proof satisfactory to the Trustee that notice of redemption of all of the Outstanding callable Bonds not surrendered or to be surrendered to it for cancellation has been given or waived as provided in Article III of the Indentures, or that arrangements satisfactory to the Trustee have been made insuring that such notice will be given or waived, or (2) an Authority Resolution under its official seal and expressed to be irrevocable, authorizing the Trustee to give such notice for and on behalf of the Authority, or (3) a waiver of such notice of redemption signed by the Owners of all such Outstanding Bonds, and in any such case, deposit with the Trustee before the date on which such notice is to be given as provided in Article III, cash or direct obligations of the United States of America (which do not permit the redemption thereof at the option of issuer) in such aggregate face amount, bearing interest at such rates and maturing at such dates as shall be sufficient to provide for the payment of such Redemption Price on the date such Bonds are to be redeemed, and on such prior dates when principal of and interest on the Outstanding Bonds is due and payable, or
- (d) surrender to the Trustee for cancellation all Bonds for which payment is not so provided, and shall also pay all other sums due and payable thereunder by the Authority, then and in that case, all the Trust Estate shall revert to the Authority and the Agency as their interest may appear, and the entire estate, right, title and interest of the Trustee and of the Owners of the Bonds in respect thereof shall thereupon cease, determine and become void; and the Trustee in such case, upon the cancellation of all Bonds for the payment of which cash or securities shall have been deposited in accordance with the provisions of the Indentures, shall, upon receipt of a written request of the Authority and of a Certificate of the Authority and an Opinion of Bond Counsel as to compliance with conditions precedent, and at its cost and expense, execute to the Authority, or its order, proper instruments acknowledging satisfaction of the Indentures and surrender to the Authority and the Agency, as their interests appear, all cash and deposited securities, if any (other than cash or securities for the payment of the Bonds), which shall then be held thereunder as a part of the Trust Estate.

In case of any discharge of the lien of the Indentures pursuant to paragraph (b) or (c) above, there shall be submitted to the Trustee, with respect to 2002 Series A, (i) an Opinion of Bond Counsel to the effect that the interest on the Bonds being discharged will not be includable in the gross income of the Owners for federal income tax purposes notwithstanding the discharge of the Indentures as a result of such discharge and (ii) an opinion of an Independent Accountant or firm of Independent Accountants acceptable to the Trustee stating in substance that the

amounts held by the Trustee to discharge the Bonds will produce amounts necessary to provide for the timely payment of all Debt Service on the Bonds.

Section 5.02. Bonds Deemed Not Outstanding After Deposits. When there shall have been deposited at any time with the Trustee in trust cash or direct obligations of or obligations fully guaranteed by the United States of America the principal and interest on which shall be sufficient to pay the principal of any Bonds (and premium, if any) when the same become due, either at Maturity or otherwise, or at the date fixed for the redemption thereof and to pay all interest with respect thereto at the due dates for such interest or to the date fixed for redemption, for the use and benefit of the Owners thereof, then upon such deposit such Bonds shall cease to be entitled to any lien, benefit or security of the Indentures except the right to receive the funds so deposited, and such Bonds shall be deemed not to be Outstanding thereunder; and it shall be the duty of the Trustee to hold the cash and securities so deposited for the benefit of the Owners of such Bonds, as the case may be, and from and after such date, Redemption Date or Maturity, interest on such Bonds called for redemption shall cease to accrue.

Section 5.03. Unclaimed Money. Any moneys deposited with the Trustee or a Paying Agent pursuant to the terms of the Indentures, for the payment or redemption of Bonds and remaining unclaimed by the Owners of the Bonds at Maturity or on the date fixed for redemption as the case may be, and if any such moneys remain unclaimed for a period of three years after the due date, shall, without further authorization of the Authority, and if the Authority or any successor to the obligations of the Authority under the Indentures and the Bonds shall not at the time, to the knowledge of the Trustee, be in Default with respect to any of the terms and conditions contained in the Indentures or in the Bonds, be paid to the unclaimed property administrator of the State or applied in accordance with any applicable escheat or unclaimed property laws of the State. Provided, however, that within thirty (30) days prior to the expiration of the three year period mentioned above, the Trustee, before being required to make any such payment, may, at the expense of the Authority, send written notice by first class mail to the last known address of the Owners and cause to be published in a Financial Journal, a notice that after a date named therein the said moneys will be paid in accordance with Section 10.03 of the Indentures

Section 5.04. Release of Property. If the Agency shall request the Authority or the Trustee to release property which is part of the Project or Projects or the Trust Estate for any reason, it shall deliver to the Authority and the Trustee (i) a copy of the instrument of grant or release, (ii) with regard to 2002 Series A, an Opinion of Bond Counsel to the effect that such release of property will not cause the interest on the Bonds to be includable in the gross income of the Owners for federal income tax purposes, and (iii) a written application signed by the Agency certifying that such grant or release is not detrimental to the proper use or operation of the Project or Projects and will not impair the character or significance of the Project or Projects as a "project" under the Act. Upon such filing, the Authority and the Trustee are authorized to and shall release such property relating to the Project or Projects from the lien of the Indentures only upon a determination by the Trustee, evidenced in writing, that the requested release under this Section will not be prejudicial to the rights of the Owners of the Bonds and will not significantly reduce the value of the Project or Projects or the security provided to the Owners of the Bonds by the Indentures.

Section 6. Supplemental Indentures

Section 6.01. Purposes for which Supplemental Indentures may be Executed. The Authority, upon resolution, and the Trustee from time to time and at any time, subject to the conditions and restrictions in the Indentures, may enter into such indentures supplemental thereto as may or shall by them be deemed necessary or desirable without the consent of any Bondholder for any one or more of the following purposes:

- (a) To correct the description of any property hereby pledged or intended so to be, or to assign, convey, pledge or transfer and set over unto the Trustee, subject to such liens or other encumbrances as shall be therein specifically described, additional property or properties of the Authority or the Agency for the equal and proportionate benefit and security of the Owners of all Bonds at any time issued and Outstanding under the Indentures;
- (b) To add to the covenants and agreements of the Authority in the Indentures, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Authority or to or upon any successor;
- (c) To evidence the succession or successive successions of any other department, Agency, body or corporation to the Authority and the assumption by such successor of the covenants, agreements and obligations of the Authority in the Bonds hereby secured and in the Indentures and in any and

every supplemental indenture contained or the succession, removal or appointment of any Trustee or Paying Agent thereunder;

- (d) To cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indentures which may be defective or inconsistent with any other provision contained herein or in any supplemental indentures, or to make such other provisions in regard to matters or questions arising under the Indentures or any supplemental indentures as the Authority may deem necessary or desirable and which shall not be inconsistent with the provisions of the Indentures or any supplemental Indentures and which shall not impair the security of the same;
- (e) To modify, eliminate and/or add to the provisions of the Indentures to such extent as shall be necessary to maintain the exempt status of the Indentures from the Trust Indentures Act of 1939, as then amended, or under any similar federal statute hereafter enacted; and
- (f) To make such other modifications or amendments which are determined by the Trustee not to be prejudicial to the rights of the Trustee or the Owners of the Bonds.

Section 6.02. Modification of Indentures with Consent of Bondholders. Exclusive of supplemental indentures covered by Section 11.01 of the Indentures and subject to the terms and provisions contained in this Section, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, to consent to and approve the execution by the Authority and the Trustee of such Indentures or indentures supplemental thereto as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding in any particular, any of the terms or provisions contained in the Indentures or in any supplemental indentures; provided, however that nothing herein contained shall permit or be construed as permitting, without the consent of the Owners of each such Bond which would be affected thereby, (a) an extension of the Maturity of any Bond issued thereunder, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of revenues ranking prior to or on a parity with the lien or pledge created by the Indentures, or (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required to consent to supplemental indentures or amendments to the Lease(s) or (f) a reduction in the aggregate principal amount of the Bonds required to waive an Event of Default.

Whenever the Authority shall deliver to the Trustee an instrument or instruments purporting to be executed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, which resolution or instrument or instruments shall refer to the proposed supplemental indentures and shall specifically consent to and approve the execution thereof, thereupon, the Authority and the Trustee may execute such supplemental indentures without liability or responsibility to any Owner of any Bond, whether or not such Owner shall have consented thereto.

If the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding at the time of the execution of such supplemental indentures shall have consented to and approved the execution thereof as herein provided, no Owner of any Bond shall have any right to object to the execution of such supplemental indentures, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof.

Section 6.03. Rights of Agency Unaffected. Anything herein to the contrary notwithstanding, supplemental indentures under this Article XI which adversely affects the rights of the Agency under the Lease(s) or the Indentures, so long as the Lease(s) and Indentures are in effect and the Agency is not in Default under any terms or conditions of the Lease(s), shall not become effective unless and until the Agency shall consent to the execution and delivery of such supplemental indentures. The Authority shall cause notice of the proposed execution and delivery of any such supplemental indentures of which the Agency has not already consented, together with a copy of the proposed supplemental indentures, to be mailed to the Agency at least thirty (30) days prior to the proposed date of execution and delivery of any such supplemental indentures.

Section 7. Amendments to the Lease(s).

Section 7.01. Amendments to Lease(s) Not Requiring Consent of Bondholders. The Authority, the Agency, and the Trustee may without the consent of or notice to the Bondholders consent to any amendment, change or modification of the Lease(s) as may be deemed necessary or desirable (i) by the provisions of the Lease(s) and the

Indentures, (ii) for the purpose of curing any ambiguity or formal defect or omission, or (iii) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Owners of the Bonds including an amendment necessitated by the application of a release of property under Section 10.04 of the Indentures.

Section 7.02. Amendments to Lease(s) Requiring Consent of Bondholders. Except for the amendments, changes or modifications as provided in Section 12.01 of the Indentures, neither the Authority nor the Trustee shall consent to any other amendment, change or modification of the Lease(s), without the written approval or consent of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, subject to the provisions of Section 12.03 of the Indentures. If the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding thereunder at the time of the execution of any such amendment, change or modification shall have consented to and approved the execution thereof as herein provided, no Owner of any Bond shall have any right to object to any of the terms and provisions contained therein, or in the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee, the Authority or the Agency from executing the same or from taking any action pursuant to the provisions thereof.

Section 7.03. No Amendment May Reduce Basic Rent. Under no circumstances shall any amendment to the Lease(s) reduce the Basic Rent payable under the Lease(s) to an amount which together with the credits against Basic Rent provided for in Section 3.10 of the Lease(s) is less than the amount necessary to pay principal and interest on the Bonds without the consent of the Owners of all the Bonds then Outstanding.

Section 8. Purchase of Bonds.

The Authority may, at any time, authorize and direct the Trustee to purchase Bonds in the open market from available moneys in the Bond Fund, such purchases to be made at a price not in excess of the principal amount thereof plus accrued interest thereon to the purchase date. In addition, the Authority may, from time to time, direct the Trustee to request the submission of tenders requesting such submission prior to making the purchases authorized pursuant to Section 3.05 of the Indentures. The Authority may specify the maximum and minimum period of time which shall transpire between the date upon which such notice is to be given and the date upon which such tenders are to be accepted or may authorize the Trustee to determine the same in its discretion. No tenders shall be considered or accepted at any price exceeding the maximum price (which shall not exceed the price specified in the first sentence of this paragraph) specified by the Authority for the purchase of the Bonds. The Trustee shall accept bids with the lowest price and, in the event the moneys available for purchase pursuant to such tenders are not sufficient to permit acceptance of all tenders and if there shall be tenders at an equal price above the amounts of moneys available for purchase, then the Trustee shall determine in its discretion which of the Bonds tendered shall be purchased.

Section 9. Miscellaneous.

Section 9.01. Immunity of Officers. No recourse for the payment of any part of the principal of or interest on any Bond or for the satisfaction of any liability arising from, founded upon or existing by reason of the issue, purchase or ownership of the Bonds shall be had against any officer, member or agent of the Authority, the Commission, the State or the Agency, as such, all such liability being hereby expressly released and waived as a condition of and as a part of the consideration for the execution of the Indentures and the issuance of the Bonds.

PART C THE LEASE(S)

Section 1. Lease of the Projects.

Section 1.01. Term of the Lease(s). The term of the Lease(s) shall commence on the date of its execution and shall continue for the original term ending June 30, 2003, with an automatic extension of the term of the Lease(s), unless specifically rejected by the Legislative Assembly of the State, as allowed under the Act, for a Renewal Term of two years from the expiration of the original term of the Lease(s) and for two years from the expiration of each Renewal Term of the Lease(s), until the original term of the Lease(s) has been extended through December 2, 2011 for Lease Back Agreement I, December 2, 2013 for Lease Back Agreement II, and December 2, 2022 for Lease Back Agreement III and Lease Back Agreement IV.

Section 1.02. Basic Rent. During the term of the Lease(s), and subject to any credits referred to in Section 1.04 hereof, the Agency agrees to pay and shall pay as Basic Rent for the use of the Project or Projects on or before a date which is five Business Days prior to December 1, 2003 for the Lease(s), and semiannually thereafter on a date

which is five Business Days prior to each June 1 and December 1, in immediately available funds its proportionate share of (i) an amount equal to the amount payable as interest on the Bonds on such Interest Payment Date, plus (ii) an amount which is equal to the amount payable as principal of the Bonds due on such Principal Payment Date, and (iii) the amount which is equal to the principal, if any, which shall be payable by call for redemption or acceleration of maturity pursuant to the Indentures and premium, if any, due on the Bonds on such date.

Section 1.03. Additional Rent. During the term of the Lease(s), the Agency shall pay as Additional Rent:

- (a) To the Trustee, for itself or for remittance to the Paying Agent, promptly after being billed, its proportionate share of the amount of (i) the annual fee of the Trustee as trustee, for the ordinary services of the Trustee rendered and its ordinary expenses incurred under the Indentures during the preceding billing period, (ii) the annual NDBA Fee payable under the Indentures during the preceding billing period, (iii) the reasonable fees and charges of the Paying Agent and Registrar on the Bonds for acting as Paying Agent and Registrar as provided in the Indentures, as and when the same become due and (iv) the reasonable fees and charges of the Trustee for necessary extraordinary services rendered by it and extraordinary expenses incurred by it under the Indentures, as and when the same become due, other than the fees and charges which were required by reason of the negligence or willful misconduct of the Trustee under the Indentures; provided, that the Agency may, without creating a default thereunder, contest in good faith the necessity for any such extraordinary services and extraordinary expenses and the reasonableness of any such fees, charges or expenses; and
- (b) To the Trustee, (i) upon demand, amounts advanced by the Trustee for the account of the Agency or the Authority in case the Authority or the Agency shall fail reasonably to pay or to cause to be paid any tax, assessments, or governmental or other charge upon any part of the Project or Projects, to the extent, if any, that the Authority or the Agency may be liable for the same, without prejudice, however, to any rights of the Trustee or the Bondholders thereunder arising in consequence of such failure; and any amount at any time so paid under this Section, with interest thereon from the date of payment at the rate of interest equal to the Bank of North Dakota Base Rate, shall be repaid by the Agency upon demand, and shall become so much Additional Rent, but the Trustee shall be under no obligation to make any such payment unless it shall have been requested to do so by the Owners of at least twenty-five percent (25%) of the aggregate principal amount of the Bonds then Outstanding under the Indentures, and shall have been provided with adequate funds for the purpose of such payment; (ii) amounts for reasonable compensation, expenses, advances and Counsel fees incurred by the Trustee in and about the execution of the trusts created by the Indentures related to the Project or Projects and exercise and performance of the powers and duties of the Trustee under the Indentures related to the Project or Projects; and (iii) the cost and expense incurred by the Trustee in defending against any liability in the Project or Projects of any character whatsoever (unless such liability shall have resulted from the negligence or willful misconduct of the Trustee); and (iv) its proportionate share of any cost and expense incurred by the Trustee in calculating the amount of any rebate required to be made to the United States and the amount of such rebate unless moneys are available from some other source to make such rebate payment. The Agency hereby covenants and agrees to pay or cause to be paid all advances, Counsel fees and other expenses reasonably made or incurred by the Trustee in and about the execution of the trusts created by the Indentures related to the Project or Projects; and
- (c) To the Trustee upon demand, amounts advanced by the Trustee for the account of the Agency in the event the Agency shall fail to maintain or repair, rebuild or restore the Project or Projects, or shall fail to maintain any insurance as required by the provisions of the Lease(s), or to do any other thing or make any other payment required to be done or made by any other provision of the Lease(s); whereby the Trustee, in its own discretion, may upon indemnification of the Trustee satisfactory to it, do or cause to be done any such thing or make or cause to be made any such payment at the expense or as an advance for the account of the Agency, including all costs and expenses so incurred and advances so made, with interest at the rate equal to the Bank of North Dakota Base Rate; and
- (d) To the Trustee on or before the next regularly scheduled Interest Payment Date, following written notice from the Trustee, in the event the Balance in the Reserve Fund is less than the Reserve Fund Requirement due to (i) the Agency's failure to pay Additional Rent as required by the Lease(s) or to pay Basic Rent pursuant to the Lease(s) or (ii) a reduction in the Value of Permitted

Investments credited to the Reserve Fund, its proportionate share of an amount sufficient to bring the amount on deposit in the Reserve Fund up to the Reserve Fund Requirement.

Section 1.04. Credit Against Basic Rent. Moneys on deposit to the credit of the Bond Fund shall be invested by the Trustee pursuant to the requirements of Section 5.03 of the Indentures. Any interest accruing on and any profit realized from such investment to be credited to the Bond Fund pursuant to the Indentures and shall be credited against the amount of Basic Rent required to be deposited in the Bond Fund under Section 3.3 prior to the next Interest Payment Date. The Agency shall be liable for any loss resulting from any such investment and from failure to preserve rights against endorsers or other prior parties to instruments evidencing any such investment; provided, however, that any loss resulting from the failure by the Trustee to invest such moneys in accordance with Section 5.03 of the Indentures, shall be borne by the Trustee.

Section 1.05. Event of Nonappropriation. Failure, for whatever reason, of the Legislative Assembly of the State to make the required appropriation of monies for the payment of Rent as requested pursuant to Section 3.13 of the Lease(s) in an amount sufficient to allow the Agency to pay the Rent as it shall come due during the next Renewal Term of the Lease(s) prior to the commencement of such Renewal Term shall constitute an Event of Nonappropriation. The Agency shall notify the Trustee and the Authority in writing of the Event of Nonappropriation.

Section 1.06. Tax Certificate. With regard to 2002 Series A, the Agency shall take no action authorized to be taken under the Lease(s) which shall in any manner violate or otherwise contradict or cause to be violated the requirements of the Tax Certificate or otherwise cause the Trustee or Authority to violate or in any way fail to maintain compliance with the Tax Certificate. The Agency shall not (i) use the Project or Projects for any purpose, or (ii) otherwise sublease or assign any rights under the Lease(s) for any private business use, which would cause the interest payable on the Bonds to be includable in the gross income of the Owners for federal income tax purposes.

Section 2. Insurance and Condemnation of Projects.

Section 2.01. Insurance. To the extent practicable or insurable the Agency shall at its own expense keep the Project or Projects insured by the State Fire and Tornado Fund at all times during the term of the Lease(s). Such insurance shall be in an amount equal to the greater of (i) the Discharge Price established pursuant to Section 6.2 of the Lease(s), or (ii) one hundred percent (100%) of the full replacement costs of the Project or Projects as certified by the Agency on the effective date of the Lease(s) and on or before the first day of July of each year thereafter.

Each policy shall include as named insured the Authority, the Agency and the Trustee, as their interests may appear. All Net Proceeds shall be payable to the Authority and used as provided in Section 4.4 in the Lease(s) or Sections 6.11 and 6.12 of the Indentures. The Agency shall supply evidence to the Authority and the Trustee of the acquisition and maintenance of the insurance required by the Lease(s) by filing copies of the insurance policies or certificates evidencing such insurance, as the Authority shall direct.

The Authority hereby waives any claim of liability against the Agency, its officers, agents or employees, for any loss or damage to the Project or Projects or any activities with respect thereto, whether or not such loss or damage may have been caused by or resulted from the negligence of the Agency, its officers, agents or employees, to the extent that the amount of such loss or damage is covered by such insurance and in fact recovered by the Authority. The Agency hereby waives any claim of liability against the Authority, its officers, agents or employees, for any loss or damage to property, fixtures and equipment owned, maintained, erected or installed by the Agency in and about the Project or Projects or any activities with respect thereto, whether or not such loss or damage may have been caused by or resulted from the negligence of the Authority, its officers, agents or employees, to the extent that the amount of such loss or damage is covered by insurance and in fact recovered. Any insurance policy carried by the Agency or Authority under the Lease(s) or with respect to the Project or Projects or any part thereof shall contain a provision that any right of subrogation which the insurance company may have against either the Agency or the Authority, or their officers, agents or employees, is waived.

Section 2.02. Damage, Destruction, and Condemnation.

- (a) In the event the Project or Projects or any part thereof are destroyed, damaged or taken by Condemnation, the Agency shall, within 90 days of such destruction, damage or taking, or such longer period as permitted by the Trustee, notify the Authority and the Trustee in writing of its intent to either repair or restore the Project or Projects or prepay Rent for the purposes of redeeming a portion of the Outstanding Bonds. If the Agency elects to rebuild and restore the Project or Projects, the provisions of subsection (b) of this Section shall apply. In the event the Agency elects

to prepay Rent for the purpose of redeeming Bonds the provisions of subparagraph (c) of this Section shall apply.

- (b) If the Agency elects to repair or restore the Project or Projects, all Net Proceeds of any insurance or Condemnation award shall be paid directly to the Trustee who will: (i) apply such Net Proceeds to the payment of the costs of repair, replacement, or restoration upon such terms as it may reasonably require; and (ii) apply any balance of the Net Proceeds remaining after payment of all costs of any repair, replacement, or restoration to the reduction of the principal balance of the Bonds (including sinking fund redemption of any Term Bonds). If the Net Proceeds are not sufficient to pay the costs of repair, replacement, or restoration in full, the Agency will nonetheless complete the same and will pay that portion of the cost thereof in excess of the amount of the Net Proceeds, but only from legally available funds which are or will be available to the Agency.
- (c) In the event the Agency determines not to rebuild or repair the Project or Projects, or any part thereof, all Net Proceeds of any insurance claim or Condemnation award shall be paid to the Trustee to be applied by the Trustee to the reduction of the principal balance of the Bonds.
- (d) The Agency shall not, by reason of any damage, destruction or Condemnation, or the payment of any costs of repair, replacement, or restoration, be entitled to any reimbursement from the Authority or the Trustee or any abatement or diminution of the Rents payable under Article III or the other sums payable by the Agency thereunder, except to the extent of any reduction as a result of prepayment of a portion of the Bonds.
- (e) All equipment and other property acquired in the repair, replacement, or restoration of the Project or Projects shall be deemed a part of the Project or Projects and available for use by the Agency without the payment of any Rent other than those provided in Article III, to the same extent as if they had been specifically described and demised in the Lease(s); provided that no equipment shall be acquired subject to any lien or encumbrance not approved by the Trustee.
- (f) If the Project or Projects is to be replaced by a new facility or property which is substantially dissimilar in construction or use from the original Project or Projects, then the Project or Projects shall not be replaced unless (i) the plans and specifications are approved by the Agency and the Authority pursuant to authorization by the Legislative Assembly of the State, (ii) the Trustee determines, evidenced in writing, that replacement with such new facility or property will not significantly reduce the security provided to Owners of the Bonds, and (iii) with regard to 2002 Series A, the Authority has obtained an Opinion of Bond Counsel stating that the interest payable on the Bonds following such replacement will not be included in the gross income of the Owners for federal tax purposes.

Section 3. Events of Default and Remedies.

Section 3.01. Events of Default. The term "Events of Default" shall mean, whenever used in the Lease(s), any one or more of the following events:

- (a) Failure to pay the Basic Rent required to be paid under Section 3.3 of the Lease(s) at the times specified therein.
- (b) Failure to pay Additional Rent as required to be paid under Section 3.5 of the Lease(s).
- (c) An Event of Default exists under Section 7.01 of the Indentures, including an Event of Default occurring with respect to any Bonds or with respect to the Lease(s).
- (d) Failure by the Agency to observe and perform any covenant, condition or agreement or pay any amounts specified in the Lease(s), other than the failure specified in subsections (a) or (b) above, which continues after a period thirty (30) days after written notice specifying such failure and requesting that it be remedied is given to the Agency, by the Authority, or the Trustee; provided, however, that if the Default shall be such that it cannot be corrected within such period, it shall not constitute an Event of Default if in the opinion of the Authority corrective action is instituted by the Agency within such period and diligently pursued until the Default is corrected.

Section 3.02. Remedies. Whenever any Event of Default referred to in Section 5.1 of the Lease(s) shall have happened and be continuing, the Trustee, or the Authority with the written consent of the Trustee, may take one or any combination of the following remedial steps:

- (a) By written notice to the Agency, declare Rent in an amount equal to all amounts due and payable on the Bonds and any other amounts then due and payable under the Lease(s), whether by acceleration of maturity (as provided in the Indentures) or otherwise, to be immediately due and payable as liquidated damages and not as a penalty whereupon the same shall become immediately due and payable;
- (b) Re-enter and take possession of the Project or Projects, enforcing the Lease(s) or terminating the Lease(s), and sell or lease or sublease the Project or Projects for the account of the Agency or foreclose the lien of the Indentures in the manner afforded by law for the foreclosure of mortgages (as provided in the Indentures);
- (c) Have reasonable access to and inspect, examine and make copies of the books and records and any and all accounts and data of the Agency if reasonably necessary in the opinion of Trustee; or
- (d) Take whatever action at law or in equity may appear necessary or desirable to collect the Rent then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Agency under the Lease(s).

Any amount collected pursuant to action taken under this Section shall be applied in accordance with the provisions of the Indentures.

Section 4. Options of the Agency to Acquire.

Section 4.01. Option to Acquire Project or Projects Prior to Payment of the Bonds. The Agency shall have, and is hereby granted, the option to acquire the Project or Projects at any time. To exercise such option, the Agency shall give written notice to the Authority and to the Trustee and shall specify therein the date of closing such acquisition and shall deposit the Discharge Price with the Trustee at least sixty days prior to the closing date. In the event any Bonds are then Outstanding, the Authority shall effect the redemption of such Bonds or portion thereof in accordance with the Indentures and make arrangements satisfactory to the Trustee for the giving of the required notice of redemption. The Discharge Price payable by the Agency in the event of its exercise of the option granted in this Section, shall be the sum of the following:

- (a) An amount which, when added to the moneys and investments held and credited to the Bond Fund and the Reserve Fund, will be sufficient pursuant to the provisions of Article X of the Indentures (i) to pay and discharge under the Indentures, the Outstanding Bonds including interest due thereon to the Redemption Date established by the Authority under the Indentures, and (ii) pay any additional fees, costs, or expenses of the Authority incurred because of the redemption of Bonds, plus
- (b) An amount of money equal to the Additional Rent payable by the Agency due or to become due on or prior to the Redemption Date of the Bonds redeemed under (a)(i).

Any payment or prepayment by the Agency shall be deemed made if sufficient cash or obligations as described in paragraph A of the definition of Permitted Investments shall have been deposited with the Trustee as provided in Article X of the Indentures; provided that notice of the exercise of the Agency's right of prepayment shall have been duly given and notice of the redemption of Bonds shall have been duly given or satisfactory arrangements made for giving such notice in case of any redemption as provided in the Indentures. Such obligations as described in paragraph A of the definition of Permitted Investments shall be sufficient only if they are not redeemable at the option of the issuer thereof prior to maturity and if in the opinion of an Independent Accountant they mature and bear interest at such times and in such amounts as will assure sufficient cash to pay such payment or prepayment when due, and with regard to 2002 Series A, without rendering the portion of any payment or prepayment thereunder which is allocable to interest on the Bonds to be includable in gross income of the Owner for federal income tax purposes and otherwise comply with the requirements specified in Article X of the Indentures.

(The remainder of this page has been left blank intentionally.)

In the event of the exercise of the option granted in this Section any Net Proceeds of insurance shall be paid to the Agency, notwithstanding any provision of Section 4.4 of the Lease(s), and the Authority will deliver to the Agency the documents referred to in Section 6.3 of the Lease(s).

The mutual agreements contained in this Section are independent of, and constitute an agreement separate and distinct from, any and all provisions of the Lease(s) and shall be unaffected by any fact or circumstance which might impair or be alleged to impair the validity of any other provisions.

Section 4.02. Conveyance on Exercise of Option to Acquire. On the exercise of any option to acquire granted herein, the Authority will, upon payment of the Discharge Price, deliver or cause to be delivered to the Agency documents terminating the Lease(s) and granting and conveying to the Agency all of the right, title and interest of the Authority in and to the property being acquired, as such property then exists, subject to: (i) those liens and encumbrances resulting from the failure of the Agency to perform or observe any of the agreements on its part contained in the Lease(s); and (ii) any Permitted Encumbrances other than the Indentures and the Lease(s).

Section 5. Miscellaneous.

Section 5.01. Amendment to Lease(s). Except as may otherwise be provided in the Lease(s), no amendment to the Lease(s) shall be effective as to any party hereto, subsequent to the issuance of the Bonds and prior to the payment of the Bonds in full or prior to the provision for payment thereof having been made in accordance with the provisions of the Indentures, unless and until the same is reduced to writing and executed by the duly Authorized Officers of the Authority and the Agent and consented to in writing by the Trustee, and all requirements of the Indentures and the Act respectively have been complied with.

Section 5.02. Member, Officer, and Employee Liability. The promises, covenants, agreements and obligations made or assumed by the Authority or the Agency in the Lease(s) shall be deemed to be those of the Authority or the Agency and not of any member, officer or employee of the Authority or the Agency in his or her individual capacity, and no recourse shall be had, for the payment of the Rent or any other moneys required to be paid under the Lease(s) or for the performance of any other duty or obligation required of the Authority or the Agency under the Lease(s) against any member, officer or employee of the Authority or the Agency or any person executing or attesting to the Lease(s) or the Indentures.

(The remainder of this page has been left blank intentionally.)

(This page has been left blank intentionally.)

APPENDIX C

**Audited General Purpose Financial Statements
of the State of North Dakota
For the Fiscal Year Ended June 30, 2001**

State of North Dakota

Combined Balance Sheet All Fund Types, Account Groups And Discretely Presented Component Units June 30, 2001

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets And Other Debits				
Assets:				
Cash Deposits At The Bank Of North Dakota	\$ 111,024,471	\$ 287,746,880	\$ 3,281,042	\$ 12,795,000
Cash And Cash Equivalents	657,852	4,276,036	1,575,865	10,744,204
Investments At The Bank Of North Dakota	-	36,318,565	11,092,500	-
Investments	-	40,145,261	-	-
Accounts Receivable - Net	927,765	14,711,236	-	-
Taxes Receivable - Net	110,862,194	44,289,748	-	-
Interest Receivable - Net	740,399	1,652,345	231,646	2,440
Loans And Notes Receivable - Net	64,372	49,986,828	-	-
Interfund Receivable	22,476,801	-	-	-
Due From Other Funds	11,917,839	33,852,280	-	-
Intergovernmental Receivable - Net	33	127,679,434	33,896	-
Advances To Component Units	-	-	-	-
Advances To Primary Government	-	-	-	-
Advances To Other Funds	653,514	41,351,000	-	-
Prepaid Items	-	931,090	-	-
Inventory	893,802	8,753,662	-	-
Unamortized Bond Issuance Costs	-	-	-	-
Fixed Assets (Net Of Depreciation)	-	-	-	-
Other Assets	-	14,154	-	-
Other Debits:				
Amount Available In Debt Service Fund	-	-	-	-
Amount To Be Provided For Long Term Debt	-	-	-	-
Total Assets And Other Debits	\$ 260,219,042	\$ 691,708,519	\$ 16,214,949	\$ 23,541,644
Liabilities, Equity And Other Credits				
Liabilities:				
Accounts Payable	\$ 25,845,547	\$ 89,578,995	\$ 59,000	\$ 1,389,350
Notes Payable	-	-	-	-
Interest Payable	169,954	-	-	-
Contracts Payable	3,949	5,590,443	-	-
Federal Funds Purchased	-	-	-	-
Securities Lending Collateral	-	1,515,986	-	-
Tax Refunds Payable	32,834,144	568,305	-	-
Intergovernmental Payable	3,134	27,289,310	-	-
Claims/Judgements Payable	-	2,394	-	-
Accrued Payroll	10,269,811	14,787,549	-	-
Compensated Absences Payable	-	-	-	-
Amounts Held In Custody For Others	-	-	-	-
Deposits Held For Other Funds	-	-	-	-
Other Deposits	-	-	-	-
Interfund Payable	-	22,476,801	-	-
Due To Other Funds	31,272,589	30,393,520	-	3,943,000
Advances From Other Funds	-	40,004,515	-	-
Advances From Component Units	-	-	-	-
Advances From Primary Government	-	-	-	-
Bonds Payable	-	-	-	-
Capital Leases Payable	-	-	-	-
Deferred Revenue	53,343,503	46,942,706	-	-
Other Liabilities	-	-	-	-
Total Liabilities	153,742,631	279,150,524	59,000	5,332,350
Equity And Other Credits				
Investment In Fixed Assets	-	-	-	-
Contributed Capital	-	-	-	-
Retained Earnings:				
Reserved	-	-	-	-
Unreserved	-	-	-	-
Fund Balance:				
Reserved For:				
Debt Service	-	-	16,155,949	-
Capital Projects	-	-	-	18,209,294
Other	1,611,688	108,588,838	-	-
Unreserved:				
Designated For:				
Other	-	4,177,479	-	-
Undesignated	104,864,723	299,791,678	-	-
Total Equity And Other Credits	106,476,411	412,557,995	16,155,949	18,209,294
Total Liabilities, Equity And Other Credits	\$ 260,219,042	\$ 691,708,519	\$ 16,214,949	\$ 23,541,644

The Accompanying Notes Are An Integral Part Of The Financial Statements

Enterprise	Proprietary Fund Types		Fiduciary Fund Type			Account Groups		Totals (Memorandum Only) Primary Government		Totals (Memorandum Only) Reporting Entity	
	Internal Service	Trust and Agency	General Fixed Assets	General Long-term Debt	University System	June 30 2001	Component Units	June 30 2001			
\$ 109,418,240	\$ 3,744,149	\$ 24,127,517	\$ -	\$ -	\$ 28,655,946	\$ 580,793,245	\$ 7,877,309	\$ 588,670,554			
722,761,752	138	24,334,937	-	-	8,894,048	773,244,832	2,337,548	775,582,380			
180,124,064	-	34,226,464	-	-	81,327,683	343,089,276	7,965,000	351,054,276			
1,286,845,006	3,687,302	3,241,598,941	-	-	38,848,095	4,611,124,605	229,372,500	4,840,497,105			
36,866,349	242,337	29,998,242	-	-	9,354,580	92,100,509	596,891	92,697,400			
-	-	6,883,831	-	-	-	162,035,773	-	162,035,773			
40,488,538	47,461	18,627,947	-	-	709,823	62,500,599	3,304,560	65,805,159			
1,840,642,685	-	53,888,557	-	-	42,552,358	1,987,134,800	11,164,799	1,998,299,599			
-	-	-	-	-	4,371,685	26,848,486	-	26,848,486			
1,438,544	5,178,746	597,287	-	-	18,527,024	71,511,720	-	71,511,720			
3,585,755	98,429	202,142	-	-	29,316,310	160,915,999	-	160,915,999			
8,968,000	-	-	-	-	-	8,968,000	-	8,968,000			
-	-	-	-	-	-	-	8,968,000	8,968,000			
-	-	8,563,670	-	-	-	50,568,184	-	50,568,184			
4,457,261	621,415	-	-	-	401,818	6,411,584	-	6,411,584			
10,562,141	110,960	-	-	-	6,522,312	26,842,877	-	26,842,877			
10,125,394	-	-	-	-	-	10,125,394	1,432,000	11,557,394			
53,867,125	46,222,711	1,034,725	480,519,699	-	880,078,058	1,461,722,318	16,119	1,461,738,437			
6,382,500	-	116,638	-	-	2,030,521	8,543,813	-	8,543,813			
-	-	-	-	16,155,949	-	16,155,949	-	16,155,949			
-	-	-	-	149,367,731	-	149,367,731	-	149,367,731			
\$ 4,316,533,354	\$ 59,953,648	\$ 3,444,200,898	\$ 480,519,699	\$ 165,523,680	\$ 1,151,590,261	\$ 10,610,005,694	\$ 273,034,726	\$ 10,883,040,420			
\$ 17,653,852	\$ 1,407,754	\$ 3,352,928	\$ -	\$ -	\$ 15,908,885	\$ 155,196,311	\$ 102,013	\$ 155,298,324			
261,239,183	2,669,956	-	-	319,070	3,504,962	267,733,171	-	267,733,171			
33,739,708	-	-	-	-	880,638	34,790,300	1,812,000	36,602,300			
-	-	-	-	-	2,129,742	7,724,134	-	7,724,134			
139,972,000	-	-	-	-	-	139,972,000	-	139,972,000			
239,676,037	556,285	167,060,909	-	-	-	408,809,217	-	408,809,217			
-	-	-	-	-	-	33,402,449	-	33,402,449			
26,332,980	-	21,907,178	-	241,734	-	75,774,336	1,379,000	77,153,336			
519,433,913	4,373,872	3,515,000	-	1,624,366	-	528,949,545	1,125,000	530,074,545			
251,347	974,031	53,370	-	-	4,655,956	30,992,064	-	30,992,064			
1,291,174	1,021,424	40,011	-	24,939,324	14,798,035	42,089,968	-	42,089,968			
6,650,342	-	17,548,969	-	-	11,815,937	36,015,248	-	36,015,248			
821,162,000	-	-	-	-	-	821,162,000	-	821,162,000			
305,601,000	-	-	-	-	2,848,635	308,449,635	-	308,449,635			
35,000,000	-	-	-	-	4,371,685	61,848,486	-	61,848,486			
1,333,855	91,318	2,251,321	-	-	1,478,420	70,764,023	-	70,764,023			
5,134,205	2,000,000	2,221,181	-	-	8,881,654	58,241,555	-	58,241,555			
8,968,000	-	-	-	-	-	8,968,000	-	8,968,000			
-	-	-	-	-	-	-	8,968,000	8,968,000			
1,061,328,048	-	-	-	135,166,745	56,499,842	1,252,994,635	144,983,000	1,397,977,635			
144,043	42,658	2,066	-	3,232,441	24,146,525	27,567,733	-	27,567,733			
45,731,938	18,223	601,654	-	-	7,788,224	154,426,248	159,505	154,585,753			
6,304,833	-	-	-	-	10,395	6,915,228	-	6,915,228			
3,536,948,458	13,155,521	218,554,587	-	165,523,680	160,319,535	4,532,786,286	158,528,518	4,691,314,804			
-	-	-	480,519,699	-	798,537,309	1,279,057,008	-	1,279,057,008			
21,960,254	21,361,982	-	-	-	-	43,322,236	1,284,820	44,607,056			
422,407,165	-	-	-	-	-	422,407,165	96,773,853	519,181,018			
335,217,477	25,436,145	-	-	-	-	360,653,622	16,447,535	377,101,157			
-	-	-	-	-	-	16,155,949	-	16,155,949			
-	-	-	-	-	-	18,209,294	-	18,209,294			
-	-	3,210,986,208	-	-	83,019,017	3,404,205,751	-	3,404,205,751			
-	-	8,452,294	-	-	4,170,564	16,800,337	-	16,800,337			
-	-	6,207,809	-	-	105,543,836	516,408,046	-	516,408,046			
779,584,896	46,798,127	3,225,646,311	480,519,699	-	991,270,726	6,077,219,408	114,506,208	6,191,725,616			
\$ 4,316,533,354	\$ 59,953,648	\$ 3,444,200,898	\$ 480,519,699	\$ 165,523,680	\$ 1,151,590,261	\$ 10,610,005,694	\$ 273,034,726	\$ 10,883,040,420			

The Accompanying Notes Are An Integral Part Of The Financial Statements

State of North Dakota

Combined Statement Of Revenues, Expenditures And Changes In Fund Balances All Governmental Fund Types And Expendable Trust Funds For The Fiscal Year Ended June 30, 2001

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	June 30 2001
Revenues:						
Taxes	\$ 755,449,647	\$ 239,766,175	\$ -	\$ -	\$ 41,579,620	\$ 1,036,795,442
Licenses And Permits	11,260,815	56,193,148	-	-	-	67,453,963
Intergovernmental	381,322	877,814,737	861,685	-	1,266,073	880,323,817
Sales And Services	1,891,369	35,042,054	-	-	6,115,702	43,049,125
Royalties And Rents	6,705,433	2,377,883	-	-	106,067	9,189,383
Fines And Forfeits	2,294,372	722,467	-	-	545,553	3,562,392
Interest And Investment Income	9,264,494	12,170,167	997,858	1,197,004	1,144,451	24,773,974
Tobacco Settlement	-	12,620,398	-	-	-	12,620,398
Miscellaneous	61,952	2,535,361	-	-	383,999	2,981,312
Total Revenues	787,309,404	1,239,242,390	1,859,543	1,197,004	51,141,465	2,080,749,806
Expenditures:						
Current:						
General Government	62,140,718	168,858,356	-	-	4,303,270	235,302,344
Education	284,909,751	118,734,012	-	-	322,251	403,966,014
Health And Human Services	185,861,396	510,853,124	-	-	44,843,228	741,557,748
Regulatory	6,250,073	12,089,467	-	-	-	18,339,540
Public Safety	40,616,062	79,762,206	-	-	-	120,378,268
Agriculture And Economic Development	5,576,666	20,156,216	-	-	-	25,732,882
Natural Resources	13,851,581	23,600,385	-	-	-	37,451,966
Highways	-	279,076,128	-	-	-	279,076,128
Capital Outlay	-	-	-	11,462,312	-	11,462,312
Debt Service:						
Principal	-	-	4,700,010	-	-	4,700,010
Interest And Other Charges	-	-	7,047,576	-	-	7,047,576
Total Expenditures	599,206,247	1,213,129,894	11,747,586	11,462,312	49,468,749	1,885,014,788
Revenues Over (Under) Expenditures	188,103,157	26,112,496	(9,888,043)	(10,265,308)	1,672,716	195,735,018
Other Financing Sources (Uses):						
Operating Transfers In	31,402,315	98,998,487	7,531,123	-	218,374	138,150,299
Operating Transfers Out	(231,297,905)	(85,581,282)	-	(1,804,000)	(590,126)	(319,273,313)
Operating Transfers To Component Units	(375,000)	-	-	-	-	(375,000)
Proceeds From Bonds And Notes	-	-	2,118,000	10,193,132	-	12,311,132
Proceeds From Sale Of Fixed Assets	11,273	298,683	-	-	-	309,956
Total Other Financing Sources (Uses)	(200,259,317)	13,715,888	9,649,123	8,389,132	(371,752)	(168,876,926)
Revenues And Other Sources Over (Under) Expenditures And Other Uses	(12,156,160)	39,828,384	(238,920)	(1,876,176)	1,300,964	26,858,092
Fund Balances - Beginning Of Year As Adjusted	118,632,571	372,729,611	16,372,869	20,107,470	40,502,032	568,344,553
Residual Equity Transfers In	-	-	22,000	-	-	22,000
Residual Equity Transfers Out	-	-	-	(22,000)	-	(22,000)
Fund Balances - End Of Year	\$ 106,476,411	\$ 412,557,995	\$ 16,155,949	\$ 18,209,294	\$ 41,802,996	\$ 595,202,645

The Accompanying Notes Are An Integral Part Of The Financial Statements

State of North Dakota

Combined Statement Of Revenues, Expenses And Changes In Fund Equity All Proprietary Fund Types, Nonexpendable Trust Funds And Discretely Presented Component Units For The Fiscal Year Ended June 30, 2001

	Proprietary Fund Types		Fiduciary Fund Types	Totals (Memorandum Only) Primary Government	Totals (Memorandum Only) Reporting Entity	
	Enterprise	Internal Service	Non- expendable Trust	June 30 2001	Component Units	June 30 2001
Operating Revenues:						
Sales And Services	\$ 174,912,188	\$ 51,611,285	\$ -	\$ 226,523,473	\$ 9,023,447	\$ 235,546,920
Royalties And Rents	7,770	-	15,974,450	15,982,220	-	15,982,220
Fines And Forfeits	2,611,664	-	-	2,611,664	-	2,611,664
Interest And Investment Income	207,106,587	-	10,982,114	218,088,701	12,656,123	230,744,824
Miscellaneous	337,526	114,096	-	451,622	-	451,622
Total Operating Revenues	384,975,735	51,725,381	26,956,564	463,657,680	21,679,570	485,337,250
Operating Expenses:						
Cost Of Sales And Services	62,509,674	1,125,641	-	63,635,315	-	63,635,315
Salaries And Benefits	10,603,715	12,135,177	-	22,738,892	160,000	22,898,892
Operating Claims And Benefits	41,372,283	25,049,183	2,235,671	68,657,137	4,001,457	72,658,594
Interest	92,730,578	1,098,000	-	93,828,578	5,714,090	99,542,668
Depreciation	140,177,052	-	27,890	140,204,942	8,686,000	148,890,942
Miscellaneous	3,849,235	8,258,364	39,726	12,147,325	4,000	12,151,325
Miscellaneous	10,796	-	504	11,300	-	11,300
Total Operating Expenses	351,253,333	47,666,365	2,303,791	401,223,489	18,565,547	419,789,036
Operating Income	33,722,402	4,059,016	24,652,773	62,434,191	3,114,023	65,548,214
Nonoperating Revenues (Expenses):						
Operating Grants	-	-	-	-	11,787,000	11,787,000
Interest And Investment Income	27,945,071	73,794	-	28,018,865	384,824	28,403,689
Interest Expense	(14,137,526)	(244,088)	-	(14,381,614)	-	(14,381,614)
Loss On Sale Of Fixed Assets	(118,974)	(443,315)	-	(562,289)	-	(562,289)
Tax Revenue	1,755,152	-	2,406,902	4,162,054	-	4,162,054
Tobacco Settlement	-	-	10,325,780	10,325,780	-	10,325,780
Other	(190,214)	-	-	(190,214)	-	(190,214)
Total Nonoperating Revenues (Expenses)	15,253,509	(613,609)	12,732,682	27,372,582	12,171,824	39,544,406
Income Before Operating Transfers	48,975,911	3,445,407	37,385,455	89,806,773	15,285,847	105,092,620
Operating Transfers In	527,000	-	257,987	784,987	-	784,987
Operating Transfers Out	(27,251,442)	-	(27,272,777)	(54,524,219)	-	(54,524,219)
Operating Transfers From Primary Government	-	-	-	-	375,000	375,000
Net Income	22,251,469	3,445,407	10,370,665	36,067,541	15,660,847	51,728,388
Fund Equity - Beginning Of Year As Adjusted	757,333,427	43,352,720	570,226,116	1,370,912,263	98,845,361	1,469,757,624
Fund Equity - End Of Year	\$ 779,584,896	\$ 46,798,127	\$ 580,596,781	\$ 1,406,979,804	\$ 114,506,208	\$ 1,521,486,012

State of North Dakota

Combined Statement Of Cash Flows All Proprietary Fund Types, Nonexpendable Trust Funds And Discretely Presented Component Units For The Fiscal Year Ended June 30, 2001

	Proprietary Fund Types		Fiduciary Fund Types
	Enterprise	Internal Service	Non- Expendable Trust
Cash Flows From Operating Activities:			
Operating Income	\$ 33,722,402	\$ 4,059,016	\$ 24,652,773
Adjustments To Reconcile Operating Income To Net Cash Provided By Operating Activities:			
Depreciation	3,849,235	8,258,364	39,726
Amortization\Accretion	3,208,753	252,876	-
Reclassification Of Interest Revenue\Expense	(64,388,328)	-	(10,981,991)
Gain On Sale Of Real Estate	-	-	(124)
Net Depreciation In Fair Value Of Investments	(2,211,457)	-	-
Interest Received On Program Loans	46,901,213	-	-
Disbursements For Loans And Loan Purchases	(108,534,834)	-	-
Receipt Of Loan Principal Repayments	70,788,365	-	-
Provision For Losses	3,324,382	-	-
Premiums Collected	86,262,973	-	-
Premiums Paid	(86,262,973)	-	-
Tobacco settlement	-	-	10,325,780
Other	-	-	-
Change In Assets And Liabilities:			
(Increase) Decrease In Accounts Receivable	9,909,787	(213,851)	-
(Increase) Decrease In Due From	(139,106)	(882,249)	265,120
Increase In Intergovernmental Receivable	(1,626,252)	(17,770)	-
Increase In Prepaid Items	(401,106)	(6,790)	-
(Increase) Decrease In Inventories	(744,443)	13,591	-
Increase In Other Assets	(159,000)	-	-
Increase (Decrease) In Accounts Payable	(130,382)	371,056	19,077
Increase In Claims\Judgements Payable	17,850,825	436,286	-
Increase (Decrease) In Intergovernmental Payable	3,061,753	(44,467)	-
Increase In Accrued Payroll	56,933	82,878	-
Increase In Compensated Absences Payable	52,056	77,113	-
Increase In Amounts Held For Others	916,033	-	-
Increase (Decrease) In Due To	353,497	(38,788)	2,583
Increase (Decrease) In Deferred Revenue	(3,752,301)	6,620	-
Increase In Other Liabilities	1,716,000	-	-
Net Cash Provided By Operating Activities	13,624,025	12,353,885	24,322,944
Cash Flows From Noncapital Financing Activities:			
Proceeds From Bonds	293,000,000	-	-
Proceeds From Sale Of Notes And Other Borrowings	7,300,000	-	-
Principal Payments - Bonds	(1,749,449)	-	-
Principal Payments - Notes And Other Borrowings	(289,487,000)	-	-
Interest Payments - Bonds	(50,715,712)	-	-
Interest Payments - Notes And Other Borrowings	(17,265,242)	-	-
Payment Of Bond Issue Costs	(2,067,497)	-	-
Operating Grant Received	-	-	-
Tax Collections	2,076,836	-	2,406,902
Operating Transfers In	527,000	-	257,987
Operating Transfers Out	(6,708,442)	-	(27,272,778)
Net Increase In Non-Interest Bearing Deposits	46,672,000	-	-
Net Decrease In Interest Bearing Deposits	178,582,000	-	-
Payments Of Interest On Deposits	(46,517,000)	-	-
Proceeds From Advances	1,307,745	-	646,013
Principal Payments On Advances	(630,487)	(2,500,000)	-
Interest Paid On Federal Funds And Reverse Repurchase Agreements	(9,772,000)	-	-
Net Increase In Federal Funds And Reverse Repurchase Agreements	(35,913,000)	-	-
Advances Made	-	-	(75,000)
Collection Of Advances Made	175,000	-	432,514
Interest Received On Advances To Other Funds	-	-	584,312
Net Cash Provided By (Used For) Noncapital Financing Activities	68,814,752	(2,500,000)	(23,020,050)

The Accompanying Notes Are An Integral Part Of The Financial Statements

<u>Total (Memorandum Only) Primary Government</u>	<u>Component Units</u>	<u>Total (Memorandum Only) Reporting Entity</u>
<u>June 30 2001</u>		<u>June 30 2001</u>
\$ 62,434,191	\$ 3,114,023	\$ 65,548,214
12,147,325	4,000	12,151,325
3,461,629	(37,000)	3,424,629
(75,370,319)	(4,170,123)	(79,540,442)
(124)	-	(124)
(2,211,457)	-	(2,211,457)
46,901,213	-	46,901,213
(108,534,834)	-	(108,534,834)
70,788,365	-	70,788,365
3,324,382	2,092,097	5,416,479
86,262,973	-	86,262,973
(86,262,973)	-	(86,262,973)
10,325,780	-	10,325,780
-	15,394	15,394
9,695,936	(556,381)	9,139,555
(756,235)	-	(756,235)
(1,644,022)	-	(1,644,022)
(407,896)	-	(407,896)
(730,852)	-	(730,852)
(159,000)	-	(159,000)
259,751	(12,621)	247,130
18,287,111	100,000	18,387,111
3,017,286	276,000	3,293,286
139,811	-	139,811
129,169	-	129,169
916,033	-	916,033
317,292	-	317,292
(3,745,681)	(101,128)	(3,846,809)
1,716,000	-	1,716,000
<u>50,300,854</u>	<u>724,261</u>	<u>51,025,115</u>
293,000,000	20,940,000	313,940,000
7,300,000	-	7,300,000
(1,749,449)	(9,495,000)	(11,244,449)
(289,487,000)	-	(289,487,000)
(50,715,712)	(8,297,000)	(59,012,712)
(17,265,242)	-	(17,265,242)
(2,067,497)	(232,000)	(2,299,497)
-	11,787,000	11,787,000
4,483,738	-	4,483,738
784,987	375,000	1,159,987
(33,981,220)	-	(33,981,220)
46,672,000	-	46,672,000
178,582,000	-	178,582,000
(46,517,000)	-	(46,517,000)
1,953,758	175,000	2,128,758
(3,130,487)	-	(3,130,487)
(9,772,000)	-	(9,772,000)
(35,913,000)	-	(35,913,000)
(75,000)	(175,000)	(250,000)
607,514	-	607,514
584,312	-	584,312
<u>43,294,702</u>	<u>15,078,000</u>	<u>58,372,702</u>

State of North Dakota

Combined Statement Of Cash Flows All Proprietary Fund Types, Nonexpendable Trust Funds And Discretely Presented Component Units (Continued) For The Fiscal Year Ended June 30, 2001

	Proprietary Fund Types		Fiduciary Fund Types
	Enterprise	Internal Service	Non- Expendable Trust
Cash Flows From Capital And Related Financing Activities:			
Acquisition And Construction Of Capital Assets	(9,396,753)	(13,671,624)	(7,809)
Proceeds From Sale Of Fixed Assets	77,771	2,197,124	-
Proceeds From Sale Of Notes And Other Borrowings	6,931,567	2,085,856	-
Principal Payments - Bonds	(195,000)	-	-
Principal Payments - Notes And Other Borrowings	(609,048)	(1,226,981)	-
Interest Payments - Bonds	(142,598)	(180,693)	-
Interest Payments - Notes And Other Borrowings	(318,152)	(5,535)	-
Payment On Capital Leases	(36,691)	-	-
Net Cash Used For Capital And Related Financing Activities	(3,688,904)	(10,801,853)	(7,809)
Cash Flows From Investing Activities:			
Proceeds From Sale And Maturities Of Investment Securities	604,642,160	1,369,253	120,279,440
Purchase Of Investment Securities	(629,762,137)	-	(146,989,138)
Interest And Dividends On Investments	57,652,493	280,041	22,574,715
Net Increase In Loans	(100,764,000)	-	-
Disbursements For Loans And Loan Purchases	(1,340,853)	-	(5,318,011)
Receipt Of Loan Principal Repayments	1,956,310	-	3,030,538
Loan Income Received	86,859,403	-	4,458,097
Net Cash Provided By (Used For) Investing Activities	19,243,376	1,649,294	(1,964,359)
Net Change In Cash:			
Net Increase (Decrease) In Cash And Cash Equivalents And Cash Deposits At The Bank Of North Dakota	97,993,249	701,326	(669,274)
Cash And Cash Equivalents And Cash Deposits At The Bank Of North Dakota At June 30,2000	734,186,743	3,042,961	2,272,174
Cash And Cash Equivalents And Cash Deposits At The Bank Of North Dakota At June 30,2001	\$ 832,179,992	\$ 3,744,287	\$ 1,602,900
Reconciliation:			
Cash Deposits At The Bank Of North Dakota	\$ 109,418,240	\$ 3,744,149	\$ 23,946,565
Cash And Cash Equivalents	722,761,752	138	24,314,937
Cash And Cash Equivalents And Cash Deposits At The Bank Of North Dakota, Expendable Trust, Pension And Agency Funds	-	-	(46,658,602)
Cash And Cash Equivalents And Cash Deposits At The Bank Of North Dakota	\$ 832,179,992	\$ 3,744,287	\$ 1,602,900
Noncash Transactions:			
Reduction In Appropriation	\$ (57,000)	\$ -	\$ -
Appropriations Transfer From Undivided Profits To Various State Agencies	20,578,000	-	-
Securities Lending Collateral	(55,933,951)	(599,381)	-
Net Increase (Decrease) In Fair Value Of Investments	(46,943,568)	(263,518)	(16,866,695)
Fixed Assets Through Assumption Of Note Payable	-	656,998	-
Loans Written Off	-	-	-
Investments Written Off	-	-	-
Prepaid Expenses Through Assumption Of Note Payable	-	789,919	-
Interest On Investments	59,094,371	-	-
Total Noncash Transactions	\$ (23,262,148)	\$ 584,018	\$ (16,866,695)

Total (Memorandum Only) Primary Government		Component Units	Total (Memorandum Only) Reporting Entity	
June 30 2001			June 30 2001	
(23,076,186)		(4,000)	(23,080,186)	
2,274,895		-	2,274,895	
9,017,423		-	9,017,423	
(195,000)		-	(195,000)	
(1,836,029)		-	(1,836,029)	
(323,291)		-	(323,291)	
(323,687)		-	(323,687)	
(36,691)		-	(36,691)	
<u>(14,498,566)</u>		<u>(4,000)</u>	<u>(14,502,566)</u>	
726,290,853	49,071,000		775,361,853	
(776,751,275)	(73,908,000)		(850,659,275)	
80,507,249	12,608,016		93,115,265	
(100,764,000)	-		(100,764,000)	
(6,658,864)	(6,237,275)		(12,896,139)	
4,986,848	3,929,923		8,916,771	
91,317,500	-		91,317,500	
<u>18,928,311</u>	<u>(14,536,336)</u>		<u>4,391,975</u>	
98,025,301	1,261,925		99,287,226	
739,501,878	8,952,932		748,454,810	
<u>\$ 837,527,179</u>	<u>\$ 10,214,857</u>		<u>\$ 847,742,036</u>	
\$ 137,108,954	\$ 7,877,309		144,986,263	
747,076,827	2,337,548		749,414,375	
(46,658,602)	-		(46,658,602)	
<u>\$ 837,527,179</u>	<u>\$ 10,214,857</u>		<u>\$ 847,742,036</u>	
\$ (57,000)	\$ -	\$ (57,000)		
20,578,000	-	20,578,000		
(56,533,332)	-	(56,533,332)		
(64,073,781)	-	(64,073,781)		
656,998	-	656,998		
-	372,012	372,012		
-	350,000	350,000		
789,919	-	789,919		
59,094,371	-	59,094,371		
<u>\$ (39,544,825)</u>	<u>\$ 722,012</u>	<u>\$ (38,822,813)</u>		

The Accompanying Notes Are An Integral Part Of The Financial Statements

State of North Dakota

Statement Of Changes In Net Plan Assets Pension And Investment Trust Funds For The Fiscal Year Ended June 30, 2001

	Pension			
	Defined Contribution Retirement	Highway Patrolmen's Retirement	Job Service Retirement	Prefunded Retiree Health Program
Additions:				
Contributions:				
Employer	\$ 394,746	\$ 788,125	\$ -	\$ 4,191,541
Employee	383,248	486,332	260,900	9,219
Transfers From Other Funds	79,496	-	-	-
Transfers From Other Plans	88,699	-	-	-
Total Contributions	946,189	1,274,457	260,900	4,200,760
Investment Income:				
Net Decrease In The Fair Value Of Investments	(1,735,091)	(3,262,862)	(10,644,378)	(2,759,737)
Interest And Dividends	508,841	1,519,292	9,379,257	672,923
	(1,226,250)	(1,743,570)	(1,265,121)	(2,086,814)
Less Investment Expense	11,845	139,099	200,498	53,043
Net Investment Loss	(1,238,095)	(1,882,669)	(1,465,619)	(2,139,857)
Securities Lending Activity:				
Securities Lending Income	-	209,475	422,815	-
Less Securities Lending Expense	-	199,255	402,794	-
Net Securities Lending Income	-	10,220	20,021	-
Repurchase Service Credit	-	-	-	77,669
Miscellaneous Income	6,020	60	-	-
Total Additions	(285,886)	(597,932)	(1,184,698)	2,138,572
Deductions:				
Benefits Paid To Participants	230,848	1,660,303	1,817,086	-
Refunds	-	10,994	-	2,623
Prefunded Credit Applied	-	-	-	3,612,901
Transfers To Other Plans	-	-	-	-
Administrative Expenses	74,403	14,482	20,628	68,301
Total Deductions	305,251	1,685,779	1,837,714	3,683,825
Redemption of Units at Net Asset Value of \$1.00 Per Unit	-	-	-	-
Net Decrease	(591,137)	(2,283,711)	(3,022,412)	(1,545,253)
Net Assets Held In Trust For Pension Benefits And External Investment Pool Participants				
Beginning Of Year	8,674,886	41,726,105	73,801,601	26,209,413
End Of Year	\$ 8,083,749	\$ 39,442,394	\$ 70,779,189	\$ 24,664,160

Pension		Investment		Total
Public Employees' Retirement	Teachers' Retirement	City Of Bismarck	ND Association Of Counties	June 30 2001
\$ 17,101,628	\$ 26,289,206	\$ -	\$ -	\$ 48,765,246
16,273,260	26,289,672	-	-	43,702,631
-	-	-	-	79,496
-	-	-	-	88,699
33,374,888	52,578,878	-	-	92,636,072
(92,804,057)	(142,367,325)	(2,192,197)	(31,718)	(255,797,365)
43,366,370	39,860,797	1,403,973	26,755	96,738,208
(49,437,687)	(102,506,528)	(788,224)	(4,963)	(159,059,157)
3,969,380	4,901,760	130,812	3,748	9,410,185
(53,407,067)	(107,408,288)	(919,036)	(8,711)	(168,469,342)
5,976,653	4,390,645	213,935	7,140	11,220,663
5,684,889	4,121,078	203,941	6,794	10,618,751
291,764	269,567	9,994	346	601,912
1,080,008	1,942,467	-	-	3,100,144
7,570	1,162	-	-	14,812
(18,652,837)	(52,616,214)	(909,042)	(8,365)	(72,116,402)
36,676,998	57,740,914	-	-	98,126,149
3,961,585	3,127,841	-	-	7,103,043
-	-	-	-	3,612,901
88,699	-	-	-	88,699
894,868	1,099,331	-	-	2,172,013
41,622,150	61,968,086	-	-	111,102,805
-	-	-	(1,375,300)	(1,375,300)
(60,274,987)	(114,584,300)	(909,042)	(1,383,665)	(184,594,507)
1,194,453,949	1,405,246,440	35,786,463	1,942,184	2,787,841,041
\$ 1,134,178,962	\$ 1,290,662,140	\$ 34,877,421	\$ 558,519	\$ 2,603,246,534

The Accompanying Notes Are An Integral Part Of The Financial Statements

State of North Dakota

Combined Statement Of Current Funds Revenues, Expenditures And Other Changes University System For The Fiscal Year Ended June 30, 2001

	Total Unrestricted	Total Restricted	Total Current Funds
Revenues And State Transfers:			
Tuition And Fees	\$ 113,486,215	\$ 444,552	\$ 113,930,767
Federal Appropriations	-	5,146,690	5,146,690
Local Appropriations And Taxes	1,951,641	-	1,951,641
Federal Grants And Contracts	8,460,030	73,592,093	82,052,123
State Grants And Contracts	651,680	880,677	1,532,357
Private Gifts, Grants And Contracts	11,837,101	18,195,352	30,032,453
Investment And Endowment Income	3,778,081	159,149	3,937,230
Sales And Services Of Educational Departments	46,693,328	30,176	46,723,504
Sales And Services Of Auxiliary Enterprises	67,049,640	-	67,049,640
Total Revenues	253,907,716	98,448,689	352,356,405
Operating Transfers In	189,509,090	18,789,178	208,298,268
Total Revenues And State Transfers	443,416,806	117,237,867	560,654,673
Expenditures And Mandatory Transfers:			
Educational And General:			
Instruction	165,720,855	10,707,555	176,428,410
Research	24,538,157	42,666,568	67,204,725
Public Service	17,728,485	19,771,239	37,499,724
Academic Support	41,405,773	820,499	42,226,272
Student Services	20,201,286	2,139,286	22,340,572
Institutional Support	34,697,442	919,358	35,616,800
Operation And Maintenance Of Plant	35,671,106	9,104,507	44,775,613
Scholarships And Fellowships	9,425,732	30,226,245	39,651,977
Total Educational And General Expenditures	349,388,836	116,355,257	465,744,093
Mandatory Transfer For Principal And Interest	1,267,763	-	1,267,763
Mandatory Transfer For Loan Fund Matching	126,063	465	126,528
Total Educational And General Expenditures And Mandatory Transfers	350,782,662	116,355,722	467,138,384
Auxiliary Enterprises:			
Expenditures	70,128,813	882,610	71,011,423
Mandatory Transfer For Principal And Interest	4,045,848	-	4,045,848
Total Auxiliary Enterprises	74,174,661	882,610	75,057,271
Total Expenditures And Mandatory Transfers	424,957,323	117,238,332	542,195,655
Other Transfers And Deductions:			
Excess Of Restricted Receipts Over Transfers To Revenues	-	354,417	354,417
Indirect Costs Recovered	(1,062,547)	-	(1,062,547)
Refunded To Grantors	(8,171)	(42,108)	(50,279)
Nonmandatory Interfund Transfers	(8,584,947)	28,980	(8,555,967)
Other Deductions	(229,231)	(51,877)	(281,108)
Total Other Transfers And Deductions	(9,884,896)	289,412	(9,595,484)
Net Increase In Fund Balances	\$ 8,574,587	\$ 288,947	\$ 8,863,534

The Accompanying Notes Are An Integral Part Of The Financial Statements

State of North Dakota

Combined Statement Of Changes In Fund Balance University System For The Fiscal Year Ended June 30, 2001

	Current Funds				Plant Funds			Total (Memorandum Only)
	Unrestricted	Restricted	Loan	Endowment And Similar	Unexpended	Retirement Of Indebtedness	Investment In Plant	June 30
								2001
Revenues And Other Additions:								
Unrestricted Current Fund Revenue	\$ 253,907,716	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 253,907,716
Student Fees - Restricted	-	447,486	-	-	-	1,209,350	-	1,656,836
Federal Appropriations	-	5,146,690	-	-	-	-	-	5,146,690
Federal Grants And Contracts - Restricted	-	82,085,447	401,198	-	4,692,478	272,066	-	87,451,189
State Grants And Contracts - Restricted	-	1,359,945	-	-	164,926	23,714	-	1,548,585
Private Gifts, Grants And Contracts - Restricted	-	18,669,650	128,076	15,407	3,322,926	-	-	22,136,059
Endowment And Investment Income - Restricted	-	634,877	54,394	1,090,173	988,265	1,181,861	-	3,949,570
Interest And Late Fees On Loans Receivable	-	-	1,030,331	-	-	1,447	-	1,031,778
Sales & Services Of Educational Depts-Restricted	-	46,654	-	-	25,608	6	-	72,268
Retirement Of Indebtedness	-	-	-	-	-	-	19,294,104	19,294,104
Expended For Plant Facilities	-	-	-	-	-	-	69,652,208	69,652,208
Debt Issuance	-	-	-	-	10,766,858	1,785,000	273,539	12,825,397
Other Additions	1,191,564	22,058	621,324	1,906	180,537	13,336,758	105,762	15,459,909
Proceeds From Escrow	-	-	-	-	-	834,605	-	834,605
Total Revenues And Other Additions	255,099,280	108,412,807	2,235,323	1,107,486	20,141,598	18,644,807	89,325,613	494,966,914
Expenditures And Other Deductions:								
Education And General Expenditures	349,388,836	116,355,257	-	-	-	-	-	465,744,093
Auxiliary Enterprises Expenditures	70,128,813	882,610	-	-	-	-	-	71,011,423
Indirect Costs Recovered	1,062,547	9,587,643	105,208	-	-	-	-	10,755,398
Refunds To Grantors	8,171	42,108	2,724	-	-	-	-	53,003
Loan Cancellations And Write-Offs	-	-	807,548	-	-	-	-	807,548
Administrative And Collection Costs	-	-	123,551	-	-	3,092	-	126,643
Expended For Plant Facilities	-	-	-	-	47,683,975	-	-	47,683,975
Retirement Of Indebtedness	-	-	-	-	45,833	13,706,001	176,667	13,928,501
Interest On Indebtedness	-	-	-	-	-	3,547,946	10,860	3,558,806
Trustee Fees	-	-	-	-	-	1,785,345	-	1,785,345
Disposal Of Plant Facilities	-	-	-	-	-	-	19,760,182	19,760,182
Minimum Valuation Adjustment	-	-	-	-	-	-	88,166,722	88,166,722
Debt Issuance	-	-	-	-	-	-	22,855,680	22,855,680
Other Deductions	1,420,795	73,935	21,556	274,928	439,395	2,226,766	353,037	4,810,412
Total Expenditures And Other Deductions	422,009,162	126,941,553	1,060,587	274,928	48,169,203	21,269,150	131,323,148	751,047,731
Transfers Among Funds And Other Additions (Deductions):								
Mandatory:								
Loan Fund Matching	(126,063)	(465)	126,528	-	-	-	-	-
Principal And Interest - Unrestricted	(1,267,763)	-	-	-	-	1,267,763	-	-
Principal And Interest - Auxiliary	(4,045,848)	-	-	-	-	4,045,848	-	-
Nonmandatory Interfund Transfers	(8,584,947)	28,980	(7,521)	(757,778)	11,738,796	(2,417,530)	-	-
Operating Transfers In	189,509,090	18,789,178	-	-	23,684,431	-	10,000	231,992,699
Total Transfers And Other Additions (Deductions)	175,484,469	18,817,693	119,007	(757,778)	35,423,227	2,896,081	10,000	231,992,699
Net Increase (Decrease) In Fund Balance	8,574,587	288,947	1,293,743	74,780	7,395,622	271,738	(41,987,535)	(24,088,118)
Fund Balance - Beginning Of Year								
As Previously Reported	61,232,542	8,248,501	44,006,021	23,276,834	22,772,974	15,297,128	840,524,844	1,015,358,844
Fund Balance - End Of Year	\$ 69,807,129	\$ 8,537,448	\$ 45,299,764	\$ 23,351,614	\$ 30,168,596	\$ 15,568,866	\$ 798,537,309	\$ 991,270,726

STATE OF NORTH DAKOTA

1999-2001 Biennium Combined Statement Of Revenues, Expenditures And Other Financing Sources (Uses) Budget And Actual (Budgetary Basis) - General Fund And Other Budgeted Income For The Biennium Ended June 30, 2001

	Approved Budget 1999-2001 Biennium	Appropriation Adjustments 1999-2001 Biennium	Adjusted Budget 1999-2001 Biennium	Actual Biennium To Date Thru 6-30-01	Difference Uncollected/ Unspent Thru 6-30-01
Revenues					
General Fund					
Sales And Use Tax	\$ 742,391,900	\$ (15,552,895)	\$ 726,839,005	\$ 722,181,696	\$ (4,657,309)
Income Tax	490,435,520	6,551,806	496,987,326	508,466,305	11,478,979
Business Privilege Tax	5,162,000	(379,789)	4,782,211	5,464,941	682,730
Oil And Gas Production Tax	22,817,000	15,616,430	38,433,430	47,783,630	9,350,200
Oil Extraction Tax	13,885,000	9,681,570	23,566,570	27,395,668	3,829,098
Insurance Premium Tax	35,830,000	3,430,916	39,260,916	39,113,433	(147,483)
Cigarette, Cigar And Tobacco Tax	42,544,000	(851,266)	41,692,734	41,706,350	13,616
Wholesale Liquor Tax	10,388,473	469,173	10,857,646	10,321,999	(535,647)
Coal Severance Tax	22,346,000	91,459	22,437,459	22,173,854	(263,605)
Coal Conversion Tax	24,555,000	963,737	25,518,737	25,672,170	153,433
Gaming Tax	22,685,000	4,361,000	27,046,000	27,437,507	391,507
Department Fees And Collections	39,102,394	3,399,504	42,501,898	40,816,171	(1,685,727)
Mineral Leasing Fees	4,915,680	2,980,843	7,896,523	9,531,698	1,635,175
Gas Tax Administration	1,380,608	-	1,380,608	1,380,608	-
Interest On Public Funds	15,300,200	5,081,800	20,382,000	20,832,123	450,123
Total General Fund Revenues	1,493,738,775	35,844,288	1,529,583,063	1,550,278,153	20,695,090
Other Budgeted Income	3,265,832,301	474,294,282	3,740,126,583	3,235,503,069	(504,623,514)
Total All Revenues	4,759,571,076	510,138,570	5,269,709,646	4,785,781,222	(483,928,424)
Expenditures By Line Item					
Salaries And Wages	713,516,368	20,025,429	733,541,797	692,054,128	41,487,669
Operating Expenses	302,216,778	35,879,150	338,095,928	305,049,763	33,046,165
Equipment	21,922,801	4,046,993	25,969,794	22,311,974	3,657,820
Capital Improvements	72,690,158	55,641,428	128,331,586	61,885,901	66,445,685
Grants	1,892,465,431	207,779,097	2,100,244,528	2,005,699,430	94,545,098
Special Line Items	1,797,209,303	184,337,731	1,981,547,034	1,681,765,590	299,781,444
Total Expenditures By Line Item	4,800,020,839	507,709,828	5,307,730,667	4,768,766,786	538,963,881
Expenditures By Source					
General Fund	1,584,721,538	31,713,405	1,616,434,943	1,583,473,832	32,961,111
Other Budgeted Income	3,215,299,301	475,996,423	3,691,295,724	3,185,292,954	506,002,770
Total Expenditures By Source	4,800,020,839	507,709,828	5,307,730,667	4,768,766,786	538,963,881
Revenues Over (Under) Expenditures					
General Fund	(90,982,763)	4,130,883	(86,851,880)	(33,195,679)	53,656,201
Other Budgeted Income	50,533,000	(1,702,141)	48,830,859	50,210,115	1,379,256
Other Financing Sources (Uses)					
General Fund - Transfers In	59,850,000	(1,707,141)	58,142,859	59,522,115	1,379,256
General Fund - Transfers Out	(9,317,000)	5,000	(9,312,000)	(9,312,000)	-
Other Budgeted Income - Transfers In	9,317,000	(5,000)	9,312,000	9,312,000	-
Other Budgeted Income - Transfers Out	(59,850,000)	1,707,141	(58,142,859)	(59,522,115)	(1,379,256)
Revenues And Other Sources Over (Under) Expenditures And Other Uses					
General Fund	(40,449,763)	2,428,742	(38,021,021)	17,014,436	55,035,457
Other Budgeted Income	-	-	-	-	-
Beginning Budgetary General Fund Balance, As Adjusted	51,768,619	8,968,846	60,737,465	56,634,338	(4,103,127)
Ending Budgetary General Fund Balance	\$ 11,318,856	\$ 11,397,588	\$ 22,716,444	\$ 73,648,774	\$ 50,932,330

The Accompanying Notes Are An Integral Part Of The Financial Statements

Index

Page

Note 1 -	Summary of Significant Accounting Policies	1
A.	Reporting Entity.....	1
B.	Fund Accounting Structure	2
C.	Discrete Presentation - University System Funds	3
D.	Basis of Accounting.....	4
E.	General Budgetary Policies and Procedures.....	4
F.	Cash and Cash Equivalents.....	7
G.	Investments.....	7
H.	Securities Lending.....	8
I.	Receivables.....	8
J.	Loans and Notes Receivable	8
K.	Interfund Transactions	8
L.	Inventories.....	9
M.	Unamortized Bond Issuance Costs.....	9
N.	Fixed Assets.....	9
O.	Lease Commitments	10
P.	Federal Funds Purchased.....	10
Q.	Claims/Judgments Payable	10
R.	Compensated Absences.....	10
S.	Deposits	10
T.	Deferred Revenue.....	11
U.	Miscellaneous Revenue.....	11
V.	Fund Equity	11
W.	Totals (Memorandum Only) Column.....	11
X.	Change in Accounting Principles	11
Note 2 -	Restatements.....	11
Note 3 -	Budget To GAAP Reconciliation	13
Note 4 -	Detailed Notes On Account Balances.....	14
A.	Deposits	14
B.	Investments.....	15
C.	Reverse Repurchase Agreements.....	17
D.	Receivables.....	17
E.	Restricted Assets	17
F.	Interfund Transactions	18
G.	Fixed Assets.....	21
H.	Operating Leases.....	22
I.	Capital Leases	22
J.	Long-Term Debt.....	23
K.	Arbitrage Rebate Payable.....	32

	<u>Page</u>
Note 5 - Contributed Capital Reconciliation	33
Note 6 - Retained Earnings/Fund Equity - Specific Reserves	33
Note 7 - Deficit Fund Equity	34
Note 8 - Retirement Systems.....	34
A. Description of Plans	34
B. Summary of Significant Accounting Policies and Plan Asset Matters	37
C. Funding Status and Progress	38
D. Contributions Required and Contributions Made.....	40
E. Defined Contribution Plan	41
F. Teachers Insurance Annuity Association.....	41
Note 9 - Post-Retirement Benefits	42
Note 10 - Deferred Compensation Plan.....	43
Note 11 - PERS Uniform Group Insurance Program Surplus	43
Note 12 - Segment Information	43
Note 13 - Component Unit Funds	47
Note 14 - Financial Instruments With Off-Balance-Sheet Risk	49
Note 15 - Significant Concentrations of Credit Risk.....	49
Note 16 - Risk Management.....	49
Note 17 - Public Entity Risk Pools.....	50
A. General	50
B. Reconciliation of Claims Liabilities.....	52
Note 18 - Guaranteed Student Loan Reserves Recall	52
Note 19 - Commitments and Contingencies	52
A. Long-Term Commitments	52
B. Litigation.....	55
C. Questioned Costs.....	55
Note 20 - Subsequent Events.....	55
Note 21 - New Reporting Standards	56

State of North Dakota

NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The primary authority for the State's accounting and reporting requirements is the Office of Management and Budget. The Office of Management and Budget has adopted the pronouncements of the Governmental Accounting Standards Board (GASB) which is the nationally accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements of the University System Funds have been prepared in conformity with accounting principles generally accepted in the United States of America for Colleges and Universities as prescribed by the National Association of College and University Business Officers and the American Institute of Certified Public Accountants. The more significant of the State's accounting policies are as follows:

A. **REPORTING ENTITY**

For financial reporting purposes, the State of North Dakota has included all funds, organizations, account groups, agencies, boards and commissions that make up its legal entity. The State has also included all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State.

As required by accounting principles generally accepted in the United States of America, these financial statements present the State of North Dakota (the primary government) and its component units. The component units are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

BLENDED COMPONENT UNIT

These component units are entities that are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State. They are reported as part of the State and blended into the appropriate fund types and account groups.

- Building Authority (Debt Service Fund, Capital Projects Fund and Account Groups) - The Building

Authority was created by the Legislature as a separate instrumentality of the State. Its purpose is to promote the general welfare of the citizens of the State by providing financing for use by the State in altering, repairing, maintaining or constructing buildings and making any improvements connected to State buildings. The Industrial Commission, which consists of the governor, the attorney general, and the commissioner of agriculture, is the governing board of the Building Authority. The funds and account groups of the Building Authority were audited by other independent auditors for the fiscal year ended June 30, 2001, and their report dated August 16, 2001, has been previously issued under a separate cover.

- North Dakota State University Research Foundation and University of North Dakota Aerospace Foundation - Each of these component units is a legally separate entity. The component units provide services, including providing financing, entirely or almost entirely to the University System. The financial information of the North Dakota State University Research Foundation is on the Higher Education computer network and as such is subject to audit by the North Dakota State Auditor's Office. Other independent auditors audit the University of North Dakota Aerospace Foundation.

DISCRETELY PRESENTED COMPONENT UNITS

These component units are entities that are legally separate from the State, but are financially accountable to the State. The component units columns of the combined financial statements include the financial data of these entities.

- Comprehensive Health Association (Proprietary Fund Type) - The Association was established by the Legislature with participating membership consisting of those insurance companies, licensed or authorized to do business in the State. It provides low cost access to health insurance coverage for residents of the State who are denied adequate health insurance and are considered uninsurable. The Association is governed by a board of eight members of which five are representatives of the State and is regulated by the State Insurance Department. The Association was audited by other independent auditors for the calendar year ended December 31, 2000, and their report dated February 21, 2001, has been previously issued under a separate cover.
- North Dakota Development Fund, Inc. (Proprietary Fund Type) - The Development Fund was established as a statewide nonprofit development corporation with the authority to take equity positions in; to provide loans to; or to use other innovative financing mechanisms to provide capital for new or expanding businesses in North Dakota or relocating businesses to North Dakota. The

corporation is managed by a board of directors consisting of eight members, all of whom are appointed by the governor. The deputy director of the Department of Commerce (a State agency) is the corporation's chief executive officer. The director of the Department of Commerce (governor-appointed cabinet position) is responsible for developing rules, subject to the approval of the board of directors, necessary to implement the administration of the corporation. The Fund was audited by other independent auditors for the fiscal year ended June 30, 2001, and their report dated August 23, 2001, has been previously issued under a separate cover.

- Municipal Bond Bank (Proprietary Fund Type) - The Bond Bank was created by the Legislature as a separate agency of the State. The purpose of the Bond Bank is to make funds available for borrowing by North Dakota political subdivisions through the issuance of its bonds and the purchase of municipal securities of the political subdivisions. The Bond Bank has been granted all powers required in order to accomplish this purpose and is under the control and management of the Industrial Commission. The Fund was audited by other independent auditors for the calendar year ended December 31, 2000, and their report dated February 15, 2001, has been previously issued under a separate cover.

Complete financial statements for each of these individual component units may be obtained at the entity's administrative offices as follows:

Building Authority
600 E. Boulevard, 10th Floor
Bismarck, ND 58505-0310

North Dakota State University Research Foundation
1200 N. University Drive
P.O. Box 5790
University Station
Fargo, ND 58105

University of North Dakota Aerospace Foundation
4201 University Avenue
Grand Forks, ND 58202

Comprehensive Health Association
4510 13th Avenue SW
Fargo, ND 58108

North Dakota Development Fund, Inc.
1833 E. Bismarck Expressway
Bismarck, ND 58504

Municipal Bond Bank
418 E. Broadway Ave., Suite 246
Bismarck, ND 58501

B. FUND ACCOUNTING STRUCTURE

The State uses funds and account groups to report on the financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets (General Fixed Assets Account Group) and liabilities (General Long-Term Debt Account Group). These long-term assets and liabilities are not recorded in the governmental funds because they do not directly affect expendable available financial resources. Funds are classified into three categories: Governmental, Proprietary, and Fiduciary. Each category, in turn, is divided into separate "fund types." These fund categories and types are presented below:

GOVERNMENTAL FUNDS

Governmental funds include:

General Fund is the principal operating fund of the State. It is used to account for all financial resources that are not accounted for in other funds.

Special Revenue Funds account for specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Funds account for resources obtained and used for the payment of interest and principal on revenue bonds that are funded primarily through taxes.

Capital Projects Funds account for resources obtained and used for the acquisition, construction or improvement of certain capital facilities (except those financed by non-governmental funds). Such resources are derived principally from proceeds of revenue bonds.

PROPRIETARY FUNDS

Proprietary funds include:

Enterprise Funds account for those business-like State activities that provide goods/services to the public, financed primarily through user charges. They are also used to account for operations where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability and other purposes.

Internal Service Funds account for the financing of goods and/or services provided by one department or agency to another department or agency of a government, or to other governments, on a cost-reimbursement basis.

State of North Dakota

FIDUCIARY FUNDS

Fiduciary funds include:

Pension Trust Funds account for the transactions, assets, liabilities, and fund equity of the State Retirement systems. Pension Trust Funds are accounted for in essentially the same manner as Proprietary Funds.

Investment Trust Funds account for the transactions, assets, liabilities, and fund equity of the external pool participants (City of Bismarck and ND Association of Counties RIO Investments). The State Investment Board (SIB) administers the external pool participants. SIB issues a publicly-available financial report that may be obtained by writing to the Retirement and Investment Office, 1930 Burnt Boat Drive, Bismarck, North Dakota 58503. Investment Trust Funds are accounted for in essentially the same manner as Proprietary Funds.

Nonexpendable Trust Funds account for those trusts where only the earnings, but not the principal, may be expended. Nonexpendable Trust Funds are accounted for in essentially the same manner as Proprietary Funds.

Expendable Trust Funds represent those trust funds whose resources, including both principal and earnings, may be expended. Expendable Trust Funds are accounted for in essentially the same manner as Governmental Funds.

Agency Funds account for assets held by the State as an agent for other governmental units, or other organizations, and do not involve measurement of results of operations.

ACCOUNT GROUPS

Account Groups consists of the following:

The General Fixed Asset Account Group is used to account for land, buildings, equipment, and construction in progress of the governmental fund and similar trust fund types. Fixed assets of proprietary, similar trust and University System funds are accounted for separately in their respective funds.

The General Long-Term Debt Account Group is used to account for the State's unmatured long-term obligations related to revenue bonds, notes payable, claims/ judgments, and compensated absences of the governmental fund types. Long-term obligations of the proprietary, nonexpendable trust and University System funds are accounted for in their respective funds.

C. DISCRETE PRESENTATION - UNIVERSITY SYSTEM FUNDS

Financial activities of the State's University System Institutions are reported in the University System Funds. These funds use accounting principles generally accepted in the United States of America that apply to

colleges and universities as contained in Audits of Colleges and Universities, published by the American Institute of Certified Public Accountants, and those standards established by the National Association of College and University Business Officers (NACUBO).

The University System Funds are presented in a separate column on the Combined Balance Sheet as a discrete presentation.

The University System Funds account for transactions related to resources received and used for the operation of the State's University System Institutions and the related medical teaching hospital. The University System Funds are an aggregation of the following funds:

Current Funds (including auxiliary enterprises) account for resources the University System institutions may use for any purpose in carrying out their primary objectives. Restricted Current Funds include resources that donors or other outside agencies have restricted for specific current operating purposes. All other current funds are accounted for as Unrestricted Current Funds.

Loan Funds account for resources available principally for loans to students of the University System.

Endowment and Similar Funds account for endowment, term endowment and quasi-endowment transactions. Endowment and term endowment funds are similar to trust funds. The State must comply with the terms of any applicable agreements. While quasi-endowment funds have been established by the institutions for the same purposes as endowment funds, any portion of the quasi-endowment funds may be expended at the institution's discretion.

Plant Funds account for transactions involving physical properties of the University System institutions. The Unexpended Plant subgroup accounts for monies that institutions will use to acquire physical properties in future accounting periods. The Retirement of Indebtedness subgroup includes monies to pay debt service and to retire indebtedness on institutional properties. The Investment In Plant subgroup accounts for funds that institutions have expended for (and thus have invested in) their properties and any related outstanding debt.

Agency Funds within the University System Funds account for amounts that University System institutions hold as custodians or fiscal agents for others.

The Combined Statement of Current Funds Revenues, Expenditures and Other Changes - University System is a statement of financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

D. BASIS OF ACCOUNTING

The State follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing accounting principles generally accepted in the United States of America for governmental entities. In accordance with Governmental Accounting Standards Board Statement 20, the State, with the exception of the Bank of North Dakota, follows all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements. The Bank of North Dakota follows all applicable FASB pronouncements unless they conflict with the GASB pronouncements.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements for these funds present increases (e.g., revenues and other financing sources) and decreases (e.g., expenditures and other financing uses) in net current assets.

Proprietary, nonexpendable trust, pension trust, and investment trust funds are accounted for on a flow of economic resources measurement focus. This measurement focus includes all assets and liabilities associated with the operations of these funds on the balance sheet. Fund equity (e.g., net total assets) is segregated into contributed capital, unrealized gain or loss on investments and retained earnings components. Proprietary and similar trust fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The modified accrual basis of accounting is used by governmental funds and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). "Measurable" means the amount of the transaction can be determined. "Available" means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

In fiscal year 2000-01 the State implemented the requirements of GASB Statements No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," and No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues." See Note 1X and Note 2 for explanations of the new statements and their impact on beginning fund equity.

Major revenues that are determined to be susceptible to accrual include interest, federal grants-in-aid, and taxpayer-assessed taxes such as income, sales,

corporate, excise, motor fuel taxes and unemployment compensation contributions. Most revenues are determined to be available if collected within 30 days after fiscal year end. However, for federal reimbursement revenue, the State uses a one-year period of availability. Revenues earned under the terms of reimbursement agreements with other governments or private sources are recorded at the time the related expenditures are made if other eligibility requirements have been met. Sales and use taxes are accrued based upon filings received and an estimate of filings due by June 30. Net income taxes from individuals and corporations are accrued based on current income earned by the taxpayer before June 30. Quarterly filings, withholding statements, and other historical data are used to estimate income. The revenue is accrued net of an allowance for uncollectible taxes. Deferred revenue is recorded for receivables that are measurable but not available at year end.

Expenditures generally are recorded when goods or services are received. An exception is that principal and interest on obligations reflected in the General Long-Term Debt Account Group are recorded as expenditures when due. Additional exceptions are that expenditures for compensated absences and claims and judgments reflected in the General Long-Term Debt Account Group are recorded when paid.

Agency funds are also accounted for on a modified accrual basis, but do not recognize revenues and expenditures. Agency funds account for assets received and disbursed by a government in its capacity as an agent for individuals, businesses, or other governments.

Proprietary funds, nonexpendable trust funds, and pension trust funds are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the related liability is incurred.

The measurement focus in University System Funds is upon determination of resources received and used. The University System Funds are recorded on the accrual basis except for depreciation on fixed assets, which is not recorded, and tuition, which is accrued in the period when the session predominantly occurs.

E. GENERAL BUDGETARY POLICIES AND PROCEDURES

The State operates through a biennial appropriation which represents departmental appropriations recommended by the governor and presented to the Legislative Assembly at the beginning of each legislative session. The Legislative Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. The governor has line item veto powers over all appropriations subject to legislative override.

State of North Dakota

Once passed and signed, the appropriation bill becomes the departments' financial plan for the next two years. Changes to the appropriation are limited to Emergency Commission authorization, initiative, allotment, or referendum action. The Emergency Commission can authorize receipt of federal or other moneys not appropriated by the Assembly if the Assembly did not indicate intent to reject the money. The Emergency Commission may authorize pass-through federal funds from one state agency to another. The Emergency Commission may authorize the transfer of expenditure authority between appropriated line items. Session laws that were passed by the Legislature in 1999 authorize directors of various state agencies to transfer appropriation authority among the various divisions of their specific agency, subject to the Budget Section of the North Dakota Legislative Council's approval. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under the North Dakota Century Code (NDCC) section 54-44.1-11. The University System's unexpended general fund appropriation authority for the previous biennium did not lapse. The institutions under the University System must use their unexpended general fund appropriation authority for capital repairs and improvements, equipment, and other one-time expenditures as directed by the Board of Higher Education (1999 Session Laws, Chapter 3, Section 7). The unexpended general fund authority for the experiment stations under the University System must be deposited in their special revenue funds (NDCC 15-10-12).

The State of North Dakota does not use encumbrance accounting. The legal level of budgetary control is at the agency, appropriation and expenditure line item level, with administrative controls established at lower levels of detail in certain instances. The State does not formally budget revenues, and it does not budget by fund. The State appropriation is defined through the use of specific expenditure line items. Capital appropriations are generally made at the agency and project level.

North Dakota's Appropriation Act does not present budgets by GAAP fund. Instead, it presents budgets for:

- The General Fund: This fund is the general operating fund. The resources in this fund are primarily taxes. The State expends General Funds to provide traditional State government services. The General Fund line in the Appropriation Act differs somewhat from the GAAP General Fund.

- Other Budgeted Income. The Other Budgeted Income line in the Appropriation Act includes all other budgeted resources. Amounts in this line include non-general fund cash carryovers from the previous biennium as well as Federal and department-generated resources.

Other Budgeted Income includes some governmental, proprietary, and University System activities. It also includes the administrative functions of the Pension Trust activities and some Agency fund activities. It excludes expendable and nonexpendable trust activities.

Cash transfers from the General Fund to the University System institutions appear as expenditures on the 1999-2001 Biennium Combined Statement of Revenues, Expenditures and Other Financing Sources (Uses) -- Budget and Actual (Budgetary Basis) -- General Fund and Other Budgeted Income. On all other combined operating statements, however, such transfers appear as Operating Transfers from the General Fund to the University System Funds.

The accompanying financial statements include the 1999-2001 Combined Statement of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual (Budgetary Basis) - General Fund and Other Budgeted Income. The Other Budgeted Income category on this statement corresponds to the Other Budgeted Income line in the Appropriation Act. The General Fund category on the statement represents the difference between the Total Appropriation line and the Other Budgeted Income line in the Appropriation Act.

The State's budget is prepared principally on a modified accrual basis.

Actual amounts in the budgetary comparison statements are presented on a budgetary basis. Because these amounts differ from accounting principles generally accepted in the United States of America (GAAP) amounts, a reconciliation between the budgetary and GAAP amounts is presented in Note 3.

During the 1999-2001 biennium, there were supplemental appropriations of \$507,709,828.

For the biennium ended June 30, 2001, the following departments had expenditures which exceeded appropriations at the line item level (the legal level of budgetary control) by the following amounts:

Department	Line Item Level	Amount
Attorney General	General Fund Funding Authority	\$ 790
Supreme Court	General Fund Funding Authority	1,515
Bismarck State College	Local Funds	403,213
	Special Fund Funding Authority	386,156

Notes To The Financial Statements

Lake Region State College	Local Funds	274,298
	Special Fund Funding Authority	206,836
North Dakota State College of Science	Local Funds	1,809,407
	Special Fund Funding Authority	596,504
Dickinson State University	Local Funds	847,976
	Special Fund Funding Authority	344,801
Mayville State University	Local Funds	14,168
Minot State University	Local Funds	22,281
Valley City State University	Local Funds	257,969
State Library	Operating Expenses	721
Children's Services Coord. Comm.	Grants	667,576
	Special Fund Funding Authority	666,834
Human Services: Economic Assistance	Grants – Assistance Payments	422,702
	Grants – Medical Assistance	1,110,694
	General Fund Funding Authority	121,482

The Attorney General's office overspent their general fund authority by \$790 because of a statutorily required reimbursement for prosecution witness fees that they have to make when submitted. One reimbursement fee for the 1999-2001 biennium wasn't received until after the end of the biennium. The agency was unaware of the reimbursement until the request was received and had not reserved appropriation authority for this expense.

The Supreme Court overspent their general fund appropriation authority by \$1,515 because of an end of biennium bill submitted in August by the Judicial Conduct Commission. This bill had not been anticipated.

Bismarck State College requested an increase to their appropriation of \$3,850,000 in anticipation of additional expenditures. Due to greater than expected enrollment in their on-line programs, they experienced increased on-line fees and increased lab fees beyond their estimates, causing them to overspend their local funds line item by \$403,213 and their special fund authority by \$386,156.

Lake Region State College overspent their local funds line item by \$274,298 and their special fund authority by \$206,836 because of excess expenditures that resulted from an asbestos removal project, the renovation of the entrance road and adjacent parking lot, and revenue bond payments. Although the projects for which reserves were expended had been approved, they neglected to follow the process of obtaining approval to increase the spending authority.

North Dakota State College of Science overspent their local funds authority by \$1,809,407 and their special fund authority by \$596,504. The bonds that were approved for improvement projects were originally going

to be paid off in FY2002. However, it was determined that the funds from the new bond issue would be defeased to make the payments on the bonds and that those funds needed to be recorded as fiscal year 2001 expenditures. The determination to record the expenditures in fiscal year 2001 was not made until after the state's accounting system was closed for the biennium and changes to appropriation authority could not be made.

Dickinson State University had two federal grants added that were not included in local funds when the budget was prepared. This caused expenditures to be much larger than anticipated. Although DSU did have the opportunity to adjust the original local fund budget through a request to the Board of Higher Education, the timeline for that opportunity was missed, causing them to overspend their local funds line item by \$847,976 and their special fund authority by \$344,801.

Mayville State University overspent their local fund authority by \$14,168. This was a result of larger than anticipated grant collections.

Minot State University overspent their local funds line item by \$22,281 because of project costs for an addition of a lobby/entrance to the Dome that exceeded original estimates. The costs exceeded projections mainly due to problems encountered by the contractor when drilling pier foundations for the addition.

Valley City State University overspent their local fund authority by \$257,969 because of larger than anticipated grant collections.

The State Library overspent their operating line appropriation authority by \$721 because they

State of North Dakota

underestimated the amount of their appropriation authority remaining when they ordered books and materials at the end of the biennium.

Children's Services Coordinating Committee Services overspent their grants line authority by \$667,576 and their special fund authority by \$666,834. The claims the agency receives for payment fluctuate significantly. End of biennium claim payments anticipated to be received and paid after the end of the biennium were underestimated.

The Department of Human Services overspent the grants - assistance payments line item authority by \$422,702 due to the miscalculation relative to the Food Stamp EBT benefit payments. Federal funding was available, however, when the under projection of authority was discovered at fiscal year end, there was not sufficient time to request an increase in spending authority. The Department also overspent the grants - medical assistance line item authority by \$1,110,694 and general fund authority by \$121,482 due to the progressive increase in Medicaid expenditures the final months of the biennium. Medicaid is an entitlement program and eligible client expenditures cannot be denied by the Department. The Emergency Commission did grant additional authority to be transferred to the grants - medical assistance line item at their final meeting, however, the amount transferred was not sufficient based on the additional expenditures incurred.

The level of legal control for all agencies is reported in a publication titled "State of North Dakota 1999-2001 Biennium Budget and Actual Detail - (Budgetary Basis) for the Biennium Ended June 30, 2001." This budget information is available through the Office of Management and Budget, 600 East Boulevard Avenue Dept. 110, Bismarck, ND 58505.

F. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for reporting purposes includes cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes investments with original maturity of three months or less. Also cash, as reported, may be under the control of the State Treasurer or by other administrative bodies as determined by law. Cash and cash equivalents are presented as "Cash Deposits At The Bank Of North Dakota" and "Cash And Cash Equivalents" to present the unique nature of the relationship between the Bank of North Dakota, an enterprise fund, and other state agencies.

Cash Deposits At The Bank Of North Dakota. State agency cash balances, as required by law, are pooled by the State Treasurer and deposited in the Bank of North Dakota, an enterprise fund. These cash balances, in addition to other agency cash deposited at the Bank of

North Dakota, are included on the Combined Balance Sheet as "Cash Deposits At The Bank Of North Dakota".

Cash And Cash Equivalents. All cash and cash equivalents, (other than cash deposits at the Bank of North Dakota), as permitted by the North Dakota Century Code, are included on the Combined Balance Sheet as "Cash And Cash Equivalents".

The State had no cash overdrafts from pooled cash and investments at June 30, 2001.

All interest revenue is allocated to the General Fund unless state law (as outlined in the North Dakota Century Code) requires allocations of interest to other funds.

G. INVESTMENTS

All funds of the State record their investments in accordance with Government Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments." Investments are recorded at fair value determined by reference to published market data for publicly-traded securities and through the use of independent valuation services and appraisals for other investments. The net change in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment sold. Unrealized increases or decreases are computed based on changes in the fair value of investments between years. Security transactions are currently accounted for on a trade date basis. Interest income is recorded when earned. Dividend income is recorded on the ex-dividend date. Equity investments of the North Dakota Development Fund, Inc. (component unit of the State) are stated at estimated value in absence of a readily ascertainable market value. These values are estimated by the Fund's Board of Directors. Among the factors considered by the Fund's Directors in determining the fair value of investments are the cost of the investment, developments since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Fund's Directors, in making their evaluation, have relied on financial data of the investee and, in many instances, on estimates of the investee as to the potential effect of future developments. Total equity investments in the North Dakota Development Fund, Inc. are valued at \$2,028,500 at June 30, 2001. All investments are maintained separately by fund.

Purchases of other state funds' debt issues by the Bank of North Dakota have been recorded as normal business transactions if they are the result of arms-length transactions.

Investments are presented as "Investments At The Bank Of North Dakota" and "Investments" to present the unique nature of the relationship between the Bank of North Dakota, an enterprise fund, and other state agencies.

Investments At The Bank Of North Dakota. State agency investments, primarily certificates of deposits of the Bank of North Dakota, are included on the Combined Balance Sheet as "Investments At The Bank Of North Dakota."

Investments. State agency investments invested at financial institutions other than the Bank of North Dakota are included on the Combined Balance Sheet as "Investments."

Differences on the Combined Balance Sheet between the assets, "Cash At The Bank Of North Dakota" and "Investments At The Bank Of North Dakota," and the liability, "Deposits Held For Other Funds," is attributable to timing differences resulting from the Bank of North Dakota having a different fiscal year end than many of the other state agencies.

H. SECURITIES LENDING

GASB Statement No. 28, *"Accounting and Financial Reporting for Securities Lending Transactions,"* establishes accounting and financial reporting standards for securities lending transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets. Cash received as collateral and investments made with that cash must also be reported as assets. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them.

Securities are loaned versus collateral that may include cash, U.S. government securities, and irrevocable letters of credit. U.S. securities are loaned versus collateral valued at 102 percent of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105 percent of the market value of the securities plus any accrued interest.

Non-cash collateral cannot be pledged or sold unless the borrower defaults.

All securities loans can be terminated on demand by either the lender or borrower. The average term of overall loans is thirty-six days; however, the average term of loans for the Land Department is eighteen days.

Cash open collateral is invested in a short term investment pool, the Core USA Collateral Section, which had an average weighted maturity of thirty-four days as of this statement date. Cash collateral may also be invested separately in *"term loans,"* in which case the

investments match the loan term. These loans can be terminated on demand by either lender or borrower.

There were no significant violations of legal or contractual provisions, and no borrower or lending agent default losses known to the securities lending agent.

There are no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month.

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and Northern Trust (custodian of investments) has failed to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending. Northern Trust indemnifies the State if the borrower fails to return the securities (and if the collateral is inadequate to replace the securities lent) or fails to pay income distributions on them.

For securities loaned at year end, the State has no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State.

I. RECEIVABLES

Receivables in the State's Governmental Funds consist primarily of tax and federal revenues. Receivables in all other funds have arisen in the ordinary course of business. Receivables are recorded when either the asset or revenue recognition criteria have been met. Intergovernmental Receivables consist primarily of receivables due from other governments.

J. LOANS AND NOTES RECEIVABLE

Loans and notes receivable are primarily loans for mortgage, agricultural development, economic development, railroad construction, construction of infrastructure and education.

K. INTERFUND TRANSACTIONS

DUE TO/DUE FROM

During the course of operations, numerous transactions occur between individual funds and component units for goods provided or services rendered. These receivables and payables are classified as "Due From" or "Due To" on the balance sheet in the period in which transactions are executed (see Note 4F).

State of North Dakota

INTERFUND RECEIVABLE/PAYABLE

Interfund Receivables/Payables represent short-term loans made by one fund to another.

ADVANCES

Advances are accounts used to report noncurrent portions of loans from one fund/component unit to another within the same reporting entity (see Note 4F).

RESIDUAL EQUITY TRANSFERS

Residual equity transfers represent nonrecurring or nonroutine transfers of equity between funds (see Note 4F).

Interfund transactions have not been eliminated in the accompanying financial statements.

L. INVENTORIES

Inventories of Governmental Funds are valued at cost and are recognized principally using the average cost method. Generally, the cost of Governmental Funds' inventories is recorded as an expenditure when consumed rather than when purchased.

Inventories of Proprietary Funds consist primarily of grain inventories from the North Dakota Mill and Elevator Association. Grain inventories are valued at the June 30 Minneapolis grain market values less freight costs to Minneapolis. Grain committed to production is valued at cost, and grain committed to sale is valued at net commitment price. Flour, feed and resale inventories are valued at ingredient cost plus manufacturing costs incurred in their production. Proprietary Funds expense the cost of consumable supplies when used.

Generally, inventories of University System Funds are valued at the lower of cost or fair market value. Cost is generally determined on the first in/first out, or moving weighted average method. Generally, the cost of University System Funds inventories is recorded as an expenditure when consumed rather than when purchased.

The Department of Public Instruction has food commodities inventories at June 30, 2001, valued at approximately \$1,966,371 by the USDA. All commodities received are distributed to various schools for the school lunch programs or to certain charitable institutions and non-profit organizations. This inventory is not included in the accompanying financial statements.

The Department of Corrections has federal commodities inventories as of June 30, 2001, valued at approximately \$1,359. This inventory is not included in the accompanying financial statements.

The Department of Human Services has approximately \$3.1 million in food stamp inventory which is included in the Special Revenue Federal Fund Inventory.

M. UNAMORTIZED BOND ISSUANCE COSTS

In governmental fund types, issuance costs are recognized in the operating statements when incurred. Bond premiums, discounts and issuance costs for proprietary fund types are deferred and amortized over the term of the bonds using the bonds outstanding method, which approximates the effective interest method. The unamortized discount is shown on the balance sheet as a reduction of the bonds payable, and the amortization is included in the statement of revenues, expenses and changes in fund balance as interest expense.

N. FIXED ASSETS

Fixed assets are valued at historical cost or at estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date of donation. Where necessary, estimates of original cost are derived by factoring price levels from the current period to the time of acquisition. Library books are not capitalized as fixed assets except for the University System.

Equipment with a cost of \$750 (\$5,000 effective March 21, 2001) or more (excluding computer software which must have a cost of \$1,500 or more) and all other fixed assets with a cost of \$1,500 or more per unit are capitalized and reported in the accompanying general purpose financial statements. Fixed asset costs include the purchase price or construction cost, plus those costs necessary to place the asset in its intended location and condition for use. In Governmental Funds, interest costs on self-constructed assets are not capitalized. In Proprietary and similar trust funds, interest costs (if material) on self-constructed assets are included in the cost. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. Normal maintenance and repair costs that do not materially add to the value or extend the life of the asset are not capitalized.

Infrastructure consists of major state-wide public systems and items attached thereto such as freeways, freeway lighting systems, freeway drainage systems, freeway signs, bridges, bridge lighting systems, and sewer systems. Infrastructure is not capitalized in the financial statements.

Fixed assets in Governmental Funds are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in Governmental Funds, and related assets

are reported in the General Fixed Assets Account Group. Depreciation on general fixed assets is not recorded.

Fixed assets used in Proprietary and Nonexpendable Trust Funds are accounted for in the fund in which they are utilized. Depreciation of fixed assets used in Proprietary Funds is recorded as an operating expense, and accumulated depreciation is reported on the balance sheet. Depreciation of fixed assets is computed using the straight-line method over their estimated useful lives. Estimated useful lives for buildings are 10 to 50 years; improvements other than buildings, 3 to 10 years; and equipment, 3 to 30 years.

University System Funds record expenditures when they acquire fixed assets and capitalize those assets within their plant funds. These funds capitalize interest expenditures during construction but do not record depreciation. Current funds used to finance plant assets are accounted for as (1) expenditures for normal replacement of movable equipment and library books, (2) mandatory transfers for required provisions for debt amortization/interest and equipment rental and replacement and (3) transfers of a nonmandatory nature for all other cases.

O. LEASE COMMITMENTS

The State leases land, office facilities, office and computer equipment, and other assets. Leases are classified according to FASB 13. Many of these leases have fiscal funding clauses; however, these clauses have no effect on classifying these leases for accounting purposes. Leases which represent acquisitions are classified as capital leases, and the related assets and liabilities are recorded in the general purpose financial statements at the inception of the lease. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease.

P. FEDERAL FUNDS PURCHASED

Federal Funds Purchased represent federal funds borrowed by the Bank of North Dakota from member banks generally on an overnight basis at the federal funds rate.

Q. CLAIMS/JUDGMENTS PAYABLE

Claims/Judgments Payable are primarily Workers Compensation Claims Incurred But Not Yet Reported (IBNR) by the claimants as well as claims related to various litigation matters. Claims and judgments for Governmental Funds are reflected entirely in the General Long-Term Debt Account Group and not in individual funds, as the liability is not expected to be liquidated with expendable available financial resources.

R. COMPENSATED ABSENCES

ANNUAL LEAVE

State employees accrue vested annual leave at a variable rate based on years of service. Teachers employed by the State do not receive annual leave. In general, accrued annual leave cannot exceed 30 days at each year end, as set by the agency. The amount of annual leave earned ranges between one and two days per month, and is fixed by the employing unit per section 54-06-14 of the NDCC.

Governmental and Expendable Trust Funds recognize annual leave when the liability is incurred and payable from available expendable resources. Annual leave liability incurred but not payable from available expendable resources is accounted for in the General Long-Term Debt Account Group. These unpaid amounts will be paid from expendable resources provided for in the budget of future years. Proprietary Funds and similar trust funds recognize the expense and accrued liability when the annual leave is earned.

SICK LEAVE

The North Dakota Century Code, section 54-06-14, states employees accrue sick leave at the rate of one to a maximum of one and one-half working days per month of employment without limitation on the amount that can be accumulated. Employees vest at ten years of creditable service, at which time the State is liable for ten percent of the employee's accumulated unused sick leave. A liability for accumulated sick leave has been recorded in the accompanying general purpose financial statements.

Compensated absences for Governmental Funds are reflected entirely in the General Long-Term Debt Account Group and not in individual funds as the liability is not expected to be liquidated with expendable available financial resources.

S. DEPOSITS

The following two liability line items are presented in the Combined Balance Sheet:

Deposits Held For Other Funds. "Deposits Held For Other Funds" are those deposits held by the Bank of North Dakota for other funds included in the reporting entity.

Other Deposits. "Other Deposits" are those deposits held by the Bank of North Dakota for non-reporting entity third parties. It also includes deposits held for students of the University System.

Differences on the Combined Balance Sheet between the liability "Deposits Held For Other Funds" and the assets "Cash Deposits And Investments At The Bank Of North Dakota" are attributable to timing differences

State of North Dakota

resulting from the Bank of North Dakota having a different accounting year end than many other state agencies.

T. DEFERRED REVENUE

Deferred revenues arise when a potential revenue does not meet the "available" criteria for revenue recognition in the current period. Deferred revenues also arise when resources are received by the State before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the State has a legal claim to the resources, the deferred revenue is recognized as revenue.

U. MISCELLANEOUS REVENUE

Miscellaneous revenue is comprised primarily of grants from private foundations, sale of confiscated property and other nonrecurring revenues.

V. FUND EQUITY

Fund balance represents the difference between fund assets and fund liabilities for Governmental and Trust Funds.

Retained earnings represents the accumulated earnings of Enterprise and Internal Service Funds.

Generally, reserves for Governmental Funds are established to indicate a claim against assets or for other reasons certain assets are not available for discretionary appropriation. Designated Funds represent tentative plans for future use of financial resources.

Contributed capital is recorded in Proprietary Funds that have received contributions from the public or nonoperating transfers from other funds.

W. TOTALS (MEMORANDUM ONLY) COLUMN

Total columns (memorandum only) have been added to certain statements for the primary government and the reporting entity. The total columns include interfund activity and are not comparable to consolidated financial statements, but are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America. The Primary Government includes all funds, organizations, account groups, agencies, boards, commissions, and authorities that are not legally separate from the State. The reporting entity includes the Primary Government and all of its component units.

X. CHANGE IN ACCOUNTING PRINCIPLES

GASB Statements No. 33, "Accounting and Financial Reporting for Nonexchange Programs," and No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues," effective for fiscal years beginning after June 15, 2000, establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. In a nonexchange transaction, the State gives (or receives) value without directly receiving (or giving) equal value in return. The principal issue addressed in Statement No. 33 is the timing of recognition of nonexchange transactions. Statement No. 36 amends No. 33 to provide symmetrical accounting treatment for certain shared revenues by requiring recipient governments to account for the sharing of revenues in the same manner as provider governments by using a reasonable estimate of the amount to be accrued.

See Note 2 for the effect of GASB 33 and 36 on beginning fund equity.

In accordance with NDCC section 54-27-21, the State revised its capitalization policy to increase the amount required to capitalize fixed assets from \$750 to \$5,000. As a result, the General Fixed Assets Account Group reduced its fixed assets by \$42.9 million. Changes to beginning fund equity for the enterprise and internal service funds are disclosed in Note 2. The effect of this change had no impact on current year activities.

The State revised its policy based upon current practices in other states. In addition GFOA recommends that states set their capitalization threshold at \$5,000.

NOTE 2 – RESTATEMENTS

Certain restatements of fund equity balances as of June 30, 2000, as discussed below, have been reflected in the General Purpose Financial Statements.

Pursuant to GASB 33, the following beginning fund equities were increased to reflect the change in accounting for nonexchange transactions:

General Fund	\$ 3,329,510
Aeronautics and Other Transportation	200,086
Agriculture	244,687
Commodity Promotion	92,487
Education	1,709,321
Highway	1,730,505
Local Governments	18,054,594

Notes To The Financial Statements

The following beginning fund equity balances were decreased as a result of the State's change in its policy for capitalization of fixed assets:

Fire and Tornado	\$ (8,576)
Roughrider Industries	(108,366)
Central Services	(21,029)
Fleet Services	(7,041)
Information Technology	(1,506,868)
Retirement and Investment Office	(50,799)
Risk Management	(20,869)

North Dakota Workers Compensation recorded a prior period adjustment to increase beginning retained earnings and decrease their estimated liability for incurred, but not reported, and incomplete claims by \$250,000,000. Previously, the Bureau was transitioning from a discounted to an undiscounted level for their estimated liability. GASB 10 does not provide for a transition period, which results in restating their estimated liability at a discounted level of 6 percent.

Restatement for these funds are summarized in the following table (expressed in thousands):

Primary Government Funds	June 30, 2000 Fund Balance/Equity As Previously Reported	Increased/(Decreased) For Restatement	July 1, 2000 Fund Balance/Equity As Restated
General Fund	<u>\$ 115,303</u>	<u>\$ 3,330</u>	<u>\$ 118,633</u>
Special Revenue Funds:			
Aeronautics and Other Transportation	\$ 3,391	\$ 200	\$ 3,591
Agriculture	3,545	245	3,790
Commodity Promotion	5,916	93	6,009
Education	11,702	1,710	13,412
Highway	79,144	1,730	80,874
Local Government	-	18,055	18,055
	<u>\$ 103,698</u>	<u>\$ 22,033</u>	<u>\$ 125,731</u>
Enterprise Funds:			
Fire and Tornado	\$ 14,065	\$ (9)	\$ 14,056
Roughrider Industries	1,573	(108)	1,465
Workers Compensation	126,242	250,000	376,242
	<u>\$ 141,880</u>	<u>\$ 249,883</u>	<u>\$ 391,763</u>
Internal Service Funds:			
Central Services	\$ 763	\$ (21)	\$ 742
Fleet Services	36,930	(7)	36,923
Information Technology	5,866	(1,507)	4,359
Retirement and Investment Office	49	(51)	(2)
Risk Management	1,352	(21)	1,331
	<u>\$ 44,960</u>	<u>\$ (1,607)</u>	<u>\$ 43,353</u>

State of North Dakota

NOTE 3 – BUDGET TO GAAP RECONCILIATION

BUDGETARY BASIS VS. GAAP

The accompanying 1999-2001 Statement of Revenues, Expenditures and Other Financing Sources (Uses)—Budget and Actual—General Fund and Other Budgeted Income presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since the budgetary and GAAP presentations of actual data differ, a reconciliation of the two is presented below for the fiscal year ended June 30, 2001 (expressed in thousands):

	Actual (*) For 1999-2001 Biennium (Budgetary Basis)	Actual Fiscal Year 2000 (Budgetary Basis)	Non- Appropriated Expenditures	Non- Appropriated Accruals	Difference In Basis (**)	GAAP (***) Fiscal Year 2001 Expenditures
General	\$ 1,592,786	\$ (786,464)	\$ 13,278	\$ (1,684)	\$ 12,963	\$ 830,879
Special Revenue	2,270,646	(1,135,793)	335,712	(171,854)	-	1,298,711
Debt Service	-	-	11,748	-	-	11,748
Capital Projects	1,475	(177)	11,990	-	-	13,288
Enterprise	152,050	(61,153)	301,087	-	658	392,642
Internal Service	98,324	(46,604)	2,756	-	(6,566)	47,910
Expendable Trust	-	-	50,059	-	-	50,059
Nonexpendable Trust	-	-	29,577	-	-	29,577
Pension Trust	4,864	(3,313)	109,552	-	-	111,103
Agency	622	(474)	-	-	(148)	-
University System	715,033	(324,278)	74,989	-	-	465,744
<i>Total-Primary Government</i>	4,835,800	(2,358,256)	940,748	(173,538)	6,907	3,251,661
Component Units	438	(208)	18,335	-	-	18,565
Total-Reporting Entity	\$ 4,836,238	\$ (2,358,464)	\$ 959,083	\$ (173,538)	\$ 6,907	\$ 3,270,226

(*) Actual for 1999-2001 Biennium Expenditures Includes:

Appropriated Expenditures	\$ 4,768,767
General Fund – Transfers Out	9,312
Other Budgeted Income – Transfers Out	58,159
Total	\$ 4,836,238

(**) Difference in Basis Includes:	<u>General Fund</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>
Appropriated Expenditures	\$ 12,963	\$ -	\$ -	\$ (148)
Capital Acquisitions	-	(3,191)	(14,824)	-
Depreciation	-	3,849	8,258	-
Total	\$ 12,963	\$ 658	\$ (6,566)	\$ (148)

Notes To The Financial Statements

(***) GAAP Expenditures Reconciliation:

	Total Expenditures/ Operating Expenses	Operating Transfers Out	Operating Transfers To Component Unit	Nonoperating Interest Expense	Residual Equity Transfer Out	GAAP Fiscal Year 2001 Expenditures
General	\$ 599,206	\$ 231,298	\$ 375	\$ -	\$ -	\$ 830,879
Special Revenue	1,213,130	85,581	-	-	-	1,298,711
Debt Service	11,748	-	-	-	-	11,748
Capital Projects	11,462	1,804	-	-	22	13,288
Enterprise	351,253	27,251	-	14,138	-	392,642
Internal Service	47,666	-	-	244	-	47,910
Expendable Trust	49,469	590	-	-	-	50,059
Nonexpendable Trust	2,304	27,273	-	-	-	29,577
Pension Trust	111,103	-	-	-	-	111,103
Agency	-	-	-	-	-	-
University System	465,744	-	-	-	-	465,744
<i>Total – Primary Government</i>	<u>2,863,085</u>	<u>373,797</u>	<u>375</u>	<u>14,382</u>	<u>22</u>	<u>3,251,661</u>
Component Units	18,565	-	-	-	-	18,565
Total – Reporting Entity	<u><u>\$ 2,881,650</u></u>	<u><u>\$ 373,797</u></u>	<u><u>\$ 375</u></u>	<u><u>\$ 14,382</u></u>	<u><u>\$ 22</u></u>	<u><u>\$ 3,270,226</u></u>

NOTE: University expenditures equal "Total Expenditures And Other Deductions" for all funds on the Combined Statement of Changes

NOTE 4 - DETAILED NOTES ON ACCOUNT BALANCES

A. DEPOSITS

State law generally requires that all State funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the State shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, "[a]ll state funds . . . must be deposited in the Bank of North Dakota" or must be deposited in accordance with constitutional and statutory provisions.

The following summary presents the amount of the State's deposits which are fully insured or collateralized with securities held by the State or by its agent in the State's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the State's name (Category 2) and those deposits which are not collateralized or are collateralized by the pledging financial institution trust or agent, but not in the State's name (Category 3) at June 30, 2001. Funds deposited at the Bank of North Dakota are not credit risked since the Bank is part of the State's reporting entity. The amounts are expressed in thousands:

Primary Government:

	Category			Total Bank Balance	Carrying Amount
	1	2	3		
Cash Deposits	\$ 26,719	\$ -	\$ 463,312	\$ 490,031	\$ 639,166
Certificates Of Deposit					
Recorded As Investments	2,514	-	-	2,514	2,514
Total	<u><u>\$ 29,233</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 463,312</u></u>	<u><u>\$ 492,545</u></u>	<u><u>\$ 641,680</u></u>

State of North Dakota

University System:

	Category			Total Bank Balance	Carrying Amount
	1	2	3		
Cash Deposits	\$ 13,695	\$ -	\$ -	\$ 13,695	\$ 8,585
Certificates Of Deposit					
Recorded As Investments	1,467	-	-	1,467	1,467
Total	\$ 15,162	\$ -	\$ -	\$ 15,162	\$ 10,052

Component Units:

	Category			Total Bank Balance	Carrying Amount
	1	2	3		
Cash Deposits	\$ 2,338	\$ -	\$ -	\$ 2,338	\$ 2,338
Certificates Of Deposit					
Recorded As Investments	-	-	12,101	12,101	12,101
Total	\$ 2,338	\$ -	\$ 12,101	\$ 14,439	\$ 14,439

B. INVESTMENTS

The investment policies of the State of North Dakota are governed by NDCC 6-09-07, 15-10-12, and 21-04-02, indicating that all public funds must be deposited in the Bank of North Dakota unless there are other constitutional or statutory provisions. If there are no statutory provisions and the funds are invested outside the Bank of North Dakota, the state agency must have the permission of the North Dakota Industrial Commission.

Investments are generally managed by the State Investment Board, the North Dakota Board of University and School Lands, the Bank of North Dakota, and the North Dakota State Treasurer's Office. Management responsibilities and investment instruments as authorized by statute are as follows:

1. State Investment Board (SIB) – NDCC 21-10 designates the SIB with investment responsibilities for the Public Employees' Retirement System, Bonding Fund, Teachers' Fund for Retirement, Fire and Tornado Fund, Workers Compensation Fund, and other specific funds. The Century Code states the SIB shall apply the prudent investor rule in investing funds under its supervision.

The State Investment Board's investment policy allows investment managers to use derivative securities. Managers are specifically permitted to use treasury futures and options, S&P 500 index future options, and currency forwards and futures to hedge portfolio risk, but not to speculate or to leverage the portfolio. Managers may use their discretion to use other derivatives to enhance returns, reduce risk, or facilitate the management of index funds. SIB's policy with

respect to these derivatives is that their use may not increase the credit, market, or legal risk level associated with a fully invested portfolio of common stocks or fixed income obligations, depending on the manager's designated role.

2. North Dakota Board of University and School Lands – The Century Code states that the Board of University and School Lands shall apply the prudent investor rule in investing its funds. Also, NDCC 15-03-04 allows the Board to invest in first mortgages on farmlands and improvements thereon in this state to the extent such mortgages are guaranteed or insured by the United States or any instrumentality thereof, or if not so guaranteed or insured, not exceeding in amount 80 percent of the actual value of the property on which the same may be loaned, such value to be determined by competent appraisal.
3. The Bank of North Dakota – NDCC 6-09 authorizes the Bank of North Dakota. The Bank is owned and operated by the State of North Dakota under the supervision of the North Dakota Industrial Commission. The Bank may have investments in anything that any bank lawfully may do, except what is restricted by NDCC 6-09.
4. The North Dakota State Treasurer's Office – The North Dakota Constitution and various sections of the Century Code authorize the State Treasurer to invest all State funds deposited with the State Treasury. However, the State Treasurer must invest the public funds with the Bank of North Dakota unless there is statutory authority to do otherwise. Generally,

Notes To The Financial Statements

the State Treasurer pools deposits and invests in money market accounts and Bank of North Dakota certificates of deposit.

5. University System – NDCC 15-55-05 and 15-55-06 govern the investment of proceeds of revenue bonds and revenues pledged to bondholders. Investments governed by a gift instrument are covered under NDCC 15-67-04. Subject to any limitations in the gift instrument, such funds may be invested in any real or personal property deemed advisable by the governing board.

The State's investments are categorized below per GASB Statement Three according to the level of credit risk assumed by the State. Category 1 includes investments which are insured, or registered, or securities which are held by the State or the State's agent in the State's name. Category 2 includes uninsured and unregistered investments, with securities which are held by the counterparty, or their trust department or agent, but not in the State's name. Category 3 includes uninsured and unregistered investments, with securities which are held by the counterparty, or their trust department or agent but not in the State's name. The amounts are expressed in thousands:

Primary Government:

	Category			Fair Value
	1	2	3	
Commercial Paper	\$ 44,945	\$ -	\$ -	\$ 44,945
Equity Securities				
Not On Securities Loan	1,034,543	-	-	1,034,543
On Securities Loan	4,210	-	-	4,210
Bonds And Notes				
Not On Securities Loan	963,153	-	-	963,153
U.S. Government & Agency Issues				
Not On Securities Loan	800,704	-	-	800,704
On Securities Loan	54,555	-	-	54,555
	<u>\$ 2,902,110</u>	<u>\$ -</u>	<u>\$ -</u>	2,902,110
Investments In Real Estate Pool				217,498
Investments In Unemployment				
Compensation Pool				22,190
Guaranteed Investment Contract				108,092
Annuities				356
Mutual Funds				685,477
Private Equity				97,228
Non-Security Investments				2,000
Investments Held By Broker-Dealer Under Securities Loans With Cash Collateral:				
Equity Securities				70,135
Bonds And Notes				92,327
U.S. Government & Agency Issues				161,607
Securities Lending Short-Term Collateral Investment Pool				333,709
Totals				<u>\$ 4,692,729</u>

University System:

	Category			Fair Value
	1	2	3	
Equity Securities	\$ 5,859	\$ -	\$ 7,872	\$ 13,731
U.S. Government & Agency Issues	641	-	11,337	11,978
	<u>\$ 6,500</u>	<u>\$ -</u>	<u>\$ 19,209</u>	25,709
Held By Brokers/Dealers				11,672
Totals				<u>\$ 37,381</u>

State of North Dakota

Component Units:	Category			Fair Value
	1	2	3	
U.S. Government & Agency Issues	\$ 157	\$ -	\$ -	\$ 157
Obligations Of State And Political Subdivisions	515	-	-	515
	<u>\$ 672</u>	<u>\$ -</u>	<u>\$ -</u>	672
Guaranteed Investment Contract				77,940
Non-Security Investments				<u>138,660</u>
Totals				<u>\$ 217,272</u>

There were no violations of statutory authority or contractual provisions for investments during the year ended June 30, 2001.

C. REVERSE REPURCHASE AGREEMENTS

State statutes permit the State to enter into reverse repurchase agreements, that is, the sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in fair value of the securities. All sales of investments under these agreements are for fixed terms.

In investing the proceeds of these agreements, State policy is for the term to maturity of the investment to be the same as the term of the agreement. Such matching existed at year end. These agreements are secured by Fed book-entry securities held in the State's name. At June 30, 2001, the State had reverse repurchase agreements of \$75,100,000 included in securities lending collateral on the balance sheet. The highest month end balance for the previous year was \$75,100,000 with an average daily balance of \$21,224,000. The weighted average interest rate as of year end was 6.35 percent. The weighted average interest rate paid during the year was 6.38 percent. The fair value of these securities at June 30, 2001, was \$75,100,000.

D. RECEIVABLES

Receivables at June 30, 2001, consist of the following (expressed in thousands):

	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	University System	Component Units	Total
Receivables:										
Accounts	\$ 1,040	\$ 16,597	\$ -	\$ -	\$ 40,845	\$ 242	\$ 29,998	\$ 10,481	\$ 597	\$ 99,800
Less Allowance	(112)	(1,886)	-	-	(3,979)	-	-	(1,126)	-	(7,103)
Taxes	116,501	44,503	-	-	-	-	7,351	-	-	168,355
Less Allowance	(5,639)	(213)	-	-	-	-	(467)	-	-	(6,319)
Interest	740	1,817	232	2	40,489	47	18,628	710	3,305	65,970
Less Allowance	-	(165)	-	-	-	-	-	-	-	(165)
Loans and Notes	71	54,253	-	-	1,865,337	-	53,889	45,628	16,758	2,035,936
Less Allowance	(7)	(4,266)	-	-	(24,694)	-	-	(3,076)	(5,593)	(37,636)
Net Receivables	<u>\$ 112,594</u>	<u>\$ 110,640</u>	<u>\$ 232</u>	<u>\$ 2</u>	<u>\$ 1,917,998</u>	<u>\$ 289</u>	<u>\$ 109,399</u>	<u>\$ 52,617</u>	<u>\$ 15,067</u>	<u>\$ 2,318,838</u>

E. RESTRICTED ASSETS

Certain proceeds of enterprise fund bonds, as well as certain resources set aside for their repayment, are classified as restricted, primarily because their use is limited by applicable bond covenants or pledged for securities sold under agreements to repurchase and for other required purposes. Enterprise Funds with restricted assets at June 30, 2001, are as follows (expressed in thousands):

Notes To The Financial Statements

Primary Government:	<u>Cash</u>	<u>Investments</u>	<u>Loans Receivables</u>	<u>Other Assets</u>
Bank Of North Dakota	\$ -	\$ 80,646	\$ -	\$ -
Guaranteed Student Loan Program	9,823	2,432	-	-
Housing Finance	276,817	15,991	594,023	13,718
State Fair Association	38	-	-	-
	<u>\$ 286,678</u>	<u>\$ 99,069</u>	<u>\$ 594,023</u>	<u>\$ 13,718</u>
Component Unit:				
Municipal Bond Bank	<u>\$ 963</u>	<u>\$ 98,678</u>	<u>\$ -</u>	<u>\$ 11,880</u>

F. INTERFUND TRANSACTIONS

The following balances at June 30, 2001, represent interfund transactions among all funds and State agencies (expressed in thousands):

DUE FROM AND TO OTHER FUNDS

<u>Fund Type/Fund</u>	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 11,918	\$ 31,273
Special Revenue:		
Administration	159	12
Aeronautics & Other Transportation	-	2
Agriculture	-	62
Commodity Promotion	1	43
Community Service	-	1
Cultural And Historical	-	2
Education	636	48
Federal	8,169	20,864
Health And Human Services	7,142	4,224
Highway	763	1,244
Insurance	-	1,420
Job Service	563	441
Judicial and Legal	513	55
Land Dept.-Coal Severance	185	361
Land Dept.-Land and Mineral	111	-
Land Dept.-Land Maintenance	-	559
Motor Vehicle	-	8
National Guard	3	-
Natural Resources	1,344	37
Oil Tax Resources	-	-
Other Special	76	10
Permanent Oil Tax Trust	13,179	-
Public Safety And Penal Institutions	29	29
Recreation	976	936
Regulatory	-	28
Veterans	3	8

<u>Fund Type/Fund</u>	<u>Due From</u>	<u>Due To</u>
Capital Projects:		
Building Authority	-	3,943
Enterprise:		
Bank of North Dakota	935	270
Beginning Farmer Revolving Loan	-	13
Bonding Fund	-	2
Community Water Facility Loan	-	19
Dev. Disabled Facility Loan	-	10
Fire and Tornado	-	13
Guaranteed Student Loan	408	326
Housing Finance	43	14
PERS Uniform Group Insurance	29	187
Roughrider Industries	24	3
Student Loan	-	433
Workers Compensation	-	44
Internal Service:		
Central Services	175	7
Fleet Services	2,002	53
Information Technology	2,948	6
Retirement And Investment Office	54	16
Risk Management	-	9
Expendable Trust:		
Deferred Compensation	-	2
Job Service Expendable	-	162
Land Dept.-Abandoned Property	139	-
PERS Flexcomp	43	1
Nonexpendable Trust:		
Land Department Permanent	189	99
Pension Trust:		
Highway Patrolmen's Retirement	-	9
Job Service Retirement	-	2
Prefunded Retiree Health Program	-	75
Public Employees Retirement	225	11
Teacher's Retirement	-	39
Agency:		
Payroll	1	-

State of North Dakota

<u>Fund Type/Fund</u>	<u>Due From</u>	<u>Due To</u>
Child Support Student And Other	-	1,674
Tax Collection	-	177
University System	<u>18,527</u>	<u>1,478</u>
Total	<u>\$ 71,512</u>	<u>\$ 70,764</u>

A reconciliation of Due From's and Due To's is presented below (expressed in thousands):

	<u>Amount</u>
Due From's	\$ 71,512
Bank Of North Dakota/Federal	435
Bank Of ND/Job Service Expendable Trust	163
Bank Of ND/Land Department Permanent	(103)
Guarant. Student Loan/Student Loan Trust	(300)
Information Tech. Dept./Bank Of ND	(120)
Natural Resources/Bank Of ND	<u>(823)</u>
Due To's	<u>\$ 70,764</u>

The above represents timing differences between agencies as a result of different fiscal year ends.

INTERFUND RECEIVABLES/PAYABLES

<u>Fund Type/Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 22,477	\$ -
Special Revenue:		
Federal	-	22,290
Job Service	-	187
Enterprise:		
Bank of North Dakota	-	35,000
University System	<u>4,372</u>	<u>4,372</u>
TOTAL	<u>\$ 26,849</u>	<u>\$ 61,849</u>

A reconciliation of Interfund Receivables/Payables is presented below (expressed in thousands):

	<u>Amount</u>
Interfund Receivables	\$ 26,849
General Fund/Bank Of ND	<u>35,000</u>
Interfund Payables	<u>\$ 61,849</u>

The above represents timing differences between agencies as a result of different fiscal year ends.

OPERATING TRANSFERS (expressed in thousands)

<u>Fund Type/Fund</u>	<u>In</u>	<u>Out</u>
General Fund	\$ 31,402	\$ 231,298
Special Revenue:		
Administrative	110	-
Agriculture	7	-
Commodity Promotion	-	488
Community Service	1,163	22
Cultural And Historical	30	-
Education	24,394	53
Federal	379	64,249
Health And Human Services	43,756	5,337
Highway	7	992
Insurance	-	3,172
Job Service - Special Revenue	2,122	243
Judicial And Legal	124	30
Land Department - Coal Severance	-	4,581
Land Department - Land & Mineral	-	3,173
Motor Vehicle	9	55
National Guard	163	-
Natural Resources	4,202	1,325
Oil Tax Resources	79	1,711
Other Special	75	12
PACE Fund	3,750	-
Permanent Oil Tax Trust	13,179	-
Public Safety And Penal Institutions	5,117	-
Recreation	32	128
Regulatory	85	-
Veterans	217	10
Debt Service:		
Building Authority	6,521	-
Lignite Research	1,010	-
Capital Projects:		
Building Authority	-	1,804
Enterprise:		
Bank Of North Dakota	57	20,578
Fire And Tornado	-	124
Guaranteed Student Loan	300	-
Housing Finance	-	23
Mill And Elevator	-	3,027
State Fair	170	-
Student Loan	-	3,500
Expendable Trust		
Deferred Compensation	218	-
Land Dept. - Abandoned Property	-	258
Land Dept. - Capitol Building	-	34
PERS Flexcomp	-	298

Notes To The Financial Statements

<u>Fund Type/Fund</u>	<u>In</u>	<u>Out</u>
Nonexpendable Trust:		
Land Department-Permanent Fund	258	27,273
Pension Trust:		
Defined Contribution Plan	79	-
University System	<u>231,993</u>	<u>-</u>
TOTAL	<u>\$ 371,008</u>	<u>\$ 373,798</u>

A reconciliation of Operating Transfers In and Operating Transfers Out is presented below (expressed in thousands):

Operating Transfers In	\$ 371,008
General Fund/Bank Of ND	507
Industrial Commission/Bank Of ND	(35)
Human Services/Developmentally Disabled Facility Loan	(1,140)
Guaranteed Student Loan/Student Loan Trust	3,200
Bank of North Dakota/General Fund	(57)
Beginning Farmer Revolving Loan/General Fund	500
University System/Bank Of ND	<u>(185)</u>
Operating Transfers Out	<u>\$ 373,798</u>

The above differences represent timing differences between agencies as a result of different fiscal year ends.

OPERATING TRANSFERS IN/OUT OF COMPONENT UNITS

<u>Fund Type/Fund</u>	<u>In</u>	<u>Out</u>
General	\$ -	\$ 375
Total	<u>\$ -</u>	<u>\$ 375</u>

OPERATING TRANSFERS IN/OUT OF PRIMARY GOVERNMENT

<u>Fund Type/Fund</u>	<u>In</u>	<u>Out</u>
Component Units: (Enterprise)		
ND Development Fund	\$ 375	\$ -
Total	<u>\$ 375</u>	<u>\$ -</u>

ADVANCES TO AND FROM OTHER FUNDS

<u>Fund Type/Fund</u>	<u>Advance To</u>	<u>Advance From</u>
General Fund	\$ 654	\$ -
Special Revenue:		
Federal	-	39,351
Aeronautics And Other		
Transportation	2,005	-
Highway	37,025	-
Recreation	2,320	-
Insurance	1	-
Job Service	-	654
Enterprise:		
Dev. Disabled Facility Loan	-	5,134
Internal Service:		
Fleet Services	-	2,000
Expendable Trust:		
Land Dept. – Abandoned And Unclaimed Property	2,221	-
Nonexpendable Trust:		
Land Dept – Permanent Fund	6,342	2,221
University System	-	8,882
Total	<u>\$ 50,568</u>	<u>\$ 58,242</u>

A reconciliation of Advances To Other Funds and Advances From Other Funds is presented below (expressed in thousands):

	<u>Amount</u>
Advances To Other Funds	\$ 50,568
Land Dept. - Permanent Fund/Dev. Disabled	(1,208)
Bank Of North Dakota/University System	<u>8,882</u>
Advances From Other Funds	<u>\$ 58,242</u>

The above represents timing differences between agencies as a result of different fiscal year ends.

ADVANCES TO/FROM COMPONENT UNITS

<u>Fund Type/Fund</u>	<u>Advances To</u>	<u>Advances From</u>
Enterprise:		
Bank Of North Dakota	<u>\$ 8,968</u>	<u>\$ 8,968</u>

ADVANCES TO/FROM PRIMARY GOVERNMENT

<u>Fund Type/Fund</u>	<u>Advances To</u>	<u>Advances From</u>
Component Unit: (Enterprise)		
Municipal Bond Bank	<u>\$ 8,968</u>	<u>\$ 8,968</u>

State of North Dakota

RESIDUAL EQUITY TRANSFER

The Building Authority Capital Projects Fund made a residual equity transfer of \$22,000 to the Building Authority Debt Service Fund.

G. FIXED ASSETS

The following is a summary of fixed assets at June 30, 2001 (expressed in thousands):

<u>Description</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Fiduciary Funds</u>	<u>General Fixed Assets</u>	<u>University System</u>	<u>Component Units</u>
Land	\$ 1,964	\$ -	\$ -	\$ 19,075	\$ 15,139	\$ -
Buildings	35,094	-	1,194	311,497	536,921	-
Improvements Other Than Buildings	4,753	-	-	56,181	99,067	-
Equipment	34,402	87,059	17	82,833	213,635	81
Construction In Progress	19,800	-	-	10,934	15,316	-
Total Fixed Assets (Gross)	96,013	87,059	1,211	480,520	880,078	81
Less: Accumulated Depreciation	(42,146)	(40,836)	(176)	-	-	(65)
Total Fixed Assets (Net)	<u>\$ 53,867</u>	<u>\$ 46,223</u>	<u>\$ 1,035</u>	<u>\$ 480,520</u>	<u>\$ 880,078</u>	<u>\$ 16</u>

The following is a summary of changes in the General Fixed Asset Account Group during the fiscal year (expressed in thousands):

<u>Description</u>	<u>Balance July 1, 2000</u>	<u>Minimum Valuation Adjustments</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers Between Asset Class and Funds</u>	<u>Balance June 30, 2001</u>
Land	\$ 18,945	\$ (50)	\$ 340	\$ (170)	\$ 10	\$ 19,075
Buildings	304,322	(962)	7,171	(1,414)	2,380	311,497
Improvements Other Than Buildings	54,688	(158)	1,561	(167)	257	56,181
Equipment	122,200	(41,722)	7,018	(4,663)	-	82,833
Construction In Progress	6,683	-	6,898	-	(2,647)	10,934
Total General Fixed Assets	<u>\$ 506,838</u>	<u>\$ (42,892)</u>	<u>\$ 22,988</u>	<u>\$ (6,414)</u>	<u>\$ -</u>	<u>\$ 480,520</u>

Adjustments to beginning balances represents a change in the State's capitalization policy for equipment. Equipment previously capitalized costing over \$750 and less than \$5,000 has been removed from the General Fixed Assets Account Group.

Notes To The Financial Statements

Construction In Progress is composed of the following (expressed in thousands):

Project Description:	<u>Amount Authorized</u>	<u>Amount Expended Through June 30, 2001</u>	<u>Balance Authorized</u>
<u>Enterprise Funds</u>			
Mill And Elevator:			
Mill Upgrade/Expansion	\$ 19,989	\$ 19,545	\$ 444
Workers Compensation:			
New Building Design	945	255	690
Total	<u>\$ 20,934</u>	<u>\$ 19,800</u>	<u>\$ 1,134</u>

Project Description:	<u>Amount Authorized</u>	<u>Amount Expended Through June 30, 2001</u>	<u>Balance Authorized</u>
<u>General Fixed Asset Account Group</u>			
Various upgrades to State buildings	<u>\$ 22,094</u>	<u>\$ 10,934</u>	<u>\$ 11,160</u>

Project Description:	<u>Amount Authorized</u>	<u>Amount Expended Through June 30, 2001</u>	<u>Balance Authorized</u>
<u>University System</u>			
University Building Improvements	<u>\$ 21,590</u>	<u>\$ 15,316</u>	<u>\$ 6,274</u>

H. OPERATING LEASES

PAYMENTS ON OPERATING LEASES

The State is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the State's account groups or Proprietary Fund assets and liabilities. Lease expenditures for the year ended June 30, 2001, amounted to \$15,528,374.

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2001, for all fund types are as follows (expressed in thousands):

<u>Year Ending June 30</u>	<u>Amounts</u>
2002	\$ 8,480
2003	6,128
2004	2,669
2005	1,971
2006	1,035
Thereafter	<u>1,452</u>
Total Minimum Lease Payments	<u>\$ 21,735</u>

RENTAL RECEIPTS ON OPERATING LEASES

The following is a schedule by years of future minimum rental receipts on noncancelable operating leases as of June 30, 2001 (expressed in thousands):

<u>Year Ending June 30</u>	<u>Amounts</u>
2002	\$ 49
2003	49
2004	49
2005	49
2006	49
Thereafter	<u>96</u>
Future Income on Noncancelable Operating Leases	<u>\$ 341</u>

I. CAPITAL LEASES

The State is obligated under certain leases accounted for as capital leases. Capital lease obligations and the related assets for the governmental fund types and University System are reported under the General Fixed Asset Account Group and University System (discrete presentation) respectively.

The schedule below lists the future minimum lease payments under these capital leases and the present value of the net minimum lease payments at June 30, 2001 (expressed in thousands):

State of North Dakota

Year Ending June 30	Governmental Fund Types	Proprietary Fund Types	Fiduciary Fund Types	University System
2002	\$ 2,183	\$ 88	\$ 2	\$ 5,216
2003	811	50	-	5,384
2004	555	29	-	3,745
2005	-	20	-	3,494
2006	-	14	-	3,423
Thereafter	-	6	-	7,309
Total Minimum Lease Payments	3,549	207	2	28,571
Less: Amount Representing Interest	(317)	(20)	-	(4,424)
Present Value of Future Minimum Lease Payments	<u>\$ 3,232</u>	<u>\$ 187</u>	<u>\$ 2</u>	<u>\$ 24,147</u>

Changes in Capital Lease Obligations for the year ended June 30, 2001, are as follows (expressed in thousands):

	Governmental Fund Types	Proprietary Fund Types	Fiduciary Fund Types	University System
Balance at July 1, 2000	\$ 6,088	\$ 143	\$ 8	\$ 24,289
Leases Added	-	95	-	15,829
Payments	(2,856)	(51)	(6)	(15,971)
Balance at June 30, 2001	<u>\$ 3,232</u>	<u>\$ 187</u>	<u>\$ 2</u>	<u>\$ 24,147</u>

J. LONG-TERM DEBT

Debt authorized is generally limited by the state constitution. The Constitution of North Dakota provides that the State may issue or guarantee the payment of bonds, provided that all bonds in excess of \$2 million are: (1) secured by first mortgage upon property and no further indebtedness may be incurred by the State unless evidenced by a bond issue; (2) authorized by law; (3) for a certain purpose; (4) provisioned to pay the interest semiannually; and (5) the principal is paid within 30 years. Additionally, the law authorizing the bond issue must specifically appropriate the provisions to the payment of the principal and interest of the bond.

BONDS AND NOTES PAYABLE

Bonds payable at June 30, 2001, consisted of bonds issued by the State that are accounted for in the General Long-Term Debt Account Group and certain state agency bonds accounted for in Proprietary Funds.

1. REVENUE BONDS

Current state statutes empower certain state agencies to issue bonds as part of their activities. This debt is not backed by the full faith and credit of the State of North Dakota. The principal and interest on such bonds shall

be payable only from the applicable agency's program income.

Primary Government

Building Authority

The 1993 Series B Bonds have interest payable semiannually on February 15 and August 15 of each year. The 1993 Series A Bonds, the 1995 Series A Bonds, the 1998 Series A, B, and C Bonds, the 2000 Series A Bonds, and the 2001 Series A Bonds have interest payable semiannually on June 1 and December 1 of each year. The bonds of each series are subject to optional and/or extraordinary optional redemption prior to maturity upon the occurrence of certain events. The bonds are independently secured by the funds, certain mortgaged property, and all rights, titles, and interests of the Building Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Building Authority with respect to the lease.

All the 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 payments. Reserve funds are also

required for any positive arbitrage due to the federal government.

Lignite Research

The Industrial Commission is authorized by NDCC 54-17.5 (the "Act") to provide funds and financial assistance to qualified persons for projects related to the clean use of lignite in order to insure economic growth, maintain and enhance development of North Dakota lignite and general welfare in North Dakota. The Industrial Commission is authorized and has established a program to issue and sell North Dakota Lignite Research Bonds to provide funds for the purpose stated in the Act. As of June 30, 2001, there were \$16 million of authorized and \$8,825,000 issued through the Lignite Research Fund. The Commission's intention is not to issue any bonds in the future.

The 1995 Series A Bonds have interest payable on May 15 and November 15 of each year. The bonds maturing on November 15, 2005, are subject to mandatory redemption equal to 100% of par plus accrued interest at various amounts in 2004 and 2005. The bonds are also subject to extraordinary redemption upon the occurrence of certain events. Proceeds of the bonds are being used to provide a grant for funding of construction of an anhydrous ammonia plant.

Water Commission

The Water Commission is authorized by Senate Bill No. 2188 to issue bonds to finance various flood control and pipeline projects throughout the state of North Dakota. Authorized and unissued bonds totaled \$57,530,245 at June 30, 2001. Water development projects that will benefit from the financing are as follows:

Water Development Trust Fund	\$57,300,000
Southwest Pipeline Project	230,245

Interest is payable semiannually on January 1 and July 1 of each year for the Series 1997 A and Series 2000 A Term Bonds, March 1 and September 1 of each year for the Series 1998 A Bonds, and February 1 and August 1 for the Series 2000 A Serial Bonds. Interest is payable annually on July 1 of each year for all other series bonds. The bonds of each series are subject to optional and/or extraordinary optional redemption prior to maturity at the option of the Water Commission or the occurrence of certain events. All redemption prices are at par plus accrued interest.

State Fair

On March 15, 1994, the North Dakota State Fair issued \$3,320,000 Refunding Revenue Bonds Series 1994 for the purpose of refinancing the 1991 bond issue. These bonds have interest payable semiannually with principal payments due each September 1 in each of the years 1998 through 2011.

Student Loan Trust

The 1988 Series B Bonds are zero coupon bonds with interest accruing monthly and the face value payable at maturity. These bonds were issued to retire the 1985 Series A Bonds.

The 1989 Series A Bonds have interest payable semi-annually on January 1 and July 1 of each year. The Series C Bonds are zero coupon bonds with interest accruing monthly and the face value payable at maturity. The Series A Bonds were redeemed on July 1, 2001, at the option of the Industrial Commission at 100% of the principal amount plus accrued interest to the redemption date.

The proceeds of the 1996 Series A and B Bonds were used to refund the July 1, 1996, principal maturity of the 1988 Series A and B, 1989 Series B, and 1992 Series A Bonds. Interest is payable semiannually on January 1 and July 1 of each year. The 1996 Series A and B Bonds are variable rate bonds initially issued as auction rate certificates. The rate of interest will be determined each 35-day period. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the auction rate bonds are outlined in Schedule A of the First Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds Second General Bond Resolution. Under certain conditions, the Industrial Commission may call for early redemption of the 1996 Series A and B Bonds at 100% of the principal amount plus accrued interest to date of redemption.

The proceeds of the 1996 Series C Bonds were used to provide funds for the refunding of the January 1, 1997, principal of the 1988 Series A Bonds. At the option of the Commission, these bonds are not subject to redemption prior to maturity, except under extraordinary redemption at the times and on the terms and conditions set forth in Schedule B-2 of the First Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds Second General Bond Resolution. The proceeds of the 1996 Series D Bonds were used to finance the acquisition of supplemental loans. These bonds are subject to redemption prior to maturity at the option of the Industrial Commission on July 1, 2006, at 100% of the principal amount plus accrued interest to date of redemption.

Interest is payable semiannually on January 1 and July 1 of each year for the 1997 Series A and B Bonds.

The proceeds of the Series 1997 Bonds were used to refund the current maturities of the 1988 Series A and B, 1989 Series B and 1992 Series A Bonds on July 1, 1997, and to current refund and redeem the remainder of the 1988 Series A Bonds at a redemption price of 103% on August 1, 1997.

The 1997 Series A and B Bonds are variable rate bonds initially issued as auction rate certificates. The rate of interest will be determined each 35-day period. The

State of North Dakota

maximum rate of interest is 12% per annum. Details of the terms and provisions of the auction rate bonds are outlined in Schedule A of the Second Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds Second General Bond Resolution. Under certain conditions, the Industrial Commission may call for an early redemption of the 1997 Series A and B Bonds at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption. The 1997 Series A Bonds are subject to mandatory redemption prior to maturity at a redemption price equal to 100% of the principal amount of \$5,350,000 at July 1, 2001, plus accrued interest. The 1997 Series B Bonds are subject to mandatory redemption prior to maturity at a redemption price equal to 100% of the principal amount of \$11,600,000, plus accrued interest, on January 1, 2006.

Interest on the 1998 Series A and B Bonds is payable semiannually on June 1 and December 1 of each year. The proceeds of the Series 1998 Bonds were used to refund the current maturities of the 1988 Series B Bonds and the 1989 Series B Bonds on July 1, 1998, and to call \$32,670,000 of the 1989 Series A and B Bonds at a redemption price of 103% on August 1, 1998. The 1998 Series A and B Bonds are variable rate bonds initially issued as auction rate certificates. The rate of interest will be determined each 35-day period. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the auction rate bonds are outlined in Schedule A of the Second Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds Second General Bond Resolution. Under certain conditions, the Commission may call for early redemption of the 1998 Series A and B Bonds at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption. The 1998 Series A Bonds are subject to mandatory redemption prior to maturity at a redemption price equal to 100% of the principal amount of \$15,650,000 at December 1, 2001, plus accrued interest.

The 2000 Series A Bonds are variable rate bonds initially issued as auction rate certificates. Interest is payable semiannually on June 1 and December 1 of each year. The maximum rate of interest is 12% per annum. The proceeds of the Series 2000 Bonds were used to provide funds for the acquisition of student loans from the Bank of North Dakota. Details of the terms and provisions of the auction rate bonds are outlined in Schedule A of the Second Supplemental Resolution. The 2000 Series B Bonds are fixed rate bonds. Under certain conditions, the Industrial Commission may call for early redemption of the 2000 Series A and B Bonds at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

Housing Finance

Housing Finance Bonds were issued to provide financing to purchase mortgage loans to finance multifamily housing projects. The bonds are the direct obligation of

the Housing Finance Agency and are secured by the mortgage loans purchased under the applicable resolutions; the revenues, prepayments, insurance and foreclosure proceeds received related to the mortgage loans; and certain funds and accounts established pursuant to the applicable bond resolution. The term bonds of all bond series have mandatory sinking fund requirements starting in 1998.

The Agency has \$2,925,000 outstanding letters of credit related to the Single Family Bonds at June 30, 2001. The letters of credit are issued by the Bank of North Dakota and are held by the bond trustees. The letter of credit agreements allow the trustees to draw sufficient funds to meet debt service on the bonds when due in the event there is insufficient funds in the trustees' accounts for this purpose. As of June 30, 2001, the Agency has not drawn on letters of credit.

Component Units

Municipal Bond Bank

The bonds of the Municipal Bond Bank were issued to provide financing to purchase municipal securities in order to provide local political subdivisions with funds to finance local projects. The bonds are direct obligations of the Municipal Bond Bank and are secured by municipal securities purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions.

Revenue Bonds outstanding (expressed in thousands):

<u>Description</u>	<u>Maturity Date</u>	<u>Interest Rate (%)</u>	<u>Balance 6/30/01</u>
Primary Government			
General Long-Term Debt Account Group:			
<u>Building Authority</u>			
Series A:			
1993	2002-2010	5.25-6.00	\$ 19,870
1995	2002-2017	5.00-6.10	15,129
1998	2002-2019	4.40-5.125	7,630
2000	2002-2020	5.125-5.60	4,430
2001	2002-2023	4.00-5.125	10,006
Series B:			
1993	2002-2015	4.50-5.50	12,074
1998	2002-2011	4.50-5.00	11,255
Series C:			
1998	2002-2010	3.45-4.35	<u>2,870</u>
Subtotal			<u>83,264</u>
<u>Lignite Research</u>			
Series A:			
1995	2002-2006	4.70-5.75	<u>5,400</u>

Notes To The Financial Statements

Description	Maturity Date	Interest Rate (%)	Balance 6/30/01	Description	Maturity Date	Interest Rate (%)	Balance 6/30/01
<u>Water Commission</u>				Term Bonds	2002-2016	7.75	285
Series 1997 A:				Series 1990 E:			
Serial Bonds	2002-2012	4.85-5.50	1,615	Term Bonds	2002-2016	7.75	270
Term Bonds	2018	5.70	1,370	Series 1993 A:			
Term Bonds	2028	5.75	3,590	Term Bonds	2002-2005	5.125	50
Series 1997 B:				Term Bonds	2004-2024	5.75	1,795
Serial Bonds	2002-2038	5.00	3,368	Series 1995 A:			
Series 1998 A:				Serial Bonds	2002-2008	4.60-5.50	1,510
Serial Bonds	2002-2018	4.40-5.75	740	Term Bonds	2016	6.125	3,590
Term Bonds	2024	5.875	455	Term Bonds	2018	6.15	1,300
Term Bonds	2002-2039	4.75	100	Term Bonds	2021	6.20	2,325
Series 1999 A:				Series 1995 B:			
Term Bonds	2003-2040	4.375	1,000	Serial Bonds	2002-2005	6.40-6.85	215
Series 2000 A:				<u>Single Family Bonds</u>			
Serial Bonds	2002-2021	5.00-6.00	32,095	Series 1989 A:			
Term Bonds	2022	2.50	1,500	Serial Bonds	2002-2005	7.80-8.00	760
Series 2000 B:				Cap. Apprec. Bonds	2005-2009	8.00-8.10	7,822
Term Bonds	2004-2040	5.125	400	Term Bonds	2012	8.30	953
Series 2001 A:				Term Bonds	2022	8.375	4,538
Term Bonds	2041	4.75	270	Series 1989 B:			
Subtotal			46,503	Term Bonds	2014	8.00	580
Enterprise Funds:				Series 1990 A:			
<u>State Fair</u>				Serial Bonds	2002-2006	7.20-7.50	420
Series A:				Term Bonds	2011	7.90	685
1994	2002-2012	3.50-6.00	2,284	Term Bonds	2024	8.05	3,740
<u>Student Loan Trust</u>				Series 1990 B:			
Series A:				Serial Bonds	2002-2006	6.70-7.20	615
1989	2002-2006	6.90-7.00	3,630	Term Bonds	2011	7.625	955
1996	2003	2.80	6,850	Term Bonds	2025	7.75	5,325
1997	2002-2003	3.05	52,974	Series 1990 C:			
1998	2002	2.85	16,188	Serial Bonds	2002-2006	6.45-7.00	775
2000	2036	2.97	55,000	Term Bonds	2011	7.25	1,200
Series B:				Term Bonds	2025	7.30	6,990
1988	2002-2003	7.80-7.90	4,056	Series 1991 A:			
1996	2006	2.849	10,550	Serial Bonds	2002-2007	6.15-6.75	810
1997	2006-2028	2.80	15,334	Term Bonds	2013	6.95	1,135
1998	2006	2.90	29,901	Term Bonds	2024	7.00	3,920
2000	2026	5.85	8,000	Series 1992 A:			
Series C:				Serial Bonds	2002-2007	5.95-6.50	1,380
1989	2003-2006	7.20-7.25	5,885	Term Bonds	2013	6.75	2,035
1996	2003	5.45	4,160	Term Bonds	2024	6.80	6,330
Series D:				Series 1992 B:			
1996	2007-2015	5.80-6.40	3,000	Serial Bonds	2002-2007	5.60-6.25	2,570
Subtotal			215,528	Term Bonds	2014	6.70	3,145
<u>Housing Finance</u>				Term Bonds	2019	6.00	3,660
<u>Multi-Family Bonds</u>				Term Bonds	2026	6.80	5,090
Series 1990 D:				Series 1993 A:			
				Serial Bonds	2002-2009	4.35-5.10	1,290

State of North Dakota

Description	Maturity Date	Interest Rate (%)	Balance 6/30/01	Description	Maturity Date	Interest Rate (%)	Balance 6/30/01
Term Bonds	2025	5.55	5,170	Term Bonds	2018	5.95	4,380
Series 1994 A:				Term Bonds	2021	5.15	1,665
Serial Bonds	2003-2010	5.10-5.50	2,045	Term Bonds	2029	6.10	12,475
Term Bonds	2026	5.95	4,005	Series 1996 D:			
Series 1994 B:				Serial Bonds	2002-2013	4.45-5.60	5,155
Serial Bonds	2002-2003	4.60-4.80	370	Term Bonds	2018	5.80	3,350
Term Bonds	2026	5.80	4,560	Term Bonds	2022	5.10	1,895
Series 1994 C:				Term Bonds	2029	5.90	8,550
Serial Bonds	2002-2010	5.40-6.40	1,795	Series 1997 A:			
Term Bonds	2026	6.95	7,650	Serial Bonds	2002-2013	4.60-5.90	2,960
Series 1994 D:				Term Bonds	2018	6.00	2,040
Serial Bonds	2002-2010	5.35-6.25	5,145	Term Bonds	2021	5.30	645
Term Bonds	2020	6.25	1,695	Term Bonds	2028	6.15	1,920
Term Bonds	2025	6.75	8,320	Term Bonds	2028	6.15	3,045
Series 1994 E:				Series 1997 B:			
Term Bonds	2015	6.30	4,555	Serial Bonds	2002-2013	4.40-5.50	2,210
Series 1995 A:				Term Bonds	2018	5.75	1,495
Serial Bonds	2002-2010	6.20-7.15	755	Term Bonds	2021	5.00	560
Term Bonds	2016	7.40	200	Term Bonds	2029	5.85	3,475
Term Bonds	2021	7.10	780	Series 1997 C:			
Series 1995 B:				Serial Bonds	2002-2014	4.15-5.35	8,005
Serial Bonds	2002-2011	5.00-6.00	3,950	Term Bonds	2019	5.50	4,955
Term Bonds	2016	6.25	3,170	Term Bonds	2022	4.70	3,040
Term Bonds	2027	6.32	8,510	Term Bonds	2030	5.55	5,720
Series 1995 D:				Term Bonds	2030	5.55	6,030
Serial Bonds	2002-2012	4.95-6.15	1,290	Series 1997 D:			
Term Bonds	2017	6.30	975	Serial Bonds	2002-2014	3.80-5.00	10,290
Term Bonds	2021	5.80	560	Term Bonds	2019	5.15	6,020
Term Bonds	2028	6.325	2,255	Term Bonds	2023	4.50	3,975
Series 1995 F:				Term Bonds	2030	5.25	990
Serial Bonds	2002-2011	4.70-5.85	3,165	Term Bonds	2030	5.25	13,600
Term Bonds	2016	6.00	2,515	Series 1997 F:			
Term Bonds	2020	5.50	285	Serial Bonds	2002-2014	4.45-5.60	3,565
Term Bonds	2026	6.15	880	Term Bonds	2019	5.80	2,255
Term Bonds	2027	6.15	5,625	Term Bonds	2023	5.20	1,715
Series 1996 A:				Term Bonds	2029	5.90	4,725
Serial Bonds	2002-2012	4.95-6.15	3,890	Series 1997 G:			
Term Bonds	2017	6.30	2,910	Serial Bonds	2002-2014	4.40-5.45	7,090
Term Bonds	2021	5.80	965	Term Bonds	2018	4.80	1,965
Term Bonds	2028	6.325	7,400	Term Bonds	2021	5.05	2,445
Series 1996 B:				Term Bonds	2029	5.75	4,510
Serial Bonds	2002-2012	4.90-6.05	4,105	Term Bonds	2030	5.75	8,260
Term Bonds	2017	6.25	2,960	Series 1998 A:			
Term Bonds	2021	5.70	680	Serial Bonds	2002-2014	4.10-5.15	8,355
Term Bonds	2028	6.40	3,850	Term Bonds	2019	5.25	5,090
Term Bonds	2028	6.45	4,170	Term Bonds	2023	4.60	4,270
Series 1996 C:				Term Bonds	2028	5.35	2,750
Serial Bonds	2002-2013	4.50-5.75	7,075	Term Bonds	2029	5.35	6,750

Notes To The Financial Statements

Description	Maturity Date	Interest Rate (%)	Balance 6/30/01	Description	Maturity Date	Interest Rate (%)	Balance 6/30/01
Series 1998 B:				University System:			
Serial Bonds	2002-2014	4.10-5.30	15,400	<u>VCSU - Valley City</u>			
Term Bonds	2019	5.45	9,470	Dormitory Bonds Of 1961	2002	4.25	10
Term Bonds	2023	4.75	9,195	Dormitory Bonds Of 1971	2011	7.20-7.25	430
Term Bonds	2029	5.50	3,860	Technology Fee-1996	2006	4.30-4.75	175
Term Bonds	2030	5.50	15,965	<u>Williston State College</u>			
Series 1998 E:				Williston Center	2019	3.00	286
Serial Bonds	2002-2014	3.80-5.00	3,980	Technology Fee-1996	2006	4.30-4.75	43
Term Bonds	2019	5.15	1,970	2001 Building Authority	2011	-	1,500
Term Bonds	2030	4.60	5,900	<u>Lake Region State College</u>			
Term Bonds	2030	5.25	6,880	Dorm Revenue			
Series 1998 F:				Bonds of 1965	2004	4.20	50
Term Bonds	2019	5.28	7,726	Building Revenue			
Series 1999 A:				Bonds of 1972	2013	5.90	695
Serial Bonds	2002-2015	3.20-5.15	13,510	<u>UND-Grand Forks</u>			
Term Bonds	2020	5.20	5,085	EERC Revenue			
Term Bonds	2030	4.85	17,595	Bonds 92	2003	6.30-6.40	705
Term Bonds	2030	5.25	16,620	Housing & Auxiliary			
Series 1999 B:				Facilities 93A	2013	4.60-5.25	3,840
Term Bonds	2019	6.10	2,837	Building Authority	2010	-	113
Series 1999 D:				Technology Fee-1996	2006	4.30-4.75	841
Serial Bonds	2002-2015	4.45-5.80	8,955	Building Authority	2010	-	291
Term Bonds	2020	5.95	4,200	1998 A Housing and Refunding	2014	4.10-4.80	21,620
Term Bonds	2030	5.40	8,965	<u>NDSU-Fargo</u>			
Term Bonds	2030	6.00	17,245	1988 Memorial Union			
Series 2000 A:				Addition	2007	7.25-7.70	300
Serial Bonds	2003-2016	4.85-6.25	13,615	1992 Refunding	2011	6.00-6.50	6,880
Term Bonds	2021	6.40	7,350	IACC Building Match	2009	-	222
Term Bonds	2031	5.70	12,945	Technology Fee-1996	2006	4.30-4.75	583
Term Bonds	2031	6.50	8,260	1996 B Refunding	2008	4.60-5.25	1,090
Term Bonds	2031	6.50	17,505	1999 Student Health & Wellness Center	2029	5.00-5.60	3,405
Series 2000 C:				<u>NDSCS-Wahpeton</u>			
Serial Bonds	2003-2016	4.70-5.80	11,330	McMahon & Forkner Halls	2006	4.00	140
Term Bonds	2021	6.00	5,865	Robertson Hall	2008	4.50	330
Term Bonds	2031	5.55	11,380	Building Authority	2010	-	125
Term Bonds	2032	6.15	21,425	Technology Fee-1996	2006	4.30-4.75	149
Series 2000 D:				Building Authority	2010	-	200
Term Bonds	2002	4.45	60,000	2001 Housing Facilities	2016	4.00-5.50	2,785
Series 2001 A:				<u>MISU-Minot</u>			
Serial Bonds	2004-2015	3.90-5.15	12,120	1992 Refunding	2006	6.50-6.75	1,190
Term Bonds	2022	5.45	9,465	Student Center 1994	2014	4.40-5.40	1,545
Term Bonds	2032	4.70	13,220	Building Authority	2013	-	21
Term Bonds	2032	5.55	8,195	Building Authority	2010	-	791
Term Bonds	2032	5.55	17,000				
Series 2001 B:							
Term Bonds	2002	3.35	60,000				
Subtotal			843,516				

State of North Dakota

Description	Maturity Date	Interest Rate (%)	Balance 6/30/01
Technology	2006	4.30-4.75	179
2001 Housing Facilities	2011	-	2,299
<u>MISU-Bottineau</u>			
1971 Milligan Hall	2011	6.90	228
Technology Fee-1996	2006	4.30-4.75	17
<u>MSU-Mayville</u>			
Agassiz Hall	2007	3.00	195
1998 Refunding	2006	4.30-4.80	535
Technology Fee-1996	2006	4.30-4.75	98
<u>DSU-Dickinson</u>			
1999 Student Union Improvement	2019	4.50-5.90	955
Technology Fee-1996	2006	4.30-4.75	205
Building Authority	2003	-	92
<u>BSC-Bismarck</u>			
Werner Hall 1964	2005	4.00	110
Swenson Hall 1971	2005	7.40	80
Student Union	2008	6.10	335
Revenue	2003	4.30-4.40	155
Technology Fee-1996	2006	4.30-4.75	99
Building Authority	2003	-	353
Facilities Improv.-2000	2009	5.25-5.75	210
Subtotal			<u>56,500</u>
Total Revenue Bonds Payable- Primary Government			<u><u>\$1,252,995</u></u>

Description	Maturity Date	Interest Rate (%)	Balance 6/30/01
Component Units			
<u>Municipal Bond Bank</u>			
Series A Thru O:			
1990	2002-2010	6.75-7.55	\$ 125
Series A Thru I:			
1991	2002-2012	5.90-8.75	300
Series A Thru K:			
1992	2002-2012	5.20-6.50	1,055
Series A Thru F:			
1993	2002-2013	4.05-5.75	4,580
Series A:			
1993	2002-2015	5.10-6.25	16,643
Series A:			
1994	2002-2014	4.00-6.50	2,810
Series A Thru C:			
1995	2002-2015	4.60-6.00	1,630
Series A:			
1995	2002-2016	5.60-6.40	5,713

Description	Maturity Date	Interest Rate (%)	Balance 6/30/01
Series A Thru D:			
1996	2002-2016	4.65-6.60	1,085
Series A:			
1996	2002-2018	4.20-6.00	27,278
Series A:			
1997	2002-2016	4.35-7.15	9,295
Series A Thru E:			
1998	2002-2023	3.75-5.25	7,833
Series A:			
1998	2002-2018	3.25-5.00	34,327
Series A and B:			
1999	2002-2014	10.00	9,215
Series A Thru F:			
1999	2002-2023	4.10-8.25	2,285
Series A:			
2000	2002-2022	4.40-6.00	16,594
Series B:			
2000	2002	4.70-5.35	<u>4,215</u>
Total Revenue Bonds Payable-Component Units			<u><u>\$ 144,983</u></u>

Debt service requirements to maturity on revenue bond issues for the fiscal years ending June 30 are summarized below (expressed in thousands):

Primary Government

Fiscal Year	Principal	Interest
2002	\$ 107,865	\$ 62,568
2003	148,077	54,647
2004	26,396	51,981
2005	28,821	51,045
2006	33,901	50,433
Thereafter	910,055	663,090
Less Bond Discount	(66)	5
Deferred Amount On Refund	(753)	753
Accrued Interest At Maturity On Zero Coupon Bonds	<u>(1,301)</u>	<u>1,301</u>
Total	<u><u>\$ 1,252,995</u></u>	<u><u>\$ 935,823</u></u>

Notes To The Financial Statements

Component Units

Fiscal Year	Principal	Interest	Balance			
			July 1, 2000	Additions	Deletions	June 30, 2001
2002	\$ 10,960	\$ 7,954	\$ 477	\$ -	\$ (158)	\$ 319
2003	6,930	7,395	91	151	-	242
2004	6,950	7,040	126,725	13,142	(4,700)	135,167
2005	7,240	6,669	1,041	962	(379)	1,624
2006	7,550	6,242	6,088	-	(2,856)	3,232
Thereafter	105,353	40,401				
Total	\$ 144,983	\$ 75,701	\$ 134,422	\$ 14,255	\$ (8,093)	\$ 140,584

2. NOTES PAYABLE

The following is a schedule of notes payable outstanding at June 30, 2001 (expressed in thousands):

Description	Maturity Date	Interest Rate (%)	Balance 6/30/01
<i>General Long-Term Debt Account Group:</i>			
Job Service	2002-2006	7.90-9.00	\$ 319
<i>Enterprise Funds:</i>			
Bank of North Dakota	2002-2020	3.00-7.35	254,439
Mill and Elevator	2002-2006	6.90	6,800
<i>Internal Service Funds:</i>			
Information Technology	2003-2004	5.25-6.64	2,670
University System	2002-2011	5.52-8.30	3,505
Total Primary Government			\$267,733

Debt service requirements to maturity for notes payable for the fiscal years ending June 30 are summarized below (expressed in thousands):

Fiscal Year	Principal	Interest
2002	\$ 13,185	\$ 15,296
2003	26,784	14,743
2004	14,973	14,158
2005	15,677	12,818
2006	23,749	12,352
Thereafter	173,365	86,132
Total	\$ 267,733	\$ 155,499

Changes in General Long-Term Debt Account Group

Changes in General Long-Term Debt Account Group for the year ended June 30, 2001, were (expressed in thousands):

Compensated Absences at June 30, 2001, were approximately \$24,940,000, a net increase of \$1,590,000 from the June 30, 2000, balance of approximately \$23,350,000

3. DEFEASED DEBT

Primary Government

Student Loan Trust

On June 12, 1997, the Trust deposited \$9,103,789 with an escrow agent to provide for all future debt service payments on the 1992 Series A Bonds. As a result, \$8,790,000 of the 1992 Series A Bonds were considered to be defeased and the liability for those bonds is not reflected in the State's financial statements. At June 30, 2001, \$710,000 of bonds outstanding are considered defeased.

Housing Finance

Previous to July 1, 1999, Housing Finance defeased certain general obligation bonds by placing bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State's financial statements. At June 30, 2001, \$10,920,000 of bonds outstanding are considered defeased.

University System

Mayville State University

On July 1, 1998, Mayville State University issued \$695,000 of Student Center Refunding Revenue Bonds (Series 1998) with an average interest rate of 4.40%. These bonds were used to advance refund \$640,000 of outstanding 1989 Student Center Revenue Bonds (with an average interest rate of 7.40%). The net proceeds of \$666,673 (after payment of \$28,327 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government Securities. Those securities are deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1989 Student Center Revenue Bonds. As a result, the 1989 bonds are considered to be defeased and the liability for those bonds has been removed from the balance sheet.

State of North Dakota

The University advance refunded the bonds to reduce its total debt service payments over the next ten years by approximately \$77,000 and to obtain an economic gain (difference of the present values of the debt service payments on the old and new debt) of \$59,500. The principal amount outstanding as of June 30, 2001, of the original bonds refunded by the advance refunding of 1998 totaled \$510,000.

Minot State University

On June 2, 1992, Minot State University placed the proceeds of the \$2,620,000 Student Housing Revenue Refunding Bonds of 1992 in an irrevocable trust with an escrow agent to provide for future debt service payments of the existing revenue bonds. The purpose of the 1992 Bonds was to refund in advance of maturity the 1966 Student Union Construction and Refunding Bonds and the 1985 Student Housing Revenue Bonds. As a result, the trust account assets and the liabilities for the defeased bonds are not included in the State's financial statements.

The principal amount outstanding as of June 30, 2001, of the original bonds refunded (considered defeased) by the advance refunding total \$245,000.

University of North Dakota

On January 1, 1998, the University of North Dakota issued \$22.6 million of Housing and Auxiliary Facilities Improvement and Refunding Revenue Bonds (Series 1998 A) with an average interest rate of 4.70%. These bonds were used to advance refund \$20.4 million of outstanding 1988 Series A and B Housing and Auxiliary Facilities Refunding Revenue Bonds (with an average interest rate of 7.50%) and to provide \$450,000 for parking lot construction at the Rural Technology Center. The net proceeds of \$21.6 million (after payment of \$387,000 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government Securities. These securities are deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1988 Series A and B Bonds. As a result, the 1988 Series A and B Bonds are considered to be defeased and the liability for those bonds has been removed from the balance sheet. The principal amount outstanding as of June 30, 2001, of the original bonds refunded by the advanced refunding of 1998 totaled \$17,815,000.

Housing and Auxiliary Revenue Refunding Bonds Series 1984 A, which were included in the advance refunding of 1985, as described above, were originally issued in 1984 for the purpose of advance refunding certain outstanding bonds (Series I through Series N). The principal amount outstanding as of June 30, 2001, of the original bonds refunded by the advance refunding of 1984 totaled \$1,245,000.

Housing and Auxiliary Revenue Bonds Series I and Series J, which were included in the advance refunding

of 1984 as described above, were originally issued in 1975 for the purpose of advance refunding certain outstanding bonds of the university. The principal amount outstanding as of June 30, 2001, of the original bonds refunded by the advance refunding of 1975 totaled \$1,240,000.

All of the refunded bonds are considered "defeased" and have debt service needs covered by U.S. Government securities which are held in a special trust administered by the Bank of North Dakota. As such, neither the assets of the trust nor the related bonds payable are included in the accompanying balance sheet.

Certificates of Participation totaling \$20,450,000 were originally issued by UND in 1990 to: (1) reimburse the University for certain expenses incurred for capital improvements; (2) refinance the costs of certain equipment; and (3) finance the acquisition of certain equipment and real property, to fund a reserve, and to pay the costs of issuance. Subsequent to this issuance, the Legislative Assembly, in House Bill 1003, directed the University to retire those certificates originally issued for the acquisition of certain equipment and real property and to fund a reserve. Therefore, in December 1991, \$6,025,000 in certificates were defeased. The principal amount outstanding as of June 30, 2001, of the defeased certificates totals \$2,960,000.

North Dakota State University

The North Dakota State University, pursuant to resolutions adopted by the Board of Higher Education on November 7, 1985, issued \$4,833,813 of Housing and Auxiliary Facilities Revenue Refunding Bonds (Series 1985) on December 30, 1985. The purpose of issuing Series 1985 bonds was to refund in advance of maturity the outstanding advanced refunded bonds, which consisted of all bonds outstanding as of December 30, 1985, totaling \$7,675,000. The Series 1985 Bonds do not pay the holder interest but were sold at a discount so that principal payments will yield a return to maturity from 8.20% to 9.70%. All of the refunded bonds are considered "defeased" in accordance with Financial Accounting Standards Board Statement No. 76. As such, neither the assets of the trust nor the related bonds payable are included in the accompanying balance sheet. The principal amount outstanding as of June 30, 2001, of the original bonds refunded by the advance refunding total \$1,395,000.

The University, pursuant to resolutions adopted by the Board of Higher Education on June 4, 1992, issued \$8,810,000 of Housing and Auxiliary Facilities Revenue Refunding Bonds (Series 1992) on June 23, 1992. The purpose of issuing the Series 1992 Bonds was to refund in advance of maturity the outstanding advanced refunding bonds, Series 1985. The proceeds of the Series 1992 bond issue were irrevocably deposited in an escrow account to provide for all debt service payments after the "crossover date". This crossover refunding issue retired the outstanding Series 1985 bond issue

(\$8,071,500) on the "crossover date" of April 1, 1996. Therefore, only the 1992 issue is included in the financial statements at June 30, 2001.

The University, pursuant to resolutions adopted by the Board of Higher Education on February 15, 1996, issued \$1,175,000 of Housing and Auxiliary Facilities Revenue Bonds (Series 1996 A) on March 13, 1996. The purpose of issuing the Series 1996 A Bonds was to advance refund a portion (\$980,000) of the Series 1988 Housing and Auxiliary Facilities Revenue Bonds. The portion of the Series 1988 Bonds advance refunded represents the bonds maturing April 1, 2004 through 2008. The proceeds of the Series 1996 A issue were irrevocably deposited in an escrow account to provide for all debt service payments after the April 1, 2003, crossover date. The Series 1988 Bonds are callable at the option of the Board on or after April 1, 2006. The portion of the Series 1988 Bonds that are advance refunded are considered "defeased" in accordance with Financial Accounting Standards Board Statement No. 76. As such, neither the assets of the escrow account nor the related bonds payable (i.e., the advance refunded portion of the Series 1988 Bonds) are included in the accompanying balance sheet. As of June 30, 2001, the principal amount outstanding of the advance refunded portion of the Series 1988 Bonds is \$980,000. As of June 30, 2001, the portion of the Series 1988 Bonds that were not advance refunded by the Series 1996 A Bonds is reported in the State's balance sheet in the amount of \$300,000.

North Dakota State College of Science

On June 20, 2001, North Dakota State College of Science issued \$2,785,000 of Housing and Auxiliary Facilities Improvement and Refunding Revenue Bonds (Series 2001) with an average interest rate of 4.92%. These bonds were used to (1) refund, defease and discharge outstanding North Dakota State School of Science Married Student Housing Revenue Bonds 1970 at 7.0% and 7.25%, Dormitory Revenue Bonds of 1970 at 7.25% and Dormitory Revenue Bonds of 1972 at 6.3%. Funds were deposited in a trust account with an escrow agent to provide for all future debt service payments for the above bonds; (2) finance the cost of the construction of the parking lot and related improvements at the College; and (3) to pay certain costs associated with the issuance of the Series 2001 bonds.

As a result of this issue, trust account assets and liabilities for the defeased bonds are not included in the North Dakota State College of Science financial statements. The project costs for the parking lot and related improvements were set at \$1,000,000. The College, through this bond issue, will realize an economic gain of \$53,210 and reduce its total debt service payments by \$35,680 on the \$1,634,000 original principal amount outstanding as of June 30, 2001.

Component Units

Municipal Bond Bank Bonds

On July 9, 1998, the Bond Bank issued \$6,685,000 (Series 1998 B Bonds) with an average interest rate of 4.79%. The bonds were used to advance refund all or portions of \$6,314,000 of callable outstanding 1991 Series E and I Bonds and 1992 Series C, E, and F with an average interest rate of 8.56%. The last bonds mature June 1, 2012, and the last bonds are callable on June 1, 2001. The net proceeds of \$6,525,000 (after payment of \$160,000 in underwriting fees and other issuance costs allocated) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. The advance refunding met the requirements of an in-substance debt defeasance and the liability for those bonds is not reflected on the State's financial statements.

At December 31, 2000, \$2,010,000 of bonds outstanding are considered defeased.

In April 1999, the Bond Bank issued \$10,285,000 (Series A and B Bonds) with an average interest rate of 8.54%. The bonds were used to advance refund all or portions of \$8,710,000 of callable outstanding 1989 Series A and B Bonds with an average interest rate of 10.48%. The refunding resulted in a difference between the acquisition price and the net carrying amount of the old debt of approximately \$48,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations over the next fifteen years using the bonds outstanding method. The Bond Bank refunded the bonds to decrease its total scheduled debt payments by approximately \$1,360,000 and to achieve an economic gain (difference between the present values of the scheduled debt service payments on the old and new debt) of approximately \$830,000 over the next fifteen years.

K. ARBITRAGE REBATE PAYABLE

Arbitrage as it applies to government financing refers to the ability of state governments to obtain funds at a tax-exempt rate of interest and to then invest those funds in investments which earn a higher yield, resulting in a profit to the issuer.

The arbitrage rebate rules require that any earnings from the investment of the tax-exempt bond proceeds which exceed the yield on the bonds be remitted to the federal government.

The State has an arbitrage rebate payable to the federal government of approximately \$12,173,520 at June 30, 2001. These amounts are reported in the General Long-Term Debt Account Group and Enterprise Funds as an intergovernmental payable.

State of North Dakota

NOTE 5 - CONTRIBUTED CAPITAL RECONCILIATION

Changes in contributed capital for the year ended June 30, 2001, were (expressed in thousands):

	Enterprise	Internal Service	Component Units	Total
Contributed Capital, June 30, 2000	\$ 21,960	\$ 21,362	\$ 1,285	\$ 44,607
Additions	-	-	-	-
Deletions	-	-	-	-
Contributed Capital, June 30, 2001	<u>\$ 21,960</u>	<u>\$ 21,362</u>	<u>\$ 1,285</u>	<u>\$ 44,607</u>

NOTE 6 - RETAINED EARNINGS/FUND EQUITY - SPECIFIC RESERVES

Certain fund equity reserves presented in the accompanying financial statements as of June 30, 2001, as Reserved for Other Specific Purposes are further detailed as follows (expressed in thousands):

1. RETAINED EARNINGS: RESERVED FOR

Primary Government:	Enterprise
Capital Growth (Bank Of North Dakota)	\$ 42,000
Debt Service And Arena Expansion (State Fair)	289
Debt Service On Mortgage Loans (Housing Finance)	35,496
Health Insurance Premiums Buydown (PERS Uniform Group Insurance)	1,771
Political Subdivision Water Facilities (Community Water Facilities)	6,830
Loans to Beginning Farmers (Beginning Farmer)	10,189
Loans for Developmentally Disabled Facilities (Developmentally Disabled Facility)	1,418
Other (Student Loan) (1)	74,415
Unpaid Loss On Estimated Claims (Workers Compensation)	250,000
Total	<u>\$ 422,408</u>

- (1) For: -Acquisition of new and existing student loans
 -Repayment of bond interest and principal
 -Meet estimated operating expenses of the trust for the next three years
 -Surplus account

Component Units:

Component Units:	Enterprise
Equity Investments, Loans, Grants And Guaranty Of Collections (North Dakota Development Fund, Inc.)	\$ 2,519
Contingencies (Comprehensive Health Association)	1,608
Debt Service or Purchase Of Municipal Securities (Municipal Bond Bank)	92,646
Total	<u>\$ 96,773</u>

2. FUND BALANCES: RESERVED FOR OTHER

	General Fund	Special Revenue	Trust And Agency	University System
Inventory	\$ 894	\$ 5,614	\$ -	\$ -
Long-Term Receivables	718	91,338	-	-
Legal Requirements	-	10,706	607,439	-
Pension Benefits	-	-	2,543,448	-
Post-Employment Healthcare Benefits	-	-	24,664	-
External Pool Participants	-	-	35,436	-
Prepaid Expenditures	-	931	-	-
Federal Loan Funds	-	-	-	35,196
Institutional Restricted	-	-	-	6,290
Agri. Experiment Station	-	-	-	1,248
Coop. Extension Service	-	-	-	298
Restricted Gift Pool	-	-	-	702
Institutional Loan	-	-	-	10,037
Endowment Restricted	-	-	-	12,202
Quasi Endowment Restricted	-	-	-	63
Institutional Unexpended Plant	-	-	-	6,514
Retirement of Debt/Repair & Replacement	-	-	-	10,469
Total	<u>\$ 1,612</u>	<u>\$ 108,589</u>	<u>\$ 3,210,987</u>	<u>\$ 83,019</u>

3. FUND BALANCE: UNRESERVED - DESIGNATED FOR OTHER

	Special Revenue	Trust And Agency
Trust Purposes	\$ -	\$ 8,452
Fund Activities	4	-
Patients Welfare	713	-
PACE Fund Activity	3,461	-
Total	\$ 4,178	\$ 8,452

NOTE 7 - DEFICIT FUND EQUITY

RISK MANAGEMENT

At June 30, 2001, Risk Management had a deficit of \$740,177. The 2001 Legislature has authorized Risk Management to assess premiums to state agencies during the 2001-2003 biennium. This should result in \$3.6 million in revenue over the next two years.

NOTE 8 - RETIREMENT SYSTEMS

A. DESCRIPTION OF PLANS

The State of North Dakota administers four major retirement systems: North Dakota Public Employees' Retirement System, North Dakota Highway Patrolmen's Retirement System, Retirement Plan for the Employees of Job Service North Dakota and the Teachers' Fund for Retirement. The State also administers the North Dakota Defined Contribution Retirement Plan, which was established January 1, 2000. These retirement systems have implemented Governmental Accounting Standards Boards Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and Statement No. 27, Accounting for Pensions by State and Local Governmental Employers. Certain state employees may also participate in a privately administered retirement system: Teachers' Insurance Annuity Association. The following is a brief description of each plan. More detailed information can be found in the plan agreements and the related legislation.

NORTH DAKOTA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

The North Dakota Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan covering substantially all employees of the State of North Dakota, its agencies, and various participating political subdivisions (Main System). It also covers Supreme and district court judges and the National Guard Security Officers and Firefighters. It is not subject to the provisions of the Employee Retirement Security Act of 1974. PERS issues a publicly available financial report that may be obtained by writing to North

Dakota Public Employees Retirement System, 400 East Broadway, Suite 505, Bismarck, North Dakota 58501.

At June 30, 2001, the number of participating local political subdivisions in PERS was:

Cities and Park Districts	59
Counties	41
School Districts	81
Other	49
Total Participating Local Political Subdivisions	230

Death and disability benefits are set by statute. If an active employee dies with less than five years (three years of service for the Main System and National Guard) of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than five years of credited service (three years of service for the Main System and National Guard), the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employees' accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

For judges only, the death benefit is changed to the greater of (i) lump sum payment of accumulated contributions, and (ii) 100% of the member's accrued benefit (not reduced on account of age), payable for the spouse's lifetime.

Eligible employees who become totally disabled after a minimum of 180 days of service receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for "disabled" is set by the Board in the North Dakota Administrative Code.

For Judges only, the disability benefit formula is changed to 70% of final average salary minus social security and workers compensation benefits.

Pension benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. (Effective August 1, 2001, there is an addition of ad hoc post-retirement increases for retirees, disableds, and beneficiaries equal to 6% for the Main System and National Guard, and two ad hoc post-retirement increases for retirees and

State of North Dakota

beneficiaries for judges equal to 2% beginning January 1, 2002, and January 1, 2003.) Employees are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equals or exceeds 85 or at normal retirement age (65), equal to 1.89% (2.00% effective August 1, 2001) of their final average salary for each year of service. The plan permits early retirement at ages 55-64, with three or more years of service for the Main System and National Guard, and five or more years of service for the Supreme and district court judges. The monthly pension benefit for Supreme and district court judges at normal retirement age (65) is equal to 3.5% of final average salary multiplied by the first 10 years of service, plus 2.80% of final average salary times the second 10 years of service, plus 1.25% of final average salary times years of service in excess of 20 years. The judicial retirement formula is only applied to eligible judicial service. Non-judicial service benefits are calculated using the 1.89% multiplier (2.00% effective August 1, 2001). The monthly pension benefit for security officers or firefighters at normal retirement age (55) is equal to 1.89% (2.00% effective August 1, 2001) of the final average salary for each year of service with three years served as a security officer or firefighter.

Employees may elect to receive the pension benefits in the form of a single life, joint and survivor, level social security or term-certain annuity. Employees may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the employee's accumulated contributions plus interest.

The System is funded by employee contributions (set by statute) of 4% of regular compensation, with the exception of Supreme and district court judges' contributions, which are established at 5% of total compensation. During the 1983-1985 biennium, the State implemented the employer pickup provision of the IRS code, whereby a portion or all of the required employee contributions are made by the employer. The State is paying the full employee contribution with the exception of the Supreme and district court judges, in which the State is paying 4 of the 5% contribution. Some of the political subdivisions are paying all or part of the employee contributions. Employer contributions of 4.12% of covered compensation are set by statute. The employer contribution rate for the Supreme and district court judges is also set by statute at 14.52%, and the contribution rate for the National Guard security officers and firefighters is set by the Board at 8.33%. The required contributions are determined using an entry age normal actuarial funding method.

Effective January 1, 2000, except for Supreme and district court judges, the employees' account balance includes the vested employer contributions equal to the employee's contributions to an eligible deferred compensation plan.

The minimum member contribution is \$25, and the maximum may not exceed certain parameters based upon years of service.

The North Dakota Retirement Board was created by the State Legislature and is the governing authority of PERS. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code.

NORTH DAKOTA HIGHWAY PATROLMEN'S RETIREMENT SYSTEM (NDHPRS)

The North Dakota Highway Patrolmen's Retirement System is a single-employer defined benefit pension plan covering substantially all sworn officers of the Highway Patrol of the State of North Dakota. It is not subject to the provisions of the Employee Retirement Income Security Act of 1974. NDHPRS issues a publicly available financial report that may be obtained by writing to North Dakota Public Employees Retirement System, 400 East Broadway, Suite 505, Bismarck, North Dakota 58501.

Death and disability benefits are set by statute. If an active employee dies with less than 10 years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than 10 years of credited service, the surviving spouse, if any, will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50 percent of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 55 the day before death occurred. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to any designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days service receive monthly disability benefits that are up to 70 percent of their final average salary, reduced by workers compensation with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled and apply for benefits within one year of termination.

Pension benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees are entitled to unreduced pension benefits after a minimum of 10 years of service upon attainment of age 55 or when the sum of age and years of credited service equals or exceeds 80. The annual pension benefit is equal to a percentage of average monthly salary using the highest 36 consecutive months out of the last 120 months of service. The percentage is equal to the sum of the first 25 years of service multiplied by 3.40% (3.60% effective August 1, 2001) and 1.75% multiplied by years

of service in excess of 25, if any. The plan permits early retirement at ages 50-54, with ten or more years of service.

The System is funded by employee contributions of 10.30% (of which the State is paying 4%) of total compensation and an employer contribution of 16.70%. The required contributions are determined using an entry age normal cost method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDHPRS. Benefit and contribution provisions are administered in accordance with chapter 39-03 of the North Dakota Century Code.

REFUNDS OF MEMBER CONTRIBUTIONS

Upon termination, if an employee is not vested (is not 65 or does not have five years of service [three years of service for the Main System and National Guard] credited for PERS, or is not 60 or does not have ten years of service credited for NDHPRS), they will receive the accumulated employee contributions plus interest. If an employee has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If an employee of the PERS terminated and withdrew their accumulated employee contribution and is subsequently re-employed, they have the option of repurchasing their prior service.

RETIREMENT PLAN FOR THE EMPLOYEES OF JOB SERVICE NORTH DAKOTA (JSND)

The retirement plan for employees of Job Service North Dakota is a single-employer defined benefit public employee retirement plan. Previous to September 30, 1993, this plan was funded with the Travelers Insurance Company under Group Annuity Contract GR-600. Effective October 1, 1993, the deposit administration fund was terminated and Group Guaranteed Benefit Contract GR-16312 was in effect. Job Service North Dakota issues a publicly available financial report that may be obtained by writing to Job Service North Dakota, 1000 East Divide Avenue, Bismarck, North Dakota 58501.

Participation in the plan is limited to employees participating in the plan as of September 30, 1980. Employees were vested in the program after the completion of five years of credited service.

The plan provides retirement, disability and death benefits. If the death of a participant occurs prior to his/her annuity starting date, the surviving spouse who has been married at least two years prior to the participant's death or, if married less than two years is a parent of a child of this marriage, then the spouse shall receive monthly benefits. The amount is the greater of the benefit had the participant retired on the day before he/she died and elected the Contingent Annuitant Option with 55% of his/her retirement benefit continued to his/her spouse or 55% of the smaller of 40% of the deceased participant's average monthly earnings or the deceased participant's normal retirement benefit obtained by

increasing their credited service by the period of time between their date of death, and the date they would have attained age 60. Upon remarriage of the surviving spouse before age 60, the death benefit will cease.

If a participant becomes totally disabled, they will be eligible for a monthly disability benefit which shall be equal to the greater of 40% of the participant's average annual earnings or the accrued benefit determined as of their date of disability.

Employees are entitled to annual pension benefits beginning at normal retirement age (65). Employees may elect an optional retirement eligibility at age 62 with 5 years of credited service, at age 60 with 20 years of credited service, or at age 55 with 30 years of credited service. Pension benefits are calculated based on the final average earnings (basic monthly earnings averaged over the highest three consecutive years of basic earnings) of the employee multiplied by the sum of:

- 1.5% times years of credited service up to 5 plus;
- 1.75% times years of credited service between 6 and 10 plus;
- 2.0% times years of credited service in excess of 10.

The System is funded by employee contributions of 7% of retirement wages (of which 4% is paid by the employer in lieu of salary increases). The required employer contributions are determined using an entry age actuarial funding method. Benefit and contribution provisions of the JSND are administered in accordance with chapter 52-11 of the North Dakota Century Code.

TEACHERS' FUND FOR RETIREMENT (TFFR)

The North Dakota Teachers' Fund for Retirement is a cost-sharing multiple-employer defined benefit pension plan covering employees for all public and certain college, State and non-public teachers of the State who meet certain requirements of age, period of productive service and employment. TFFR provides for pension, survivor and disability benefits. Teachers' Fund for Retirement issues a publicly available financial report that may be obtained by writing to the Retirement and Investment Office, 1930 Burnt Boat Drive, Bismarck, North Dakota 58503.

At June 30, 2001, the number of participating employer units in TFFR was:

<u>Type</u>	<u>Number</u>
Special Education Units	19
Vocational Education Units	4
Public School Districts	228
County Superintendents	16
Other	17
Total	<u>284</u>

State of North Dakota

A member is entitled to receive full benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 1.88% (2.00% effective July 1, 2001) times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, five- or ten-year term certain annuity, or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas and may be eligible for legislative increases in monthly benefits.

Survivor benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are determined by the member's vesting status prior to death. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting twelve months or more does not allow the continuation of teaching, (b) the member has accumulated one year of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC 15-39.1-10 without consideration of age and assuming the member has a minimum of 20 years of credited service. There is no actuarial reduction for reason of disability retirement.

Assessments and contributions paid to TFFR are set by NDCC 15-39.1-09. Every eligible teacher in the state of North Dakota is required to be a member of TFFR and is assessed at a rate of 7.75% of salary as defined by NDCC 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 7.75% of the teacher's salary. Based on an annual actuarial valuation, TFFR is effectively providing for the normal cost of TFFR's participants plus amortizing the unfunded liability over approximately a 20-year period.

A vested member who terminates covered employment may elect a refund of assessments paid or defer payment until eligible for pension benefits. A nonvested member who terminates covered employment must claim a refund of assessments paid unless that member

submits a valid waiver of this refund to the Board of Trustees of TFFR. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

The following table summarizes membership information by plan at the actuarial valuation date:

	PERS	NDHPRS	JSND	TFFR
Retirees and Beneficiaries Currently Receiving Benefits:	4,938	81	205	4,777
Special Prior Service Retirees:	137	-	-	-
Terminated Employees:				
Vested	400	1	5	1,183
Nonvested	2,730	-	-	213
Total Terminated Employees	3,130	1	5	1,396
Active Employees:				
Vested	12,292	71	85	8,772
Nonvested	4,464	53	-	1,467
Total Active Employees	16,756	124	85	10,239
Date of Annual Valuation	July 1, 2001	July 1, 2001	July 1, 2001	July 1, 2001

The above table includes retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

BASIS OF ACCOUNTING

The public employee retirement systems described above are considered part of the State of North Dakota's reporting entity and are included in the State's financial statements as pension trust funds. The financial statements of these systems are prepared using the accrual basis of accounting. Employee contributions are recognized as revenues in the period in which they are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contribution. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

METHOD USED TO DETERMINE EMPLOYER CONTRIBUTIONS

Employer contributions for the PERS, NDHPRS and JSND were determined by an actuarial formula identified

as entry age normal cost method. The formula determines the amount of contributions necessary to fund: (a) the current service cost, which represents the estimated amount necessary to pay for benefits earned by employees during the current service year and, (b) the prior service cost, which represents the amount necessary to pay for benefits earned prior to the effective date of the plan.

METHOD USED TO VALUE INVESTMENTS

Investments are recorded at fair value determined by reference to published market data for publicly traded securities and through the use of independent valuation services and appraisals for other investments. The net increase in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment. Unrealized increases or decreases are computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

During the current year, there were no investments in the stock or bonds of any commercial or industrial organization whose fair value represented five percent or more of the net assets available for benefits. JSND pension plan assets include Guaranteed Investment Contract, which comprises approximately 11.31 percent of the total assets. Additionally, there were no securities of the employers or related parties included in the assets of the pension trust funds.

Investments of PERS and NDHPRS are commingled and invested. Earnings on the investments and expenses relating to administering the plans are allocated to each plan based upon their percentage of ownership or number of participants.

The Retirement Plan for Employees of Job Service North Dakota Pension Trust Fund was funded under a deposit administration contract with Travelers Insurance Company (Travelers) until September 30, 1993, and was valued at contract value.

Effective October 1, 1993, the deposit administration fund was terminated and Group Guaranteed Benefit Contract GR-16312 was in effect. Funds transferred from the deposit administration fund to the new contract were \$33,712,261 on October 1, 1993. Contract value represents the balance of the fund not yet transferred to the Agency, plus interest of 6.45 percent, less funds used to purchase cost-of-living annuities for retirees prior to October 1, 1993, and pay administration expenses charged by the Travelers. Contract value was \$8,689,258 at June 30, 2001.

On March 14, 1994, the Plan Administrator/Trustee for the Retirement Plan for Employees of Job Service North Dakota entered into an investment management agreement with the North Dakota State Investment Board. This agreement provided for investment management services for pension fund assets not held by the Travelers. Fair value of investments with SIB at June 30, 2001, were \$62,133,933, which represents 87.79% of net plan assets.

C. FUNDING STATUS AND PROGRESS

The actuarial methods and assumptions together with the schedule of funding progress is presented by the retirement systems in their separately presented financial reports based upon the actuary reports generated by the studies conducted by the Segal Company and Wyatt Company. The actuarial value of assets is based on a five-year smoothed fair value basis. Under this method, realized and unrealized gains and losses on investments are smoothed over five years. Below is listed the various actuarial methods and significant assumptions used to determine the annual required contributions, together with the schedule of funding progress.

	PERS NDHPRS	JSND	TFFR
	July 1, 2001	July 1, 2001	July 1, 2001
Valuation Date	July 1, 2001	July 1, 2001	July 1, 2001
Actuarial Cost Method	Entry Age Normal	Frozen Entry Age***	Entry Age Normal
Amortization Method	Level Percent	Level Dollar	Level Payment
	Open	Closed	Open
Remaining Amortization Period	20 years	15 years	20 years**
Asset Valuation Method	5-year smoothed market	5-year smoothed market	5-year smoothed market
Actuarial Assumptions:			
Investment rate of return	8.0%	8.0%	8.0%
Projected salary increase	4.5%*	5.0%	4.0% to 13.0%
Includes inflation at	4.5%	5.0%	3.0%
Post retirement cost-of-living adjustment	None	5.0%	None

State of North Dakota

* Inflation together with wage increases attributable to seniority, merit and "standard of living" increases.

** Statutory 7.75% employer contribution rate produces 3.2 years funding period.

*** As of July 1, 2000, the actuarial value of assets exceeds the present value of projected benefits; therefore, the unfunded actuarial accrued liability is currently zero.

Schedule of Funding Progress (Dollars in Millions)

Actuarial Valuation Date	Actuarial Value Of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Liability (UAAL) (Funded Excess)	Funded Ratio	Annual Covered Payroll	UAAL (Funded Excess) As A Percentage Of Annual Covered Payroll
PERS						
July 1, 1996	\$ 621.7	\$ 597.9	\$ (23.8)	104.0%	\$ 345.3	(6.9)%
July 1, 1997	704.5	646.9	(57.6)	108.9%	359.0	(16.0)%
July 1, 1998	801.3	720.1	(81.2)	111.3%	379.0	(21.4)%
July 1, 1999	917.0	842.7	(74.3)	108.8%	397.7	(18.7)%
July 1, 2000	1,027.0	891.9	(135.1)	115.1%	409.0	(33.0)%
July 1, 2001	1,115.3	1,008.6	(106.7)	110.6%	433.3	(24.6)%
NDHPRS						
July 1, 1996	\$ 22.2	\$ 23.8	\$ 1.6	93.3%	\$ 3.8	42.1%
July 1, 1997	24.9	27.5	2.6	90.5%	4.2	61.9%
July 1, 1998	28.1	28.9	.8	97.2%	4.3	18.6%
July 1, 1999	32.0	32.2	.2	99.4%	4.5	4.4%
July 1, 2000	35.9	34.0	(1.9)	105.6%	4.7	(40.4)%
July 1, 2001	38.8	38.1	(0.7)	101.8%	4.9	(14.3)%
JSND						
July 1, 1996	\$ 46.1	N/A*	\$ 1.9	N/A	\$ 4.9	38.5%
July 1, 1997	51.0	N/A	-	N/A	4.7	0.0%
July 1, 1998	61.7	N/A	-	N/A	4.3	0.0%
July 1, 1999	66.6	N/A	-	N/A	4.0	0.0%
July 1, 2000	71.0	N/A	-	N/A	3.7	0.0%
July 1, 2001	70.8	N/A	-	N/A	3.5	0.0%
TFFR						
July 1, 1996	\$ 733.3	\$ 851.6	\$ 118.3	86.1%	\$ 281.2	42.1%
July 1, 1997	823.4	977.1	153.6	84.3%	294.1	52.2%
July 1, 1998	928.0	1,033.0	105.0	89.8%	298.4	35.2%
July 1, 1999	1,053.1	1,188.4	135.3	88.6%	314.6	43.0%
July 1, 2000	1,308.5	1,287.9	(20.6)	101.6%	323.0	(6.4)%
July 1, 2001	1,414.7	1,467.7	53.0	96.4%	342.2	15.5%

*The Frozen Initial Liability method does not directly identify an Actuarial Accrued Liability.

D. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Employer contribution rates for PERS, NDHPRS and JSND are set by state statute using the entry age normal actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost, (2) an amount for amortization of the unfunded accrued liability over a period of 20 years for PERS and NDHPRS and 30 years for JSND, and (3) the amount necessary to provide for operating expenses. For JSND the entire employer contribution requirement is to cover the current amortization of the Initial Actuarial Accrued Liability with none being applied for normal costs. In determining funding requirements, the actuary uses the same actuarial assumptions as those used to calculate the actuarial accrued liability.

The contribution rate is not actuarially determined for TFFR; it is set by statutory law under the North Dakota Century Code 15-39.1-09. It is required that every eligible teacher be a member of the Fund and assessed at a rate of 7.75 percent of gross salary and that every governmental body employing a teacher pay into the plan a sum equal to 7.75 percent of the teacher's salary.

Based on an actuarial valuation, the plan is effectively providing for the normal cost plus amortizing the unfunded liability over approximately a 20-year period.

The following schedule presents, by retirement system, annual required contributions and the percentage contributed:

Schedule of Employer Contributions

		Annual Required Contribution	Percentage Contributed
PERS			
1999	\$	9,698,810	100%
2000		13,457,783	100%
2001		9,642,770	100%
TFFR			
1999	\$	24,257,091	100%
2000		25,527,734	100%
2001		26,289,206	100%

For NDHPRS and JSND, sole employer plans, the following schedule represents the annual pension costs and net pension obligations for the year ended June 30, 2001:

	NDHPRS	JSND
Annual required contributions	\$ 420,601	\$ -
Interest on net pension obligations	(16,664)	(134,693)
Adjustment to annual required contributions	14,538	138,477
Annual pension costs	418,475	3,784
Contributions made	788,125	-
Increase in net pension obligations	(369,650)	3,784
Net pension obligations, beginning of year	(208,303)	(1,683,662)
(Assets in excess of) net pension obligations, end of year	\$ (577,953)	\$ (1,679,878)

The following schedule presents the annual pension costs, the percentages contributed, and the net pension obligations:

		Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligations
NDHPRS				
1999	\$	521,216	100%	\$ -
2000		532,786	139%	(208,303)
2001		420,601	187%	(577,953)
JSND				
1999	\$	1,299	85,513%	\$ (1,687,455)
2000		3,793	0%	(1,683,662)
2001		3,784	0%	(1,679,878)

E. DEFINED CONTRIBUTION PLAN

The North Dakota Defined Contribution Retirement Plan was established on January 1, 2000, and is administered in accordance with chapter 54-52.6 of the North Dakota Century Code. The Defined Contribution Plan covers state employees who are in positions not classified by the central personnel division of the State. Employees of the judicial branch or the Board of Higher Education and state institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Defined Contribution Plan. The Defined Contribution Plan had 266 participants as of June 30, 2001.

Upon the death of a participating employee or former participating employee, the vested account balance of that deceased participant is available to the participant's designated beneficiary(ies). An employee who becomes totally and permanently disabled while employed by the State is eligible to receive a distribution of the vested account balance. To qualify under this section, the employee must meet the criteria established by the System for being totally disabled.

Employees are entitled to their vested account balance. A participating employee is immediately 100% vested in the employee's contributions. A participating employee vests in the employer contributions made on the employee's behalf as follows:

Upon completion of two years of service	50%
Upon completion of three years of service	75%
Upon completion of four years of service	100%

Employees may elect to receive their account balance in a lump sum, lump sum direct rollover, or periodic distribution.

Contributions are set by state statute and are a percentage of salaries and wages. Employee contributions are established at 4%, and employer contributions are established at 4.12% of regular compensation. Employer and employee contributions totaled \$394,746 and \$383,248, respectively, for the fiscal year ended June 30, 2001.

The Board, or vendors contracted by the Board, have exclusive authority to invest and manage the assets of the Defined Contribution Plan. State statute allows each participating employee to direct the investment of the individual's employer and employee contributions and earnings to one or more investment options within the available categories of investment as established by the Board. The following investments represent 5% or more of net plan assets at June 30, 2001:

Fidelity Growth Company Mutual Fund	20.15%
Fidelity Managed Income Portfolio Mutual Fund	19.29%
Fidelity Diversified International Mutual Fund	5.98%
Alger Small Cap Retirement Mutual Fund	7.27%
Fidelity Freedom 2020 Mutual Fund	9.69%
Fidelity Spartan 500 Index Mutual Fund	8.40%
Fidelity Freedom 2010 Mutual Fund	8.40%
Fidelity Equity Income Mutual Fund	8.07%
Pimco Total Return Admin. Mutual Fund	5.34%

F. TEACHERS' INSURANCE ANNUITY ASSOCIATION

The Teachers' Insurance and Annuity Association (TIAA-CREF), a privately-administered defined contribution retirement plan, provides individual retirement fund contracts for eligible permanent employees as defined by the Board of Higher Education in its approved TIAA-CREF retirement resolution.

Employees are eligible for retirement benefits after attaining the age of 65, which is payable periodically for life. All benefits vest immediately to the participant. The plan requires employee and employer contributions be based on a classification system and years of service based on the schedule shown below.

Employment Class	Years Of Service	By The Participant	By The Institution	Total
I and III	0 thru 10	1.50%	9.50%	11.00%
	over 10	2.00%	10.00%	12.00%
II	0 thru 2	0.50%	4.50%	5.00%
	3 thru 10	1.50%	9.50%	11.00%
IV	over 10	2.00%	10.00%	12.00%
	0	1.00%	9.00%	10.00%

Plan contributions by participants will be deducted from salary payments, or if elected by the participant, will be made on a tax-deferred basis under an agreement for salary reduction executed in accordance with Section 414(h)(2) of the Internal Revenue Code. All contributions are applied as premiums to retirement annuity contracts owned by the participant. The State has no further liability once annual contributions are made. The State contributed \$14,408,261, which is the required contribution, for the fiscal year ended June 30, 2001.

NOTE 9 - POST-RETIREMENT BENEFITS

The Retiree Health Benefits Fund is administered by the North Dakota Retirement Board (the Board) to provide members receiving retirement benefits from the Public Employees Retirement System (which includes judges retired under NDCC 27-17), the Highway Patrolmen's Retirement System, the Defined Contribution Retirement Plan, and the Retirement Plan established by Job Service North Dakota a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. The Retiree Health Benefits Fund is advance-funded on an actuarially determined basis.

The employer contribution for the Public Employees Retirement System, the Highway Patrolmen's Retirement System, and the Defined Contribution Retirement Plan is set by state statute on an actuarially determined basis at one percent of covered compensation. The employer contribution for the Supreme and district court judges is three percent of covered compensation in order to extend this benefit to judges retired under NDCC 27-17. Job Service North Dakota reimburses the Retiree Health Benefits Fund monthly for credit received by members of the retirement program established by Job Service North Dakota. Employees participating in the retirement plan as part-time/temporary members are required to contribute one percent of their covered compensation to the Retiree Health Benefits Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund.

Retiree health benefits are set by state statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the Public Employees Retirement System (which includes judges retired under NDCC 27-17), the Highway Patrolmen's Retirement System, the Defined Contribution Retirement Plan, or the Retirement Plan established by Job Service North Dakota, are eligible to receive credit toward their monthly health insurance premium under the state health plan. The benefits are equal to \$4.50 for each of the employee's years of credited service not to exceed the premium in effect for selected coverage. Total Job Service expenditures for their pay-as-you-go plan was \$198,447 for the period ending June 30, 2001. The number of employees from Job Service using the credit was 155 at June 30, 2001. The retiree health benefit is also available for early retirement with reduced benefits.

Death and disability benefits are set by state statute. An employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit, are eligible to receive a credit toward their monthly health insurance premium under the state health plan. The benefits are equal to \$4.50 for each of the employee's or deceased employee's years of credited

service, not to exceed the premium in effect for selected coverage.

Actuarial valuations of the Fund were done as of June 30, 2001. The actuarial cost method used is the Projected Unit Actuarial Credit Cost Method. The significant actuarial assumptions used to determine funding requirements are (a) a rate of return on the investment of present and future assets of 8.0 percent, (b) inflation at 4.50 percent per annum, (c) pre- and post-mortality life expectancies of participants based upon 1983 Group Annuity Mortality Tables and the PBGC's Disabled Life Mortality Tables, (d) rates of withdrawal from active service before retirement for reasons other than death, rates of disability, and expected retirement ages developed on the basis of actual plan experience, and (e) administrative expenses of \$65,000 per year. Plan assets are valued, for actuarial purposes, using a five-year smoothed market method.

The following are the changes in actuarial assumptions, asset method and plan experience, and the effect on the employer's contribution rates expressed as a percent of covered payroll and the dollar effect on the actuarial accrued liability. There were no plan amendments.

	As a Percentage of <u>Covered Payroll</u>	<u>Dollar Effect</u>
Changes in plan experienced during the year	(.03)%	\$ (134,138)

Employer contributions totaling \$4,191,541 were made for the year ended June 30, 2001. The actuarially required employer contribution of \$4,415,851 for the year ended June 30, 2001, is 0.98 percent of the covered payroll and reflects the fact that the statutory rate of one percent is sufficient to cover future costs of the Fund. At June 30, 2001, the cost of benefits incurred for the fund was \$3,598,019.

Employee membership is as follows:

Retirees receiving benefit	3,306
Active participants	<u>17,110</u>
Total Membership	<u>20,416</u>

According to the Projected Unit Credit Cost Method, the actuarial accrued liability and the unfunded actuarial accrued liability of the Retiree Health Benefits Fund are as follows:

Actuarial accrued liability	\$ 65,467,465
Net assets available for benefits, at actuarial value	<u>24,776,548</u>
"Unfunded" accrued liability	<u>\$ 40,690,917</u>

State of North Dakota

The fair value of the net assets available for benefits at June 30, 2001, is \$24,664,160.

NOTE 10 - DEFERRED COMPENSATION PLAN

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits them to defer a portion of their current salary until future years. Participation in the plan is optional. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

All compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are held in trust for the exclusive use of the employee or their beneficiary.

The related assets of the plan, held in trust, are reported at fair value as follows (expressed in thousands):

Plan Participation By:	
State of North Dakota	\$ 6,440
Other Jurisdictions	1,247
Total Value	<u>\$ 7,687</u>

NOTE 11 - PERS UNIFORM GROUP INSURANCE PROGRAM SURPLUS

The PERS Uniform Group Insurance Program, an enterprise fund, contracts with Blue Cross Blue Shield of North Dakota (BCBS) to provide health care insurance to the employees of the State of North Dakota, or any of its political subdivisions, institutions, departments or agencies. The contract provides for an accounting of premiums paid and claims incurred during the biennium, with any surplus shared according to a formula outlined in the contract. The surplus will be reduced by claims incurred during the biennium that are paid during the 24 months following the end of the biennium. Based on BCBS's accounting for the biennium ended June 30, 1999, the State's portion of the surplus was determined to be \$4.9 million. This amount was reduced by claims paid during the current fiscal year that were incurred in the 1997-99 biennium. The State used \$2.2 million and \$2.1 million of the accumulated surplus and earnings during the fiscal years 2001 and 2000, respectively, to reduce the premium rates. The accumulated surplus and other invested funds in the amount of \$698,748 is shown as cash on the State's balance sheet. These funds are being held by BCBS.

The contract for the 1999-01 biennium provides for a similar accounting of surplus balances. As of June 30, 2001, the surplus for the 2001 fiscal year is \$5.9 million.

This surplus is not reflected on the financial statements, as this is only an estimate and the amount will change based on claims paid throughout the life of the contract and 24 months following the end of the contract.

Similarly, the PERS Uniform Group Insurance Program contracts with ReliaStar Life Insurance Company to provide life insurance to the employees of the State of North Dakota or any of its political subdivisions, institutions, departments or agencies. The contract provides for an accounting of premiums paid and claims incurred during the biennium, with any surplus shared according to a formula outlined in the contract. Based on ReliaStar's final accounting for the 1999-2001 biennium, there is a surplus for this contract period of \$179,279. The surplus is used to fund rate reductions in the supplemental life program or provide benefit enhancements. The surplus is being held at ReliaStar and is earning interest based on a formula provided in the contract at a rate equal to three percent plus any additional interest as ReliaStar may declare from year to year. The surplus of \$179,279 is shown as cash on the State's balance sheet.

NOTE 12 - SEGMENT INFORMATION

The State groups its Enterprise Funds into several segments which include the following:

Primary Government

Bank of North Dakota was established for the purpose of promoting agriculture, commerce and industry in North Dakota. Business of the Bank may include anything that a bank lawfully may do, except as it may be restricted by the laws of the State.

Beginning Farmer Revolving Loan was established for the purpose of making loans to North Dakota beginning farmers for the purchase of agricultural real estate.

Bonding was established to provide fidelity bonding of public employees and officials.

Community Water Facility Loan was established to provide supplementary financing in conjunction with federal monies for the construction, enlargement, extension or other improvement of community water facilities.

Developmentally Disabled Facility Loan was established for the purpose of making loans to nonprofit corporations for project costs related to the establishment of facilities for developmentally disabled, chronically ill and physically disabled persons.

Fire and Tornado was established to provide property insurance to various State agencies and political subdivisions.

Guaranteed Student Loan was established to account for revenues and expenses associated with the admini-

stration, development, and operation of the guaranteed loan program.

Housing Finance provides assistance for North Dakotans in buying or renting decent, safe housing.

Mill and Elevator was created for the purpose of encouraging and promoting agriculture, commerce and industry by maintaining and marketing farm products.

PERS Uniform Group Insurance was established to provide employees of the State of North Dakota or any of its political subdivisions, institutions, departments, or agencies, economies of scale in purchasing health and life insurance.

Roughrider Industries was established to account for the revenues and expenses associated with the operation,

manufacture and sale of products made by the prison inmates.

State Fair was established for the purpose of conducting an annual exhibition of the State's resources and products in order to promote the State.

Student Loan was established to provide loans to students in post secondary education.

Workers Compensation was established principally to provide compensation and to cooperate in making arrangements for the rehabilitation of persons injured over the course of employment for both the public and private sector.

Segment financial information for the fiscal year ended June 30, 2001, is as follows (expressed in thousands):

State of North Dakota

Schedule of Segment Information - Enterprise Funds

For The Fiscal Year Ended June 30, 2001

(Expressed In Thousands)

	Bank Of North Dakota	Beginning Farmer Revolving Loan	Bonding	Community Water Facility Loan	Develop- mentally Disabled Facility Loan	Fire And Tornado	Guaranteed Student Loan
Operating Revenue	\$ 126,235	\$ 890	\$ 40	\$ 525	\$ 536	\$ 5,077	\$ 2,452
Operating Expenses	91,805	561	98	80	349	6,588	3,018
Depreciation	617	-	-	-	-	-	-
Operating Income (Loss)	34,430	329	(58)	445	187	(1,511)	(566)
Operating Transfers:							
In	57	-	-	-	-	-	300
Out	(20,578)	-	-	-	-	(124)	-
Tax Revenues	-	-	-	-	-	-	-
Net Income (Loss)	13,909	329	(48)	445	187	(1,636)	(136)
Property, Plant, and Equipment :							
Balance June 30, 2001	3,645	-	-	-	-	-	-
Additions	808	-	-	-	-	-	-
Deletions	-	-	-	-	-	(9)	-
Total Assets	1,806,250	17,927	5,748	16,849	8,492	19,470	18,120
Net Working Capital	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Liabilities Payable From Operating Revenues	263,407	-	106	-	5,134	4,358	-
Total Equity	152,778	17,914	4,875	16,830	3,347	12,421	1,986

N/A: Not Available

Notes To The Financial Statements

								Total Enterprise Funds
Housing Finance	Mill And Elevator	PERS Uniform Group Insurance	Roughrider Industries	State Fair	Student Loan	Workers Compensation	June 30 2001	
\$ 69,592	\$ 64,240	\$ 755	\$ 3,497	\$ 3,221	\$ 17,733	\$ 90,182	\$ 384,975	
60,682	63,600	2,622	3,394	3,718	13,532	101,206	351,253	
37	1,200	-	58	702	-	1,235	3,849	
8,910	640	(1,867)	103	(497)	4,201	(11,024)	33,722	
-	-	-	-	170	-	-	527	
(23)	(3,027)	-	-	-	(3,500)	-	(27,252)	
-	-	-	-	1,755	-	-	1,755	
8,906	(2,697)	(1,561)	96	1,366	701	2,390	22,251	
132	32,067	-	403	15,501	-	2,119	53,867	
31	2,354	-	-	703	-	1,690	5,586	
(2)	(182)	-	(74)	(15)	-	(870)	(1,152)	
937,597	54,371	2,867	1,970	17,038	295,617	1,114,219	4,316,535	
N/A	14,108	N/A	1,386	1,423	N/A	N/A	16,917	
843,635	517	39	84	2,331	215,528	515,456	1,850,595	
53,610	44,806	1,771	1,560	14,641	74,415	378,632	779,586	

N/A: Not Available

NOTE 13 - COMPONENT UNIT FUNDS

The State's Component Units, which are all Proprietary Funds, consist of the following:

Comprehensive Health Association was established to provide low cost access to health insurance coverage for residents of the State who are denied adequate health insurance and are considered uninsurable.

North Dakota Development Fund, Inc. was established to provide for the development and expansion of primary sector business in North Dakota.

Municipal Bond Bank was established with its purpose being to make funds available for borrowing by North Dakota political subdivisions through the issuance of its bonds and the purchase of political subdivisions' municipal securities.

Condensed financial statements for the component unit funds for the fiscal year ended June 30, 2001, are as follows (expressed in thousands):

Notes To The Financial Statements

Condensed Financial Information - Component Units For The Fiscal Year Ended June 30, 2001

Condensed Balance Sheet

	Comprehensive Health Association	Municipal Bond Bank	North Dakota Development Fund	Total June 30 2001
Assets				
Cash	\$ 2,338	\$ 1,163	\$ 6,714	\$ 10,215
Investments	-	235,309	2,029	237,338
Accounts Receivable - Net	596	-	-	596
Interest Receivable - Net	-	2,912	393	3,305
Loans And Notes Receivable - Net	-	-	11,165	11,165
Advances To Primary Government	-	8,968	-	8,968
Unamortized Bond Issuance Costs	-	1,432	-	1,432
Fixed Assets (Net Of Depreciation)	-	7	9	16
Total Assets	\$ 2,934	\$ 249,791	\$ 20,310	\$ 273,035
Liabilities				
Accounts Payable	\$ 99	\$ 3	\$ -	\$ 102
Interest Payable	-	1,812	-	1,812
Intergovernmental Payable	-	1,379	-	1,379
Claims/Judgements Payable	1,125	-	-	1,125
Advances From Primary Government	-	8,968	-	8,968
Bonds Payable	-	144,983	-	144,983
Deferred Revenue	102	-	58	160
Total Liabilities	1,326	157,145	58	158,529
Equity				
Contributed Capital	-	-	1,285	1,285
Retained Earnings	1,608	92,646	18,967	113,221
Total Equity	1,608	92,646	20,252	114,506
Total Liabilities And Equity	\$ 2,934	\$ 249,791	\$ 20,310	\$ 273,035

Classified balance sheets are not available for the component unit financial statements.

Condensed Statement of Revenues, Expenses, and Changes in Fund Equity

	Comprehensive Health Association	Municipal Bond Bank	North Dakota Development Fund	Total June 30 2001
Operating Revenues	\$ 8,502	\$ 12,286	\$ 892	\$ 21,680
Operating Expenses				
Depreciation	-	(4)	-	(4)
Other	(5,869)	(10,411)	(2,282)	(18,562)
Operating Income (Loss)	2,633	1,871	(1,390)	3,114
Nonoperating Revenues	37	-	348	385
Operating Grant	-	11,787	-	11,787
Operating Transfers From Primary Government	-	-	375	375
Net Income (Loss)	2,670	13,658	(667)	15,661
Fund Equity - Beginning Of Year	(1,062)	78,988	20,919	98,845
Fund Equity - End Of Year	\$ 1,608	\$ 92,646	\$ 20,252	\$ 114,506

NOTE 14 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

BANK OF NORTH DAKOTA

The State, through the Bank of North Dakota, is a party to financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments include commitments to extend credit and financial standby letters of credit. Those instruments involve varying degrees of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the State has in particular classes of off-balance-sheet financial instruments.

The State's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and financial standby letters of credit is represented by the contractual amount of those instruments. The State uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

	Contract Amount (in thousands)
Commitments to extend credit	\$ 263,196
Financial standby letters of credit	<u>78,556</u>
	<u>\$ 341,752</u>

Commitments to extend credit are agreements to lend as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The State evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained by the State upon extension of credit is based on management's credit evaluation of the customer. Collateral held may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Financial standby letters of credit are conditional commitments issued by the State to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The likelihood of funding any of these letters of credit is considered to be remote.

NORTH DAKOTA HOUSING FINANCE AGENCY

In the normal course of business, the Agency makes various commitments that are not reflected in the financial statements. These include commitments to extend credit and the debt reduction required when related loan acquisition funds are not drawn down within prescribed time frames set by the specific bond resolution.

Commitments to extend credit are agreements to fund loans as long as there is no violation of any condition established in the contracts. Commitments require the payment of a reservation fee and generally have a fixed expiration date. Commitments to extend credit total \$21,423,000 at June 30, 2001. The Agency does not anticipate any material losses as a result of these commitments.

The bond resolutions require that the funds in the loan acquisition accounts be expended within 42 months of the related bond delivery date. Any remaining funds must be used for debt reduction. The loan acquisition funds totaled \$21,988,000 at June 30, 2001.

MUNICIPAL BOND BANK

In the normal course of business, the Bond Bank (a component unit) makes various commitments that are not reflected in the financial statements. These commitments include commitments to extend credit of \$69,016,000 at December 31, 2000.

NOTE 15 - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Most of the State's business is with customers within the state. Concentrations of credit are present in the construction and operation of community water facilities, developmentally disabled facilities, loans to students for post-secondary education, single-family and multifamily mortgage loans, and the agricultural industry. Due to the pervasive nature of agriculture in the economy of the state, all loans, regardless of type, are impacted by agriculture.

NOTE 16 - RISK MANAGEMENT

Several funds accumulate assets to cover risks that the State may incur. Specifically, the State assumes a portion or substantially all risks associated with the following:

THE STATE FIRE AND TORNADO FUND

The State Fire and Tornado Fund, an Enterprise Fund, is financed by premiums charged to the participating funds of the State. All monies collected must be paid into the

fund for use only for the purpose outlined in NDCC 26.1-22.02.

All losses occasioned by the hazards provided for in the North Dakota Century Code must be paid out of the fund, with the fund being reimbursed by a third-party insurance carrier for all losses in excess of \$1,000,000 per occurrence. The limit of liability of such reinsurance contract is no less than \$1,000,000 during each twelve month period.

STATE BONDING FUND

The State Bonding Fund, an Enterprise Fund, is financed by premiums charged to each State agency for the bonding of public employees and public officials.

FLEET SERVICES

Fleet Services, an Internal Service Fund, represents the State's fleet of automobiles and is administered by the Department of Transportation. The State is self-insured for substantially all automobile insurance (e.g., comprehensive, collision), with the exception of liability, which is provided by the State's Risk Management Fund (RMF). State agencies are charged premiums to cover Fleet Service's RMF assessment and to pay for those losses which are not covered by RMF. These premium charges are factored into the fees agencies are charged when renting the cars.

WORKERS COMPENSATION BUREAU

Workers Compensation Bureau (Bureau), an Enterprise Fund, is a State insurance fund and a "no fault" insurance system, covering the State's employers and employees. The Bureau is financed by premiums assessed to employers. The rate of such premiums is periodically adjusted to assure the solvency of the Bureau. The premiums are available primarily for the payment of claims to employees injured in the course of employment. During fiscal year 2001, a total of \$86,943,712 in claims was recognized. Incurred but not reported claims of \$515,000,000 have been accrued as a liability based primarily upon actuarial estimates.

RISK MANAGEMENT FUND

Due to the loss of sovereign immunity, the 1995 Legislature established the Risk Management Fund (RMF) to pay money damages for tort claims for which the State is liable. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence. The State purchases commercial insurance for claims in excess of coverage provided by the Fund and continues to transfer liabilities for medical malpractice and aviation to private insurance carriers. Settlements have not exceeded insurance coverage in any of the past three fiscal years.

Revenues to the RMF are generated from contributions required from state agencies, boards and commissions,

and the University System. The need for and amount of funding is determined using a projected cost allocation approach. The premise of this plan is that the agencies with greater expected loss costs should contribute more to the funding of the RMF than those agencies with lesser costs. The underlying logic is that contributions should roughly equal loss costs plus the expenses of administering the program over the long term.

The RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Unpaid claim liabilities are based on an actuarial study of the outstanding loss reserve need for the fund and a forecast of ultimate loss and loss expense. These liabilities were determined on an undiscounted expected level of ultimate loss. Because actual claims liabilities are affected by complex factors including inflation, changes in legal doctrines, and unanticipated damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts. Claims liabilities will be re-evaluated periodically to take in consideration settled claims, the frequency of claims, and other economic and social factors.

The following table presents the changes in claims liabilities balance for the fiscal years ending June 30, 2000, and June 30, 2001:

Fiscal Year	Beginning Balance	Current Year Claims and Changes In Estimates	Claims Payments	Ending Balance
2000	3,296,740	1,352,000	711,154	3,937,586
2001	3,937,586	1,098,000	661,714	4,373,872

NOTE 17 - PUBLIC ENTITY RISK POOLS

A. GENERAL

FIRE AND TORNADO AND BONDING FUND

The Fire and Tornado Fund provides property insurance to state agencies, political subdivisions, the International Peace Garden and the winter show. The Fire and Tornado Fund has issued 1,105 policies to participating entities for a total building and content coverage of \$5.07 billion. The Bonding Fund is used to provide fidelity bonding of public employees and officials. The Fund has issued 2,904 policies to participating entities. The total coverage for the Bonding Fund is \$553,268,321. If the assets of these funds were exhausted, fund participants would not be responsible for the funds' liabilities.

The Fire and Tornado and Bonding Fund are accounted for on the accrual basis. The Fire and Tornado Fund establishes claim liabilities based on estimates of the ultimate cost of claims that have been reported but not

State of North Dakota

settled, and of claims incurred but not reported. The Bonding Fund establishes claim liabilities based on actual judgments obtained against the fund but not paid prior to fiscal year end. Liabilities for incurred but not reported losses have not been established as they are not expected to be material amounts. Neither fund incurred any acquisition costs which should have been capitalized, nor were any liabilities recognized that were discounted. Investment income was not considered in determining the existence of premium deficiencies.

The Fire and Tornado Fund uses reinsurance agreements to reduce its exposure to large losses on all types of its insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the risks that are reinsured. The Fire and Tornado Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. However, at June 30, 2001, there was no amount deducted from claims liabilities for reinsurance.

WORKERS COMPENSATION BUREAU

Workers Compensation Bureau (Bureau), an Enterprise Fund, is a state insurance fund and a "no fault" insurance system covering the State's employers and employees. At June 30, 2001, coverage extended to the following employer units:

Local Governments	1,696
State Agencies	115
Private Employers	<u>18,331</u>
Total	<u><u>20,142</u></u>

The Bureau is financed by premiums assessed to the employers of North Dakota. The premiums are available primarily for the payment of claims to employees injured in the course of employment.

The operations of Workers Compensation are accounted for on the accrual basis. Liability for incurred but not reported and incomplete claims and claims expense is estimated by the Bureau's actuary. The estimate is developed by the Bureau's actuary, taking into consideration past experience of the Bureau in paying claims, and general conditions of the environment in which the Bureau operates. The liability includes esti-

mates of costs to settle individual claims which have been reported, plus a provision for losses incurred but not yet reported and includes the effects of inflation and other societal and economic factors. The Bureau records the liability at a discounted amount.

As adjustments to this estimated liability become necessary, such adjustments are reflected in current operations. Management believes the estimated liability for losses and loss adjustment expense is sufficient to cover the ultimate net cost of incurred claims, but such reserves are necessarily based on estimates and the ultimate liability may be greater or less than the amounts estimated.

For the year ended June 30, 2001, the actuary presented an estimate in the form of a range to emphasize the uncertainty for the estimated liability of the Bureau. These ranges are as follows (expressed in thousands):

	<u>Low</u>	<u>Expected Value</u>	<u>High</u>
Full Value Basis (undiscounted)	\$ 835,000	\$ 926,200	\$ 1,065,000
Discounted at 6% rate	*	515,000	595,000

*Not computed by actuary.

The Bureau has adjusted the estimated liability for unpaid loss and loss adjustment expense to the actuary's six percent discounted expected value of \$515.0 million at June 30, 2001.

The June 30, 2000, liability of \$499.7 million was also recorded at the discounted rate of six percent.

While management has recorded amounts that fall within the ranges of estimated liabilities as computed under actuarial assumptions, the high level of uncertainty indicates that actual losses and expenses could be materially higher than the recorded estimated liability.

The Workers Compensation fund did not incur any acquisition costs which should have been capitalized at June 30, 2001.

B. RECONCILIATION OF CLAIMS LIABILITIES

The following is a reconciliation of total claims liabilities, including an analysis of changes in aggregate liabilities for claims and claim adjustment expenses for the current fiscal year and the prior year (expressed in thousands):

	Fire And Tornado		Bonding		Workers Compensation	
	2001	2000	2001	2000	2001	2000
Unpaid claims and claims adjustment expenses at the beginning of the year	\$ 1,801	\$ 6,133	\$ 82	\$ 258	\$ 499,700	\$ 508,800
Incurred claims and claims adjustment expenses:						
Provision for current fiscal year	5,716	2,104	71	60	82,905	80,505
Change in provision for prior fiscal year	-	-	-	-	33,940	(19,872)
Payments and claims and adjustment expenses attributable to:						
Current fiscal year insured events	(1,385)	(303)	32	22	(17,253)	(16,157)
Prior fiscal years' insured events	(1,801)	(6,133)	(82)	(258)	(59,262)	(55,290)
Total Payments	(3,186)	(6,436)	(50)	(236)	(76,515)	(71,447)
Change in provision for discount	-	-		-	(25,200)	(696)
Other	-	-		-	170	2,410
Total unpaid claims and claims adjustment expenses at the end of the year	<u>\$ 4,331</u>	<u>\$ 1,801</u>	<u>\$ 103</u>	<u>\$ 82</u>	<u>\$ 515,000</u>	<u>\$ 499,700</u>

NOTE 18 - GUARANTEED STUDENT LOAN RESERVES RECALL

During 1997, the Balanced Budget Act (H.R. 2015, Section 6101) was passed, amending Section 422 of the Higher Education Act. The Act requires the Secretary of Education to recall portions of reserve funds held by guarantee agencies. Based on the State's reserve fund balance and the original principal amount of all outstanding insured loans as of September 30, 1996, the Department of Education has determined that the State's required share of the recall of Federal reserve funds is \$7,574,859. This amount has been accrued as a liability in the State's financial statements. Within 90 days after the beginning of each of the fiscal years 1998 through 2002, the State is required to transfer twenty percent of their required share to a restricted account. On September 1, 2002, this amount will be recalled by the Department.

and Budget determines via revised projections that general fund revenue collections will not meet the revenues as forecast in the March 1999 legislative forecast, the Industrial Commission shall transfer to the state general fund an additional amount, as determined by the director of the Office of Management and Budget and as approved by the budget section, from the earnings and accumulated and undivided profits of Bank of North Dakota. Transfers made under these provisions may not be made before July 1, 2000, and may only be made to the extent necessary to achieve a projected June 30, 2001, general fund balance of \$10,000,000. The moneys must be transferred in amounts and at such times as requested by the director of the Office of Management and Budget. The additional amount transferred may not exceed the lesser of \$40,000,000 or the revenue shortfall of actual collections compared to the March 1999 legislative forecast.

No transfers may be made which would reduce the Bank's capital structure below \$100,000,000.

NOTE 19 - COMMITMENTS AND CONTINGENCIES

A. LONG-TERM COMMITMENTS

BANK OF NORTH DAKOTA

The 1999 North Dakota Legislature passed Senate Bill 2015, which included a contingent Bank transfer to the state general fund. If, during the biennium ending June 30, 2001, the director of the Office of Management

The 1999 North Dakota Legislature passed Senate Bill 2188, which authorizes the State Water Commission to issue \$84,800,000 in bonds and appropriate the proceeds for various statewide water development projects.

Principal and interest on the bonds are payable first from moneys received by the State pursuant to the 1998 settlement agreement with tobacco product manufacturers, and any earnings on these moneys; second from revenues in the Resources Trust Fund; and

State of North Dakota

then from any other revenues the State Water Commission makes available. If sufficient funds from these sources are not available, principal and interest on the bonds will be payable from the first available current biennial earnings of the Bank of North Dakota, not to exceed \$6,500,000 per biennium. No appropriation was made from the Bank of North Dakota for the 1999-2001 biennium by the Legislature.

The Bank of North Dakota shall extend a line of credit not to exceed \$84,800,000 for the biennium ending June 30, 2001, to the State Water Commission for the purpose of interim financing until bonds are issued. Advances on the line of credit may be made only when a source of repayment has been identified and determined to be available. As of December 31, 2000, Bank of North Dakota has funded \$1,118,000 and has a commitment outstanding of \$38,832,000 included in commitments to extend credit.

STUDENT LOAN TRUST

The 2001 Legislature passed House Bill 1015 which provides for an appropriation of \$9.0 million from the Trust to the State's general fund during the biennium beginning July 1, 2001, and ending June 30, 2003. The moneys must be transferred in such amounts and at such times as required by the Director of the Office of Management and Budget, and upon certification by the Trust's trustee that sufficient moneys remain available to pay all debt service on Student Loan Trust bonds, all required rebate payments to the U.S. Treasury, and all program operating expenses.

The Trust has committed to purchasing student loans from the Bank of North Dakota for the next three years. The loans that will be purchased are student loans that will be originated by the Bank during the three-year period. Management anticipates that up to \$61 million of student loans will be purchased under the agreement with the Bank, of which approximately \$10,500,000 were purchased during the year ended June 30, 2001.

MILL AND ELEVATOR

As of June 30, 2001, the Mill had commitments to purchase 1,213,756 bushels of spring wheat and 104,790 bushels of durum.

JOB SERVICE NORTH DAKOTA

As of June 30, 2001, Job Service has commitments to pay \$416,151 for purchase orders and contracts awarded for goods, services, and construction in progress to be provided in future periods. Applicable funds for these commitments are \$200,304 federal and \$215,847 non-federal.

BUILDING AUTHORITY

The Authority has committed funds to complete various construction and modernization programs at June 30, 2001, as follows (expressed in thousands):

University Systems \$10,850

The Authority has also committed to fund construction projects for University of North Dakota, North Dakota State University, Job Service North Dakota, Department of Health, and Department of Transportation. The cost of these construction projects is not known as of June 30, 2001.

BEGINNING FARMER REVOLVING LOAN FUND

The Loan Fund enters into commitments with the Bank of North Dakota to buydown interest rates on Beginning Farmer Loans originated by the Bank. At December 31, 2000, there were \$142,147 in buydown commitments.

MUNICIPAL BOND BANK

On April 1, 1997, a Standby Bond Purchase Agreement was executed with the Central Dakota Irrigation District, a political subdivision. Should the District experience financial difficulties, the Bond Bank will purchase Central Dakota Irrigation District's Refunding Improvement Bonds (warrants) in an aggregate principal amount not less than the outstanding principal amount of the warrants plus accrued interest on the warrants. The original amount of the warrants issued April 1, 1997, was \$3,270,000.

PACE FUND

Funds committed to buy down interest rates on loans, but not yet disbursed at June 30, 2001, totaled \$2,185,037.

DEPARTMENT OF HUMAN SERVICES

As of June 30, 2001, the Department of Human Services had significant commitments for the purchase of services as follows (expressed in thousands):

Administrative Services	\$ 110
Child Care/Dependent Services	301
Computer Systems Services	2,260
Consultation-Medical	132
Develop Alternatives—NF Care	815
Drug Review	137
Education Programs	474
Employment and Training	403
Financial Inst. Data Match	255
Refugee Assistance	320
Services for the Elderly	1,723
Total	<u>\$ 6,930</u>

Notes To The Financial Statements

PUBLIC SERVICE COMMISSION

As of June 30, 2001, the Public Service Commission had significant commitments of \$780,853. This amount consists primarily of contractor charges associated with the Abandoned Mine Lands.

AERONAUTICS COMMISSION

As of June 30, 2001, the Aeronautics Commission had significant commitments of \$870,000. This amount consists of grants to political subdivisions for maintenance and improvements of their airports.

ECONOMIC DEVELOPMENT AND FINANCE

As of June 30, 2001, Economic Development and Finance had significant commitments of \$396,677. This amount consists of grants for the research and development of North Dakota agriculture products.

DAIRY PRODUCTS PROMOTION COMMISSION

As of June 30, 2001, the Dairy Products Commission had significant commitments of \$331,650. This amount consists of a contract with Midwest Dairy Association to implement and administer programs intended to contribute to the betterment of North Dakota dairy farmers and the State's dairy industry. The contract also provides the Commission with administrative, financial, and reporting services.

NORTH DAKOTA SOYBEAN COUNCIL

As of June 30, 2001, the North Dakota Soybean Council had significant commitments of \$317,775. This amount mainly consists of grants for the research and development of soybeans.

STATE WATER COMMISSION

As of June 30, 2001, the State Water Commission had long-term commitments of the following (expressed in thousands):

Hydrologic Investigations	\$ 195
Devils Lake	1,511
Maple River Flood Control	3,211
Nesson Valley Irrigation	1,489
Northwest Area Water Supply	41
Flood Mitigation Assistance	70
General Contracts	1,616
Elk/Charbon Irrigation District	<u>1,000</u>
Total	<u>\$ 9,133</u>

NORTH DAKOTA DEPARTMENT OF TRANSPORTATION

At June 30, 2001, the North Dakota Department of Transportation (Special Revenue Fund) had non-construction contract commitments of approximately \$5.8 million of which \$4.4 million represents federal programs which are cost reimbursable.

Construction commitments at June 30, 2001, totaled approximately \$160.4 million, of which \$126 million represents federal programs which are cost reimbursable. These commitments will be funded with future appropriations as work is performed.

UNIVERSITY SYSTEMS

Contracts for the construction of various projects on behalf of the University System have been let as follows (expressed in thousands):

	Original Issue	Paid To Date	Amount To Be Paid
UND	\$ 31,258	\$ 27,458	\$ 3,800
NDSU	11,983	8,021	3,962
MiSU	165	45	120
BSC	653	547	106
DSU	452	183	269
NDSUS	2,361	286	2,075
VCSU	422	419	3

UNIVERSITY OF NORTH DAKOTA

UND has been in litigation with Western National Insurance Company for non-payment of \$3.5 million of insurance claims resulting from the flood of 1997. The courts ruled in UND's favor and Western National has filed an appeal with the North Dakota Supreme Court.

NORTH DAKOTA STATE UNIVERSITY

An IRS audit report dated April 28, 1995, assessed FICA taxes to NDSU of \$268,488 on early retirement and tenure buyouts during the period January 1, 1991, through December 31, 1994. Shortly after the IRS assessment, in order to avoid potential interest and penalty, NDSU paid all of the assessed taxes and contested the IRS's position that the early retirement and tenure buyouts were subject to FICA taxes. A lawsuit was filed by NDSU for a refund with the United States District Court in Fargo. On November 23, 1999, the U.S. District Court ruled in favor of NDSU regarding FICA taxes on faculty tenure buyouts, but in favor of the IRS regarding early retirement payments for administrators (non-tenured employees). The IRS filed an appeal regarding the tenure buyout portion of the decision. On June 28, 2001, the 8th Circuit Court of Appeals affirmed

State of North Dakota

the district court, holding that tenure buyout payments to faculty members were not wages subject to FICA tax because they were paid in return for the faculty member's valuable property right (i.e., tenure). The 8th Circuit also agreed with the district court that similar early retirement payments made to high-level administrators were wages subject to FICA taxes. The IRS did not appeal the decision to the United States Supreme Court for certiorari. NDSU's records show that they are entitled to a \$311,931 FICA tax refund from the IRS on the tenure buyout of faculty positions.

OTHER CONSTRUCTION COMMITMENTS

The State has various long-term construction commitments in the following agencies at June 30, 2001 (expressed in thousands):

Job Service	\$	216
Department of Corrections		36
Department of Transportation		61
Adjutant General		9,801

B. LITIGATION

The estimated loss in all of the litigation against the State in which a loss to the State is probable totaled \$350,000. An accrual for this amount has been set up in the General Long-Term Debt Account Group. Litigation that is reasonably possible to result in an unfavorable outcome is estimated at \$100,000 to \$10,000,000.

There is no litigation brought by the State in which a gain is probable at June 30, 2001.

In November 1998, the North Dakota Attorney General joined forty-five other states and five territories in a settlement agreement against the nation's largest tobacco manufacturer. The Master Settlement Agreement includes base payments to states totaling \$220.6 billion for the next 25 years, and continues in perpetuity. North Dakota's share of the settlement is expected to be \$866 million over the next 25 years. The amount of the annual payment is subject to a number of modifications, including adjustments for inflation and usage volumes. Some of the adjustments may result in increases in the payments (inflation, for example), or other adjustments will likely cause decreases in the payments (e.g., volume adjustments). The net effect of these adjustments on future payments is unclear.

The State had not settled any cases before June 30, 2001, in which the settlement had not been paid as of June 30, 2001.

C. QUESTIONED COSTS

The State receives federal financial assistance which is subject to review and audit by the Office of the State Auditor and the federal government. This assistance is

generally conditioned upon compliance with certain laws and regulations. Disallowed and questioned costs relating to federal assistance could become a liability to the State. The State estimates that the ultimate disallowances pertaining to federal assistance, if any, will be immaterial to its overall financial condition.

The single audit of the State of North Dakota for the two year period ending June 30, 2000, was completed in March of 2001. As a result of this audit, approximately \$291,000 of identifiable questioned costs were noted. Also, there were several findings which had potentially significant, unknown, questioned costs. The State is cooperating with the federal government to resolve the findings and is optimistic these findings will not have a material impact on the State.

NOTE 20 - SUBSEQUENT EVENTS

BUILDING AUTHORITY

On July 10, 2001, the North Dakota Building Authority received authority to issue and sell evidences of indebtedness to the Bank of North Dakota in an amount not to exceed \$1,500,000 for the purpose of interim financing of the projects approved during the 2001 legislative session.

GUARANTEED STUDENT LOAN PROGRAM

Subsequent to September 30, 2000, the Industrial Commission authorized the transfer of \$3,200,000 from the North Dakota Student Loan Trust Fund to fund operations of the Program.

HOUSING FINANCE

Subsequent to June 30, 2001, the Agency began the process of issuance of 2001 Series C Housing Finance Program Bonds, totaling \$35,000,000.

Subsequent to June 30, 2001, the agency purchased all outstanding 1989 AB mortgages with a \$6.2 million loan obtained from the Bank of North Dakota along with other agency funds. On November 1, 2001, the agency redeemed all 1989 AB Bonds at the accreted value of \$14.4 million.

INDUSTRIAL COMMISSION

The Industrial Commission has approved and had executed (on July 25, September 14, and November 1, 2001) three contracts committing a total of \$20,673,250 from the Lignite Research Fund for Lignite Vision 21 Projects. These contracts, contingent upon appropriations by the Legislature of moneys held in the Lignite Research Fund, authorize payments over a period of years based on completion of the required research and the construction of new lignite-fired power plants in North Dakota. The three contracts are with Great River Energy in the total amount of \$10,000,000

(\$2,857,750 scheduled to be expended during the 2001-2003 biennium); Montana-Dakota Utilities/Westmoreland Power Inc. in the total amount of \$10,000,000 (\$1,800,000 scheduled to be expended during the 2001-2003 biennium); and Great Northern Power Development L.P. in the total amount of \$673,250 (scheduled to be expended during the 2001-2003 biennium).

WATER COMMISSION

Effective July 1, 2001, the Water Commission was given the authority to issue an additional \$20,000,000 for water development projects.

Subsequent to June 30, 2001, the Water Commission issued the remainder of the 2001 A Series Bonds for the Southwest Pipeline project, totaling \$230,245.

WORKERS COMPENSATION

Subsequent to June 30, 2001, the Bureau awarded contracts in the amount of \$10,465,117 for the construction of an office building. The 1999 Legislative Assembly authorized, through a continuing appropriation, internal funds of the Bureau to finance the construction project. Occupancy is scheduled on or before June 30, 2003.

MUNICIPAL BOND BANK

On May 2, 2001, the Industrial Commission approved the issuance of a total \$23,725,000 of State Revolving Fund Program Bonds, Series 2001 A. These bonds are for the express purpose of providing funds to political subdivisions for use in connection with the financing or refinancing of water pollution control and drinking water projects. Interest rates vary from 4.30% to 5.00%, with maturities ranging from October 1, 2002, to October 1, 2010.

UNIVERSITY OF NORTH DAKOTA

The University of North Dakota plans to issue \$3.5 million in revenue bonds for the renovation of its Memorial Union.

NORTH DAKOTA STATE UNIVERSITY

In November 2000 \$6.5 million of MIDA bonds were issued by the City of Fargo on behalf of the NDSU Research and Technology Park, Inc., a related party to NDSU. These MIDA bonds were issued to finance construction of a research facility and purchase equipment for the facility. Under the arrangement, the City issued bonds and leased the completed facility and the land to the NDSU Research and Technology Park, Inc.

Effective July 1, 2001, an operating lease agreement was entered into between the NDSU Research and Technology Park, Inc., and NDSU. This operating lease

calls for annual rent of \$608,943 with NDSU responsible to pay all operating costs of the facility to include insurance, utilities, telecommunication charges, security charges, snow removal, and normal repairs and maintenance. The commitment of NDSU to pay rent under this lease is subject to local fund appropriation by NDSU on a biennial basis.

The facility and the related long-term debt are reported as assets and liabilities of the NDSU Research and Technology Park, Inc., not NDSU. The rental payments by NDSU to the NDSU Research and Technology Park, Inc., will be classified as operating lease payments. When the bonds are entirely paid off, the facility will be owned by the NDSU Research and Technology Park, Inc.

NOTE 21 – NEW REPORTING STANDARDS

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," and Statement 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities." These Statements establish new financial reporting requirements for state and local governments and public colleges and universities throughout the United States. The Statements establish specific standards for the basic financial statements, management's discussion and analysis, and certain supplementary information. The objective of these standards is to enhance the understandability and usefulness of the general purpose external financial reports of state and local governments and public colleges and universities to the citizenry, legislative and oversight bodies, and investors and creditors. The State will be required to apply these Statements for periods beginning after June 15, 2001.

The Statements establish new financial reporting standards for governmental entities, which will modify or adopt a new approach to presenting existing information and provide some entirely new information. Major changes in reporting include a change from the modified accrual to the full accrual basis of accounting for governmental activities and a change in accounting for fixed assets to include infrastructure. Fixed assets will be presented at historical cost net of applicable depreciation. An assessment of the effects of adopting Statements 34 and 35 is not yet completed.

APPENDIX D

General Information Concerning Job Service North Dakota

(This page has been left blank intentionally.)

GENERAL INFORMATION

Job Service North Dakota is a state agency authorized under North Dakota Century Code Title 52. Job Service North Dakota is responsible for administering many federal and state employment programs. Job Service administers the state and federal unemployment insurance program, provides labor market information, delivers work force training and reemployment programs and provides specific services to targeted work force sectors.

The mission of Job Service North Dakota is to provide customer-focused services to meet the current and emerging workforce development needs of the state.

Job Service North Dakota is organized into seven divisions: Four Customer Service Areas, Centralized Services, Employment Statistics & Workforce Programs, and Administrative Services. Maren Daley was appointed by Governor John Hoeven to serve as Executive Director of Job Service North Dakota in December, 2000. Ms. Daley is a graduate of Midway High School in Inkster, North Dakota and earned a bachelors of science degree in business administration from the University of North Dakota in 1980, where she majored in aviation administration. She earned her law degree from the University of North Dakota in 1983. Prior to accepting this appointment Ms. Daley had an 18-year career as a banker and lawyer with First National Bank North Dakota in Grand Forks.

Job Service North Dakota delivers its services through a network of local offices located in Beulah, Bismarck-Mandan, Devils Lake, Dickinson, Fargo, Fort Totten, Fort Yates, Grafton, Grand Forks, Harvey, Jamestown, Minot, New Town, Oakes, Rolla, Valley City, Wahpeton, and Williston. Job Service North Dakota has a staff of approximately 390 employees.

Job Service North Dakota's budget for the 2001-2003 biennium totals \$60,712,160 with the funding sources consisting of:

General Fund \$2,100,356

Federal Funds \$55,423,184

Special Funds \$3,188,620

JOB SERVICE NORTH DAKOTA PROJECT

Job Service North Dakota will construct a 17,000 square foot office building located on one level with parking sufficient to accommodate nearly 100 cars in Bismarck, North Dakota to provide customer services for the Bismarck-Mandan area. The Legislature authorized funding of \$2,302,000, which includes land purchase, architectural and engineering services, and construction costs. Construction of this building is to begin the summer of 2002 with occupancy to take place by January 2003.

(The remainder of this page has been left blank intentionally.)

(This page has been left blank intentionally.)

APPENDIX E

**General Information Concerning the North Dakota State Board
of Higher Education, Its Facilities and Programs**

(This page has been left blank intentionally.)

GENERAL INFORMATION

The North Dakota State Board of Higher Education was established by an initiated measure approved by the voters of North Dakota in 1938 which added Article 54 to the State Constitution. Annually, the Governor nominates a Board member from a list of three names which have been selected by action of four of the following five persons: the President of North Dakota Educational Association, the Chief Justice of the Supreme Court, the Superintendent of Public Instruction, the President Pro Tempore of the Senate, and the Speaker of the House of Representatives, and with the consent of a majority of members-elect of the Senate, serves a four-year term. Members can be reappointed and serve a maximum of two four-year terms. (This method of selecting members of the Board was amended by a vote of the people during the 1996 General Election.) Prior to 1997 a Board member served a seven-year term. The Board is made up of eight voting members and one non-voting faculty representative; seven voting members selected by the method outlined above and one student voting member. The student member is appointed by the Governor from a list of names recommended by the Executive Board of the North Dakota Student Association for a term of one year. The faculty representative is appointed annually by the Council of College Faculties. The State Constitution provides the Board with broad powers and specifies that the Board retains any powers it does not specifically delegate to the campuses. The Board discharges its constitutional responsibilities through policies adopted by the Board and administrative rules and regulations established at various levels.

The North Dakota State Board of Higher Education is the governing body for North Dakota's eleven publicly-supported colleges and universities, which include two research universities, four regional universities, five two-year institutions and related entities which include the Cooperative Extension Service, Research Stations, Medical School and the State Forest Service. The Commissioner of Higher Education serves as the chief executive officer of the Board. The Commissioner is the Chancellor and chief executive officer of the University System. The University System was implemented and the role of Chancellor was created to concentrate in the Commissioner more authority over the State supported institutions of higher education. The Chancellor chairs a cabinet consisting of the presidents and vice chancellors to advise him or her regarding matters affecting the University System. The Chancellor is assisted by three vice chancellors: the Vice Chancellor for Academic Affairs, the Vice Chancellor for Administrative Affairs and the Vice Chancellor for Strategic Planning. Following is a brief biographical sketch of each of these key administrators.

Larry A. Isaak was appointed as Chancellor of the North Dakota University System by the State Board of Higher Education in July 1994. Mr. Isaak was raised on a farm near Drake, North Dakota. He attended the University of North Dakota from 1969 to 1973 earning his B.S. in Business Administration, majoring in accounting. He also received his MBA through UND in 1996. In 1985 he also attended and completed the Stanford University Business Management Institute of the Western Association of College and University Business Officers. He is a certified public accountant. Mr. Isaak worked in a private CPA firm in Grand Forks from 1972 to 1974. In 1974 he began a steady progression of positions with the State of North Dakota. From 1974 to 1981 he was employed with the North Dakota Legislative Council as the Assistant Legislative Budget Analyst and Auditor. From 1981 to 1984 he was employed by the Office of Management and Budget, where he eventually became the State's Executive Budget Analyst. Mr. Isaak joined the University System in 1984 as the Assistant Commissioner for Administration and later as the Vice Chancellor for Administrative Affairs. In 1993, he was assigned the additional duties of student affairs and liaison with the System's Student Affairs Council and the North Dakota Student Association. Simultaneously, he also served as the Director of the Higher Education Computer Network, overseeing policy development and planning for the statewide computing network.

Dr. Michel Hillman was appointed Vice Chancellor for Academic Affairs for the North Dakota University System in June 1996. He previously was the Director of Academic Affairs for the South Dakota Board of Regents, a position he held since 1987. His other experience includes serving as a Research Officer in the South Dakota system of higher education, an Evaluation Specialist for the Division of Law Enforcement Assistance in Pierre, South Dakota, and an Adjunct Professor of Psychology at the University of South Dakota. He received his bachelor's degree in psychology from Slippery Rock State College in Pennsylvania, his master's degree in experimental psychology from Indiana University of Pennsylvania, and his Ph.D. degree in experimental psychology from the University of South Dakota in Vermillion.

Laura Glatt was appointed the Vice Chancellor for Administrative Affairs in July 1995. A native of Bismarck, North Dakota, she earned a B.S. in accounting from the University of Mary in 1983 and a master's in Management from the University of Mary in 1996. She is a certified public accountant. Prior to joining the University staff in 1989, she served as a management and fiscal analyst in the North Dakota Office of Management and Budget, served as Controller for the State Treasurer's office and Cashier for the State Tax Department.

Eddie Dunn was named the Vice Chancellor for Strategic Planning in July 1999. A native of LaMoure, North Dakota, he obtained his Bachelor's and Master's degrees from North Dakota State University where he later became an associate professor of agricultural economics and was also Coordinator for the University's Faculty Development Institute. He later served as an economic development specialist with the Cooperative Extension Service and the Agricultural Experiment Station at North Dakota State University. In 1980-81, he served as Program Leader for Economic Development with the Federal Extension Service for the U.S. Department of Agriculture in Washington, D.C. Prior to joining the University System, Eddie was Vice President for Programs and Economic Development for the Greater North Dakota Association. In addition to serving as Vice Chancellor for Strategic Planning, Eddie is also the Executive Director of the College Technical Education Council, a position he has held since January of 1993.

CAMPUSES AND FACILITIES

Below are brief descriptions of selected institutions of higher education in the state.

The University of North Dakota (UND) is a co-educational institution located in Grand Forks, a city with a population of approximately 49,000. The campus is in the center of the Red River Valley, one of the richest farming areas in the world. With nearly 12,000 students, UND is the largest post-secondary institution in the four-state region of the Dakotas, Montana, and Wyoming.

The University's 170 undergraduate, graduate and professional programs are offered, including a School of Law and Medicine. Major research components include the Energy and Environmental Research Center, Center for Aerospace Sciences and Human Nutrition Laboratory. The University also operates a graduate center in Bismarck.

The campus itself includes nearly 570 acres and 5 million square feet of space. UND is the largest public or private employer in North Dakota with approximately 2,100 full-time employees. The University's and related entities budget from all sources for the fiscal year beginning July 1, 2001 is \$260 million, of which about one-quarter was expected to come from the State Treasury.

North Dakota State University (NDSU), North Dakota's land-grant institution, was founded in 1862. It is located in the Red River Valley in eastern North Dakota, in the city of Fargo. There are approximately 10,500 students enrolled in the fully accredited colleges of Agriculture, Business Administration, Engineering and Architecture, Home Economics, Humanities and Social Sciences, Science and Mathematics, Pharmacy and University Studies, the School of Education and the Graduate School.

The main campus includes approximately 85 buildings covering nearly 30 square blocks. NDSU also oversees the operations of the State Forest Service, Extension Service, Upper Great Plains Transportation Institute, Northern Crops Institute and the Main Research Station and its eight branches. North Dakota State University and related entities employ over 1,800 full-time equivalent employees with an annual operating budget from all sources of \$184 million for the fiscal year beginning July 1, 2001 for the University and related entities.

ACADEMIC INFORMATION

The North Dakota Board of Higher Education currently operates under an open door admission policy. Current requirements are: (1) the applicant must be a high school graduate or have successfully completed the GED test, and (2) for undergraduate admission, the applicant must submit the scores from either the ACT or SAT, with a limited number of exceptions. The institutions may limit admission to selected undergraduate and graduate programs based on considerations other than high school records, test scores, residence academic records and transfer records. Examples of such considerations may include, but are not limited to, the following: facility or instructional equipment limitations; number of qualified faculty or support staff; and financial resources. In April, 1990, the State Board of Higher Education adopted new admission requirements for its four-year institutions. The new requirements became effective the summer term of 1993. The following high school courses constitute the new minimum admission requirements:

- 4 units of English
- 3 units of mathematics, algebra I or above
- 3 units of lab science, including at least 2 in biology, chemistry, physics, or physical science
- 3 units of social studies, excluding consumer education, cooperative marketing, orientation to social science, and marriage/family.

In addition, two units of a single classical or modern language, including American Sign Language and Native American languages and the completion of algebra II (advanced algebra), are strongly recommended. Again, institutions may limit admission to selected undergraduate and graduate programs based on other criteria, including scholastic achievement.

TUITION AND FEES

Academic <u>Year</u>	<u>UND</u>	<u>NDSU</u>
2001-02	\$3,261	\$3,272
2000-01	3,088	3,010
1999-00	2,956	2,886
1998-99	2,830	2,730
1997-98	2,677	2,566
1996-97	2,528	2,410
1995-96	2,428	2,310
1994-95	2,428	2,310
1993-94	2,298	2,219
1992-93	2,165	2,032
1991-92	2,145	2,249

Note: Tuition and fees for full-time undergraduate resident students.

FALL FTE STUDENT ENROLLMENT

Academic Year	UND	NDSU
2001-02	9,906	9,472
2000-01	9,302	8,469
1999-00	8,911	8,253
1998-99	8,684	8,142
1997-98	8,725	8,079
1996-97	9,221	8,190
1995-96	9,390	8,196
1994-95	9,463	8,092
1993-94	9,671	7,917
1992-93	10,059	7,504
1991-92	9,786	7,254

OUTSTANDING INDEBTEDNESS OF THE BOARD - FOR SELECTED CAMPUSES

University of North Dakota:

	Interest Rate	Original Issue	6/30/01 Balance
Energy and Environmental Research Revenue Bonds	6.30%-6.40%	\$ 2,845,000	\$ 705,000
Housing and Auxiliary Facilities Revenue Bonds (Series 1993A)	4.60%-5.25%	5,210,000	3,840,000
Technology Fee Bonds (Series 1996)	4.30%-4.75%	1,407,205	840,805
Housing (Series 1998A)	4.10%-4.80%	22,560,000	<u>21,620,000</u>
Total Bonds Payable			<u>\$27,005,805</u>

The principal of and interest on the bonds are payable only from the net income of specific auxiliary activities, from designated student fees, or from debt reserve funds.

(The remainder of this page has been left blank intentionally.)

The minimum principal repayments required on the outstanding bonds payable for the next four years ending June 30 are as follows:

2002	\$2,016,649
2003	2,118,684
2004	1,798,961
2005	1,854,516

North Dakota State University:

	<u>Interest Rate</u>	<u>Original Issue</u>	<u>6/30/01 Balance</u>
Housing and Auxiliary Facilities Revenue Refunding (Series 1992)	6.00%-6.50%	\$ 8,810,000	\$ 6,880,000
Housing and Auxiliary Facilities Revenue Bonds (Series 1988)	7.25%-7.70%	2,500,000	300,000
Technology Fee Bonds (1996)	4.30%-4.75%	976,385	583,000
Refunding Bonds (Series 1996B)	4.60%-5.25%	1,175,000	1,090,000
Student Health & Wellness Center (1999)	5.00%-5.60%	3,500,000	<u>3,405,000</u>
Total Bonds Payable			<u>\$12,258,000</u>

The principal of and interest on the bonds are payable only from the net income of specific auxiliary activities, from designated student fees, or from debt reserve funds.

The minimum principal repayments required on the outstanding bonds payable for the next four years ending June 30 are as follows:

2002	\$762,875
2003	868,131
2004	856,418
2005	964,116

(The remainder of this page has been left blank intentionally.)

(This page has been left blank intentionally.)

APPENDIX F

General Information Concerning the North Dakota State Department of Health

(This page has been left blank intentionally.)

GENERAL INFORMATION

The Department of Health is a diverse state agency, providing services from before birth to after death and covering a broad spectrum of public health issues from water quality to child passenger safety. The Department of Health employees about 316 people dedicated to making North Dakota a healthier place to live. The Department of Health's programs are administrated as four sections: Administrative Services; Preventive Health; Health Resources and Environmental Health.

The four sections of the Department are under the administrative supervision of the State Health Officer. The Governor appoints the State Health Officer; Governor John Hoeven appointed Dr. Terry Dwelle as the State Health Officer in October 2001. Previously, Dr. Dwelle served as chief medical officer for the department. Dr. Dwelle earned his medical degree from St. Louis University School of Medicine, graduating cum laude. He later received a master's degree in public health and tropical medicine from Tulane University. A Garrison, N.D. native, Dr. Dwelle has worked with the University of North Dakota School of Medicine, the Centers for Disease Control and Prevention and the Indian Health Service. In addition, he practiced pediatrics in Bismarck, N.D., for many years. Most recently, Dr. Dwelle headed development of the Community Health Evangelism Program in East Africa.

The State Health Council serves as the advisory council for the Department and consists of 11 members appointed by the Governor. Four members are appointed from the health care provider community, five from the public sector, one from the energy industry and one from the manufacturing and processing industry.

Within the Administrative Services Section are the Divisions of Accounting; Personnel; Vital Records; Crime Laboratory; and Food and Lodging. Within the Health Resources Section are the Divisions of Health Facilities and Emergency Health Services. Within the Preventive Health Section are the Divisions of Maternal and Child Health; Health Promotion; Disease Control; and Microbiology; and State Epidemiologist; and Local Health Coordinator. The Environmental Health Section includes the Divisions of Chemistry, Air Quality, Municipal Facilities, Waste Management, and Water Quality. In addition, North Dakota's public health system is made up of 28 single-and multi-county local public health units.

During years 1999-2000, the Department of Health contracted with architects and developed a Facilities Master Plan. Financing approved by the 2001 Legislature authorizes an initial phase of some aspects of the Plan – the construction of a building to house certain functions of the microbiology and chemistry laboratories – to meet critical life safety, code and space needs of the Department and to strengthen terrorism response.

The Department of Health budget for the 2001-2003 biennium totals \$103,672,336. The funding sources for the budget are:

General Fund	\$14,929,970
Federal Funds	\$74,429,292
Special Funds	\$14,313,074

THE PROJECT

This project, totaling \$3,523,878, will provide the funding to build an addition of approximately 12,300 square feet of laboratory space to the Department of Health's current chemistry and crime laboratory building in east Bismarck. Portions of the microbiology and chemistry laboratories needing bio-safety levels 3 and 2 ventilation capabilities will be moved into this addition. This includes critical viral and bacterial analysis, organic chemistry analysis, and trace metal analysis. Construction is scheduled to begin in the fall of 2002 with occupancy to take place in June 2003.

Payment of the debt service will be from appropriations of federal and state funds.

(This page has been left blank intentionally.)

APPENDIX G

Form of Legal Opinions

(This page has been left blank intentionally.)

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds (except to the extent, if any, stated in the Official Statement) and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement).

We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based on our examination, we are of opinion, as of the date hereof, as follows:

1. The Authority is duly created and validly existing under the constitution and laws of the State of North Dakota with the power to adopt the Indenture, perform the agreements on its part contained therein and issue the Bonds.
2. The Indenture has been duly adopted by the Authority and constitutes a valid and binding obligation of the Authority enforceable upon the Authority in accordance with its terms and limitations.
3. The Bonds have been authorized for the purpose of the financing of projects (the "**Projects**") for The North Dakota State Board of Higher Education, Job Service North Dakota and the North Dakota State Department of Health (the "**Agencies**").
4. Pursuant to the Act, the Indenture creates a valid lien on the Projects and any Additional Security and appropriated rental revenue pledged by the Indenture as security for the Bonds.
5. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Indenture.

6. Under existing law, the interest on the Bonds is excluded from gross income of the owners for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in the preceding sentence are subject to the condition that the Authority and the Agencies comply with all requirements of the Internal Revenue Code of 1986, as amended, (the "**Code**") that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The Authority and the Agencies have covenanted to comply with all such requirements. The Bonds have not been designated as "qualified tax-exempt obligations" under Section 265 of the Code. Interest on the Bonds is not subject to taxation by the state of North Dakota or any county, municipality or political subdivision thereof except for the taxes imposed on certain financial institutions under North Dakota Century Code Chapter 57-35.3. We express no opinion regarding other local, state or federal tax consequences arising with respect to the Bonds.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully Submitted,

COOK WEGNER & WIKE PLLP

Cook Wegner & Wike PLLP

Maurice E. Cook
Scott D. Wegner*
Jaclin M. Wike

Attorneys at Law

April 10, 2002

Industrial Commission of North Dakota
acting as the North Dakota Building Authority

Re:

\$1,535,000
STATE OF NORTH DAKOTA
NORTH DAKOTA BUILDING AUTHORITY
LEASE REVENUE BONDS
2002 SERIES B
(TAXABLE)

We have acted as bond counsel in connection with the issuance by the Industrial Commission of North Dakota acting in its capacity as the North Dakota Building Authority (the "**Authority**") of \$1,535,000 State of North Dakota, North Dakota Building Authority, Lease Revenue Bonds, 2002 Series B (the "**Bonds**"). The Bonds are issued pursuant to Chapter 54-17.2 of the North Dakota Century Code (the "**Act**"), a General Authorization Resolution dated February 19, 2002, as amended and restated on March 14, 2002, and a Trust Indenture and Assignment of Lease Rentals dated as of the date of the sale of the Bonds (the "**Indenture**") and are issuable in denominations of \$5,000 or any integral multiple thereof, of single maturities. (Capitalized terms used herein and not otherwise defined shall have the same meanings as ascribed to such terms in the Indenture.)

The Bonds are dated April 1, 2002 and will mature on December 1 in the years and in the respective principal amounts as provided by the Indenture. The Bonds will bear interest from their dated date payable semiannually thereafter on the first day of June and December (commencing December 1, 2002) at the respective rates per annum set forth in the Indenture.

The Bonds are subject to redemption prior to maturity as a whole or in part at such time or times, under such circumstances, at par and in such manner as is set forth in the Indenture, except the Bonds are not subject to optional redemption. The Bonds are issuable only in the form of fully registered book-entry bonds without coupons, and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds (except to the extent, if any, stated in the Official Statement) and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement).

We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based on our examination, we are of opinion, as of the date hereof, as follows:

1. The Authority is duly created and validly existing under the constitution and laws of the State of North Dakota with the power to adopt the Indenture, perform the agreements on its part contained therein and issue the Bonds.
2. The Indenture has been duly adopted by the Authority and constitutes a valid and binding obligation of the Authority enforceable upon the Authority in accordance with its terms and limitations.
3. The Bonds have been authorized for the purpose of the financing of projects (the "**Projects**") for The North Dakota State Board of Higher Education (the "**Agency**").
4. Pursuant to the Act, the Indenture creates a valid lien on the Projects and any Additional Security and appropriated rental revenue pledged by the Indenture as security for the Bonds.
5. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Indenture.

6. Under existing law, the interest on the Bonds is not excluded from gross income of the owners for federal income tax purposes. We express no opinion regarding other local, state or federal tax consequences arising with respect to the Bonds.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully Submitted,

COOK WEGNER & WIKE PLLP

APPENDIX H

**Form of Undertakings to Provide
Continuing Disclosure**

(This page has been left blank intentionally.)

NORTH DAKOTA BUILDING AUTHORITY
LEASE REVENUE BONDS
2002 SERIES A -- \$9,595,000

UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE

Section 1. This constitutes the written undertaking (the “**Undertaking**”) of the Industrial Commission of North Dakota, acting as the North Dakota Building Authority (the “**Authority**”) for the benefit of a holder’s or holders’ beneficial interests in the captioned bonds (the “**Bonds**”) as issued pursuant to that 2002 Series A Trust Indenture and Assignment of Lease Rentals adopted by the Authority as of March 28, 2002 (the “**Indenture**”) required by Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, § 240.15c2-12) (the “**Rule**”). Capitalized terms used herein and not otherwise defined in the Indenture shall have the meanings assigned such terms in Section 4 hereof.

Section 2. To the extent there are appropriated or other legally available funds for these purposes, the Authority undertakes to provide the following information as provided in this Undertaking:

- A. Annual Financial Information;
- B. Audited Financial Statements; and
- C. Material Event Notices.

Section 3.

A. The Authority shall while any Bonds are Outstanding provide the Annual Financial Information on or before December 15th of each year (the “**Report Date**”), beginning in 2002, to the Trustee and to each then existing NRMSIR and the SID, if any. The Authority shall include with each submission of Annual Financial Information to the Trustee a written representation addressed to the Trustee to the effect that the Annual Financial Information is the Annual Financial Information required hereby and that it complies with the applicable requirements hereof. It shall be sufficient if the Authority provides to each then existing NRMSIR, any SID and the Trustee the Annual Financial Information by specific reference to documents previously provided to each NRMSIR and any SID or filed with the Securities and Exchange Commission and, if such a document is a final official statement within the meaning of the Rule, available from the MSRB.

B. (i) If a Material Event occurs while any Bonds are Outstanding, the Authority shall provide a Material Event Notice in a timely

manner to the Trustee and the MSRB and any SID. Each Material Event Notice shall be so captioned and shall prominently state the date, title and CUSIP numbers of the Bonds.

(ii) The Trustee shall promptly advise the Authority whenever, in the course of performing its duties as Trustee hereunder, the Trustee identifies an occurrence which, if material, would require the Authority to provide a Material Event Notice pursuant to Section 3(B)(i); provided that the failure of the Trustee so to advise the Authority shall not constitute a breach by the Trustee of any of its duties and responsibilities hereunder.

C. The Trustee shall, without further direction or instruction from the Authority, provide in a timely manner to the MSRB and to any SID notice of any failure by the Authority while any Bonds are Outstanding to provide the Trustee Annual Financial Information on or before the Report Date. For the purposes of determining whether information received from the Authority is Annual Financial Information, the Trustee shall be entitled conclusively to rely on the Authority's written representation made pursuant to Section 3(A) of this Undertaking.

Section 4. The following are the definitions of the capitalized terms used herein and not otherwise defined in this Undertaking.

“Annual Financial Information” means the financial information, which shall be based on financial statements prepared in accordance with generally accepted accounting principles (**“GAAP”**) for governmental units as prescribed by the Governmental Accounting Standards Board (**“GASB”**) or operating data with respect to the Authority, provided at least annually, of the type included in those sections of the final official statement with respect to the Bonds attached thereto as Appendix C and Appendix A pages A-5 through A-12, which Annual Financial Information may, but is not required to, include Audited Financial Statements.

“Audited Financial Statements” means the Authority's annual financial statements, prepared in accordance with GAAP for governmental units as prescribed by GASB, which financial statements shall have been audited by such auditor as shall be then required or permitted by the laws of the State.

“Material Event” means any of the following events, if material, with respect to the Bonds:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults;

(c) Unscheduled draws on debt service reserves reflecting financial difficulties;

(d) Unscheduled draws on credit enhancements reflecting financial difficulties;

(e) Substitution of credit or liquidity providers, or their failure to perform;

(f) Adverse tax opinions or events affecting the tax-exempt status of the security;

(g) Modifications to rights of security holders;

(h) Bond calls (other than sinking fund redemptions);

(i) Defeasances;

(j) Release, substitution, or sale of property securing repayment of the securities; and

(k) Rating changes.

“Material Event Notice” means written or electronic notice of a Material Event.

“MSRB” means the Municipal Securities Rulemaking Board located at 1150 18th Street NW, Suite 400, Washington, DC 20036.

“NRMSIR” means a nationally recognized municipal securities information repository, as recognized from time to time by the Securities and Exchange Commission for the purposes referred to in the Rule, and which list is available on the Internet at www.sec.gov/info/municipal/nrmsir.htm;

“SID” means a state information depository as operated or designated by the State as such for the purposes referred to in the Rule. As of the date hereof there is no SID.

Section 5. Unless otherwise required by law and subject to technical and economic feasibility, the Authority and the Trustee shall employ such methods of information transmission as shall be requested or recommended by the designated recipients of the Authority's information.

Section 6. The continuing obligation hereunder of the Authority to provide Annual Financial Information, Audited Financial Statements, if any, and Material Event Notices shall terminate immediately once the Bonds no longer are Outstanding. Any

provision hereof shall be null and void in the event that the Authority delivers to the Trustee an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this Undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; provided that the Authority shall have provided notice of such delivery and the cancellation hereof to each then existing NRMSIR and the SID, if any.

Section 7.

A. In the event of a failure of the Authority to provide to the Repositories the Annual Financial Information as required by this Undertaking, the registered holder or holders of beneficial interest in any Bonds may take only such actions as may be necessary to cause the Authority to comply with its obligations to provide Annual Financial Information under this Undertaking.

B. Notwithstanding the foregoing, no registered holder or holders of a beneficial interest in the Bonds shall have the right to challenge the content or adequacy of the information provided hereto by mandamus, specific performance or other equitable proceedings unless the registered holder or holders of beneficial interest in the Bonds representing at least 25% aggregate principal amount of outstanding Bonds shall join in such proceedings.

C. A default under this Undertaking shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Undertaking in the event of any failure of the Authority to comply with this Undertaking shall be an action to compel performance.

D. Notwithstanding any other provision in this Undertaking, neither the State, the Authority, or any officer, director, employee, or agent thereof shall be liable for any claims for monetary damages or attorneys' fees whatsoever for any breach of this Undertaking.

Section 8. Information may be obtained from an Authorized Officer, as designated in the Indenture. Additionally, the Authority may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Undertaking.

Section 9. The Trustee shall be entitled to the protections afforded to the Trustee in the Indenture with regard to the performance of any of the duties required of the Trustee by this Undertaking.

Section 10. Notwithstanding any other provision of this Undertaking, the Authority by resolution authorizing such amendment, may amend this Undertaking without the consent of the registered holders or holders of beneficial interests if an opinion of nationally recognized bond counsel is obtained by the Authority to the effect that such amendment, and giving effect thereto, will not adversely affect the compliance

of this Undertaking with the Rule or materially impair the interest of registered holders or holders of beneficial interests; if:

A. The amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority or type of business conducted;

B. This Undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

C. The Annual Financial Information initially following the amendment containing the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

Dated this 10th day of April, 2002.

North Dakota Building Authority

By: _____
An Authorized Officer

Bank of North Dakota, as Trustee

By: _____
An Authorized Officer

NORTH DAKOTA BUILDING AUTHORITY
TAXABLE LEASE REVENUE BONDS
2002 SERIES B -- \$1,535,000

UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE

Section 1. This constitutes the written undertaking (the “**Undertaking**”) of the Industrial Commission of North Dakota, acting as the North Dakota Building Authority (the “**Authority**”) for the benefit of a holder’s or holders’ beneficial interests in the captioned bonds (the “**Bonds**”) as issued pursuant to that 2002 Series A Trust Indenture and Assignment of Lease Rentals adopted by the Authority as of March 28, 2002 (the “**Indenture**”) required by Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, § 240.15c2-12) (the “**Rule**”). Capitalized terms used herein and not otherwise defined in the Indenture shall have the meanings assigned such terms in Section 4 hereof.

Section 2. To the extent there are appropriated or other legally available funds for these purposes, the Authority undertakes to provide the following information as provided in this Undertaking:

- A. Annual Financial Information;
- B. Audited Financial Statements; and
- C. Material Event Notices.

Section 3.

A. The Authority shall while any Bonds are Outstanding provide the Annual Financial Information on or before December 15th of each year (the “**Report Date**”), beginning in 2002, to the Trustee and to each then existing NRMSIR and the SID, if any. The Authority shall include with each submission of Annual Financial Information to the Trustee a written representation addressed to the Trustee to the effect that the Annual Financial Information is the Annual Financial Information required hereby and that it complies with the applicable requirements hereof. It shall be sufficient if the Authority provides to each then existing NRMSIR, any SID and the Trustee the Annual Financial Information by specific reference to documents previously provided to each NRMSIR and any SID or filed with the Securities and Exchange Commission and, if such a document is a final official statement within the meaning of the Rule, available from the MSRB.

B. (i) If a Material Event occurs while any Bonds are Outstanding, the Authority shall provide a Material Event Notice in a timely

manner to the Trustee and the MSRB and any SID. Each Material Event Notice shall be so captioned and shall prominently state the date, title and CUSIP numbers of the Bonds.

(ii) The Trustee shall promptly advise the Authority whenever, in the course of performing its duties as Trustee hereunder, the Trustee identifies an occurrence which, if material, would require the Authority to provide a Material Event Notice pursuant to Section 3(B)(i); provided that the failure of the Trustee so to advise the Authority shall not constitute a breach by the Trustee of any of its duties and responsibilities hereunder.

C. The Trustee shall, without further direction or instruction from the Authority, provide in a timely manner to the MSRB and to any SID notice of any failure by the Authority while any Bonds are Outstanding to provide the Trustee Annual Financial Information on or before the Report Date. For the purposes of determining whether information received from the Authority is Annual Financial Information, the Trustee shall be entitled conclusively to rely on the Authority's written representation made pursuant to Section 3(A) of this Undertaking.

Section 4. The following are the definitions of the capitalized terms used herein and not otherwise defined in this Undertaking.

“Annual Financial Information” means the financial information, which shall be based on financial statements prepared in accordance with generally accepted accounting principles (**“GAAP”**) for governmental units as prescribed by the Governmental Accounting Standards Board (**“GASB”**) or operating data with respect to the Authority, provided at least annually, of the type included in those sections of the final official statement with respect to the Bonds attached thereto as Appendix C and Appendix A pages A-5 through A-12, which Annual Financial Information may, but is not required to, include Audited Financial Statements.

“Audited Financial Statements” means the Authority's annual financial statements, prepared in accordance with GAAP for governmental units as prescribed by GASB, which financial statements shall have been audited by such auditor as shall be then required or permitted by the laws of the State.

“Material Event” means any of the following events, if material, with respect to the Bonds:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults;

(c) Unscheduled draws on debt service reserves reflecting financial difficulties;

(d) Unscheduled draws on credit enhancements reflecting financial difficulties;

(e) Substitution of credit or liquidity providers, or their failure to perform;

(f) Adverse tax opinions or events affecting the tax-exempt status of the security;

(g) Modifications to rights of security holders;

(h) Bond calls (other than sinking fund redemptions);

(i) Defeasances;

(j) Release, substitution, or sale of property securing repayment of the securities; and

(k) Rating changes.

“Material Event Notice” means written or electronic notice of a Material Event.

“MSRB” means the Municipal Securities Rulemaking Board located at 1150 18th Street NW, Suite 400, Washington, DC 20036.

“NRMSIR” means a nationally recognized municipal securities information repository, as recognized from time to time by the Securities and Exchange Commission for the purposes referred to in the Rule, and which list is available on the Internet at www.sec.gov/info/municipal/nrmsir.htm;

“SID” means a state information depository as operated or designated by the State as such for the purposes referred to in the Rule. As of the date hereof there is no SID.

Section 5. Unless otherwise required by law and subject to technical and economic feasibility, the Authority and the Trustee shall employ such methods of information transmission as shall be requested or recommended by the designated recipients of the Authority's information.

Section 6. The continuing obligation hereunder of the Authority to provide Annual Financial Information, Audited Financial Statements, if any, and Material Event Notices shall terminate immediately once the Bonds no longer are Outstanding. Any

provision hereof shall be null and void in the event that the Authority delivers to the Trustee an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this Undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; provided that the Authority shall have provided notice of such delivery and the cancellation hereof to each then existing NRMSIR and the SID, if any.

Section 7.

A. In the event of a failure of the Authority to provide to the Repositories the Annual Financial Information as required by this Undertaking, the registered holder or holders of beneficial interest in any Bonds may take only such actions as may be necessary to cause the Authority to comply with its obligations to provide Annual Financial Information under this Undertaking.

B. Notwithstanding the foregoing, no registered holder or holders of a beneficial interest in the Bonds shall have the right to challenge the content or adequacy of the information provided hereto by mandamus, specific performance or other equitable proceedings unless the registered holder or holders of beneficial interest in the Bonds representing at least 25% aggregate principal amount of outstanding Bonds shall join in such proceedings.

C. A default under this Undertaking shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Undertaking in the event of any failure of the Authority to comply with this Undertaking shall be an action to compel performance.

D. Notwithstanding any other provision in this Undertaking, neither the State, the Authority, or any officer, director, employee, or agent thereof shall be liable for any claims for monetary damages or attorneys' fees whatsoever for any breach of this Undertaking.

Section 8. Information may be obtained from an Authorized Officer, as designated in the Indenture. Additionally, the Authority may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Undertaking.

Section 9. The Trustee shall be entitled to the protections afforded to the Trustee in the Indenture with regard to the performance of any of the duties required of the Trustee by this Undertaking.

Section 10. Notwithstanding any other provision of this Undertaking, the Authority by resolution authorizing such amendment, may amend this Undertaking without the consent of the registered holders or holders of beneficial interests if an opinion of nationally recognized bond counsel is obtained by the Authority to the effect that such amendment, and giving effect thereto, will not adversely affect the compliance

of this Undertaking with the Rule or materially impair the interest of registered holders or holders of beneficial interests; if:

A. The amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority or type of business conducted;

B. This Undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

C. The Annual Financial Information initially following the amendment containing the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

Dated this 10th day of April, 2002.

North Dakota Building Authority

By: _____
An Authorized Officer

Bank of North Dakota, as Trustee

By: _____
An Authorized Officer

APPENDIX I

Specimen Financial Guaranty Insurance Policy

(This page has been left blank intentionally.)