NEW ISSUE – Delayed Delivery

RATINGS: Moody's Investors Service, Inc.: Aaa
Standard & Poor's Ratings Group: AAA
Financial Guaranty Insured
(See "RATINGS" herein)

In the opinion of Bond Counsel, assuming compliance with the tax covenants described herein, interest on the Bonds is excludable from gross income for the purpose of federal income taxation under existing law, and interest on the 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 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 EXEMPTION" herein.

NORTH DAKOTA BUILDING AUTHORITY

$15,145,000

LEASE REVENUE REFUNDING BONDS, 2003 SERIES A

(the "Bonds")

DATED: March 5, 2003 **DUE:** June 1, as shown on the inside cover page

The 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 Bonds. Purchases of 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 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 Bonds. The Bonds are being sold for forward delivery on March 5, 2003 as described under "DELAYED DELIVERY OF BONDS." Interest is payable on December 1, 2003 and on each June 1 and December 1 thereafter. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal or redemption price of and interest on the 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 Bonds are subject to extraordinary optional redemption prior to maturity upon the occurrence of certain events as described under "THE BONDS - Redemption" herein.

The Bonds are being issued to refund on a current basis the $34,740,000 Refunding Lease Revenue Bonds, 1993 Series A (the "Refunded Bonds"), issued by the Industrial Commission, acting in its capacity as the North Dakota Building Authority (the "Issuer"), as described under "PLAN OF REFUNDING" herein. The Refunded Bonds were originally issued to refund the Lease Revenue Bonds, 1990 Series A, 1990 Series B and 1990 Series C which were issued to finance the acquisition, construction, improvement or equipping of certain facilities for the North Dakota State Board of Higher Education, the North Dakota Department of Corrections and Rehabilitation and the Administrative Committee on Veterans' Affairs (the "Agencies").

The Bonds are issued under and are equally and ratably secured by a Trust Indenture and Assignment of Lease Rentals (the "Indenture") between the Issuer and the Bank of North Dakota as trustee (the "Trustee"). The Bonds are limited obligations of the Issuer payable solely from the revenues and receipts received pursuant to the Leases, 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 Bonds. Payment of the principal of and interest on the Bonds when due will be insured by a Municipal Bond Insurance Policy to be issued by Financial Guaranty Insurance Company ("Financial Guaranty") simultaneously with the delivery of the Bonds.

FGIC®

Financial Guaranty Insurance Company

FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

The Leases specifically provide 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 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 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 Bonds are offered, subject to prior sale, when, as and if purchased by the Underwriter named below and 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. Certain matters will be passed upon for the Underwriter by its counsel, Faegre & Benson LLP. It is expected the Bonds will be available for delivery at The Depository Trust Company in New York, New York on or about March 5, 2003. For information with respect to the Underwriter, see "UNDERWRITING" herein.

Dougherty & Company LLC

October 31, 2002

NORTH DAKOTA BUILDING AUTHORITY

$15,145,000
Lease Revenue Refunding Bonds, 2003 Series A

MATURITY SCHEDULE

Maturity (June 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP
2004	$1,780,000	5.25%	2.35%	658906NF5
2005	2,060,000	5.25%	2.68%	658906NG3
2006	2,160,000	5.25%	3.00%	658906NH1
2007	2,280,000	5.25%	3.33%	658906NJ7
2008	2,675,000	5.25%	3.64%	658906NK4
2009	2,810,000	5.25%	3.86%	658906NL2
2010	1,380,000	5.25%	4.07%	658906NM0

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

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 Govemor	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
Agriculture Commissioner	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
Agriculture Commissioner 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's (the "Issuer") $15,145,000 Lease Revenue Refunding Bonds, 2003 Series A (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 in its capacity as the North Dakota Building Authority.
Dated Date:	March 5, 2003.
Delayed Delivery:	The Bonds will not be issued and delivered until March 5, 2003. Purchasers of the Bonds will be required to execute a Delayed Delivery Contract substantially in the form set forth in Exhibit J. See "DELAYED DELIVERY OF BONDS."
Purpose:	The Bonds are being issued to refund on a current basis the Issuer's $34,740,000 Lease Revenue Bonds, 1993 Series A (the "Refunded Bonds").
Security:	The Bonds are issued pursuant to a Trust Indenture and Assignment of Lease Rentals (the "Indenture") effective as of March 5, 2003 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 Agreements (the "Lease") dated as of March 5, 2003, 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 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 Bonds. See "SECURITY FOR THE BONDS." Summary definitions of certain capitalized terms appear below.
Optional Redemption:	The 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 a Project or any portion thereof, which is leased to any Agency pursuant to its 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 to redeem the Bonds rather than repair or rebuild the affected Projects.
Denominations:	$5,000 or integral multiples thereof.
Record Date:	The fifteenth day of the month, whether or not a business day, immediately preceding each interest payment date.

Principal Payments:	Due annually on June 1, 2004 through 2010.
Interest Payments:	Semiannually on June 1 and December 1 of each year, commencing December 1, 2003.
Tax Status:	Generally exempt from federal and North Dakota income taxes (see "TAX EXEMPTION" herein). The Bonds will not be designated qualified tax-exempt obligations under Section 265(b)(3) of the Code.

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.
Book-Entry Only:	The Bonds will be issued as book-entry-only securities through The Depository Trust Company.

Selected Definitions:	"Additional Rent"	Additional amounts due under the Lease relating to administrative matters under the Indenture and certain costs of operating and maintaining the Projects.
	"Agencies"	The North Dakota State Board of Higher Education, the North Dakota Department of Corrections and Rehabilitation and the Administrative Committee on Veterans' Affairs.
	"Basic Rent"	Semiannual rental payments due under the Lease.
	"Indenture"	The Trust Indenture and Assignment of Lease Rentals effective as of March 5, 2003 between the Issuer and the Bank of North Dakota, as trustee.

"Lease"	Any or all of the Lease Agreements dated as of March 5, 2003 between the Issuer and an Agency.
"Projects"	The interests in real or personal property, or both, which are leased to the Agencies pursuant to the Leases, consisting of that portion of the facilities acquired, constructed, or improved with the bond proceeds from the Lease Revenue Bonds, 1990 Series A, 1990 Series B and 1990 Series C which were refunded by the Refunded Bonds and which are located on the Site as described in Exhibit A of each Lease.
"Renewal Term"	Each of the consecutive two-year renewal terms following the initial term ending June 30, 2003, commencing on July 1.
"Rent"	The aggregate of Basic Rent and Additional Rent.
"Trustee"	Bank of North Dakota.

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.

The Preliminary Official Statement is in a form deemed final as of its date for purposes of Securities and Exchange Commission Rule 15c2-12 (the "Rule"), but is subject to minor revision or amendment in a Final Official Statement in accordance with the Rule.

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 Bond 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, 14th Floor, Bismarck, North Dakota 58505 (701) 328-3722.

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

<u>OFFICIAL STATEMENT</u>

NORTH DAKOTA BUILDING AUTHORITY

$15,145,000

LEASE REVENUE REFUNDING BONDS, 2003 SERIES A

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 in its capacity as the North Dakota Building Authority (the "Issuer") of $15,145,000 aggregate principal amount of Lease Revenue Refunding Bonds, 2003 Series A (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 an authorizing resolution of the Issuer adopted on October 17, 2002 (the "Bond Resolution"). Proceeds of the Bonds will be used to (i) refund the Refunded Bonds, (ii) deposit an amount in the Reserve Fund, and (iii) pay certain costs and expenses associated with the issuance of the Bonds.

Certain higher education facilities 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 Agreement I (the "Lease Agreement I") dated as of March 5, 2003. Certain penitentiary facilities will be let by the Issuer to the North Dakota Department of Corrections and Rehabilitation pursuant to a Lease Agreement II (the "Lease Agreement II") dated as of March 5, 2003. A certain Veterans' Home facility will be let by the Issuer to the Administrative Committee on Veterans' Affairs pursuant to a Lease Agreement III (the "Lease Agreement III") dated as of March 5, 2003. These agreements are referred to individually as a "Lease" or collectively as the "Lease" or "Leases".

The Bonds are issued under and are equally and ratably secured by a Trust Indenture and Assignment of Lease Rentals effective as of March 5, 2003 (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 Leases, 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, each Agency has agreed to make semiannual rental payments ("Basic Rent"). The Basic Rent payable under each Lease will be sufficient to pay each Agency's proportionate share of 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 a 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 the North Dakota State Board of Higher Education, see Appendix D. For information with respect to the North Dakota Department of Corrections and Rehabilitation, see Appendix E. For information with respect to the North Dakota Veterans' Home, see Appendix F.

Capitalized terms used herein have the same meaning as ascribed to them in the Lease and the Indenture. See "Defined Terms" 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, 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. With respect to the Bonds, the Leases will commence as of the date of the issuance of the Bonds and will expire on June 30, 2003, subject to successive automatic extensions under the provisions of the Leases of the term of the Leases for consecutive two-year renewal terms commencing on July 1, unless the Legislature terminates any such Lease. The Leases with respect to the Bonds will be subject to automatic two-year renewal terms commencing on July 1 of the years 2003, 2005 and 2007 and a final renewal term commencing July 1, 2009 and ending June 2, 2010. 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 if the Legislature does not appropriate sufficient funds to renew 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 Indenture. See “Expiration or Termination of the Lease” below.

Expiration or Termination of Lease

Each 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. The State Legislative Assembly will convene on January 7, 2003 for a session that cannot exceed 80 legislative days, but no assurance can be given that the appropriation will have been approved by the date of issuance of the Bonds. 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 that 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 Project 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; Remedies--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 Project under a Lease, the Trustee may enter and take possession of such Project 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 Agencies. 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 – Operation, Maintenance and Insurance of Project – Insurance" 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.

DELAYED DELIVERY OF BONDS

General

In order that the Bonds, when issued, constitute "current refunding bonds" for purposes of the Internal Revenue Code, the Bonds will not be issued and delivered until March 5, 2003 (the period from the date of execution of the bond purchase agreement by the Underwriter and the Issuer to March 5, 2003 is referred to as the "Delayed Delivery Period"). Pursuant to a Forward Delivery Bond Purchase Agreement, the Underwriter has agreed to purchase the Bonds for forward delivery on or about March 5, 2003, subject to certain customary preconditions. Purchasers of the Bonds will be required to execute a Delayed Delivery Contract substantially in the form set forth in Appendix J, provided that this requirement may be waived at the sole discretion of the Underwriter.

The Bonds are to be sold on forward basis for delivery on March 5, 2003 (the "Delayed Delivery Date"). Purchasers of the Bonds will be obligated to take up and pay for the Bonds so long as the Bonds are issued and the municipal bond insurance policy described herein and the appropriate legal opinions are delivered, notwithstanding a change in the ratings assigned to the Bonds or a change in the financial condition, operations, performance, properties or prospect of either the Issuer or Financial Guaranty between the date hereof and the Delayed Delivery Date, and not withstanding that the market value of the Bonds on the Delayed Delivery Date may be greater or less than the agreed purchase price.

The Underwriter has represented to the Issuer that it has the current financial ability to purchase the Bonds and reasonably expects it will have such ability on the proposed date of issue. Changes in federal tax law or North Dakota law between the date of execution of the Bond Purchase Agreement and the proposed date of issue may impair the ability of the Issuer to issue the Bonds.

Conditions of Forward Delivery

Delivery of the Bonds is contingent on the delivery of certain certificates, reports and legal opinions and the satisfaction of certain other conditions as of the delivery date for the Bonds, as provided in the Bond Purchase Agreement between the Underwriter and the Issuer. Events which may prevent these conditions from being satisfied include, among other things (i) Bond Counsel cannot issue an opinion substantially in the form attached hereto as Appendix G, or (ii) as a result of any legislation, regulation, ruling, order, release, court decision or judgment or action by the U.S. Department of the Treasury, the Internal Revenue Service or the Securities and Exchange Commission, either issued, effective, adopted, or proposed, the offering or sale of the Bonds would be in violation of any provision of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, or the Trust

Indenture Act of 1939, as amended (collectively, the "Securities Acts"), or such offering or sale would require registration of the Bonds under the Securities Acts. In addition, the Underwriter's obligation to purchase the Bonds pursuant to the Bond Purchase Agreement is subject to satisfaction of certain conditions set forth therein, including, but not limited to, delivery by the Issuer of certain certifications confirming its representations and warranties made in the Bond Purchase Agreement, and delivery by Financial Guaranty of a municipal bond insurance policy insuring payment of principal and interest on the Bonds when due.

DELAYED DELIVERY RISKS

Secondary Market Risk

The Underwriter is not obligated to make a secondary market in the right to purchase the Bonds and no assurances can be given that a secondary market will exist for the right to purchase Bonds during the Delayed Delivery Period.

Market Value Risk

The market value of the Bonds as of the Delayed Delivery Date may be affected by a variety of factors including, without limitation, general market conditions, changes in the financial condition and results of operation of Financial Guaranty, change in expected ratings of the Bonds, and federal and state income tax and other laws. The market value of the Bonds on the Delayed Delivery Date could be greater or less than the agreed purchase price to the initial purchasers, and the difference could be substantial. Neither the Issuer nor the Underwriter makes any representation as to the market price of the Bonds as of the Delayed Delivery Date.

Rating Risk

The Bonds are expected to be rated at the time of delivery based upon the municipal bond insurance policy to be issued by Financial Guaranty. Bond issues insured by Financial Guaranty would be expected, as of the date hereof, based on such insurance, to be rated "Aaa" and "AAA" respectively by Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Group, a division of the McGraw-Hill Companies, Inc. ("S&P"). No assurance can be given, however, that the ratings assigned to the Bonds will not be different from those currently expected for bond issues insured by Financial Guaranty. **The assignment of a particular rating to the Bonds is not a condition of the obligation of the Underwriter to accept delivery of and pay for the Bonds.**

Federal Tax Risks

The Forward Delivery Bond Purchase Agreement obligates the Issuer to deliver and the Underwriter to purchase the Bonds if the Issuer receives an opinion of Bond Counsel substantially in the form set forth in Appendix G to the effect that the interest on the Bonds is not included in the gross income of the holders thereof for federal income tax purposes as of the Delayed Delivery Date. Certain legislation may be introduced in the U.S. Congress that, if adopted, would reform the system of federal taxation generally or the tax consequences of ownership and/or transfer of obligations of the character of the Bonds. That legislation could either (a) eliminate the exclusion from gross income for federal income tax purposes of interest payable on "state or local bonds," such as the Bonds or (b) diminish the value of such exclusion. **If legislation is enacted which eliminates the exclusion for federal income tax puposes of interest payable on "state and local bonds" such as the Bonds, it is expected that Bond Counsel will not deliver its approving opinion in the form attached hereto as Appendix G and therefore, that the Bonds will not be issued and delivered to the Underwriter and will not be available for delivery to the purchasers. If the enactment of legislation only diminishes the value, as opposed to eliminating the exclusion from gross income for federal income tax purposes of interest payable on "state or local bonds," the Issuer may, nonetheless, be able to satisfy the**

requirements for the delivery of the Bonds. In such event, the purchasers would be required to accept delivery of the Bonds. Prospective purchasers are encouraged to consult their tax advisors regarding the likelihood that legislation affecting the treatment of interest on the Bonds may be enacted and the consequences of such enactment for the purchasers.

PLAN OF REFUNDING

The Bonds will be issued to provide the moneys necessary, together with other legally available moneys, if any, to effect a current refunding of the Refunded Bonds in order to realize debt service savings. The proceeds of the Bonds will be used to (i) refund the Refunded Bonds, (ii) deposit an amount in the Reserve Fund, and (iii) pay certain costs and expenses associated with the issuance of the Bonds.

Simultaneously with the delivery of the Bonds, there will be deposited with the Trustee an amount sufficient to defease all outstanding Refunding Lease Revenue Bonds, 1993 Series A.

Certain details pertaining to the Refunded Bonds are presented in the table below.

Issue Date	Outstanding Par Amount	Refunded Par Amount	Maturities Refunded	Redemption Date	Redemption Price
February 1, 1993	$19,260,000	$17,295,000	2004-2010	06/01/03	101%

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:	
Principal Amount of Bonds	$15,145,000.00
Cash Contribution from 1993A Bonds Bond Fund	3,096,200.00
Cash Contribution from 1993A Bonds Debt Service Reserve Fund	2,527,983.75
Reoffering Premium	1,016,431.60
Total Sources	$21,785,615.35
Uses of Funds:	
Deposit to the Refunded Bonds Bond Fund	$19,995,933.75
Deposit to Reserve Fund	1,514,500.00
Underwriter's Discount	113,587.50
Costs of Issuance (including Bond Insurance Premium)	158,829.43
Contingency	2,764.67
Total Uses	$21,785,615.35

THE BONDS

General Provisions

The Bonds will be issued in the aggregate principal amount of $15,145,000, will be dated March 5, 2003, 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, 2003 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 fifteenth day of the month, whether or not a business day, immediately 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 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.

Extraordinary Optional Redemption Upon the Occurrence of Certain Events. In the event of damage, destruction or condemnation of a Project or any portion thereof, which is leased to any Agency pursuant to its 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 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 on a pro rata basis among all Outstanding Bonds. 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 the 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	Principal Component	Interest Component	Total Basic Rent
2004	$ 1,780,000.00	$ 985,056.04	$ 2,765,056.04
2005	2,060,000.00	701,662.50	2,761,662.50
2006	2,160,000.00	593,512.50	2,753,512.50
2007	2,280,000.00	480,112.50	2,760,112.50
2008	2,675,000.00	360,412.50	3,035,412.50
2009	2,810,000.00	219,975.00	3,029,975.00
2010	1,380,000.00	72,450.00	1,452,450.00
Total	$15,145,000.00	$3,413,181.04	$18,558,181.04

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, and certain other revenues as provided in the Indenture. With respect to the Bonds, the term of the Lease 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. The State Legislative Assembly will convene on January 7, 2003 for a session that cannot exceed 80 legislative days, but no assurance can be given that the appropriation will have been approved by the date of issuance of the Bonds. For circumstances under which a Lease may be terminated, see "THE LEASE—Options in Favor of Agency" 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, 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 Site and Projects Thereon – Appropriation Request" 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 a 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 its 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 Project under such Lease, 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 – Events of Default; Remedies – 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 – Operation, Maintenance and Insurance of Project – 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 the Bonds and will be fully funded at the time of original issuance of the Bonds, from proceeds of the sale of the Bonds or transfer from the Refunded Bonds in an amount equal to the Reserve Fund Requirement. The Bonds maturing on June 1, 2010 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; Disposition of Pledged Revenues--Reserve Fund" in Appendix B hereto.

Bond Insurance

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy (the "Policy") for the Bonds described in the Policy (as used under the heading, the "Security for the Bonds"). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Issuer. Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Bonds or the Trustee of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United State Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-callable and the premium will be fully paid at the time of delivery of the Bonds. The Policy covers failure to pay principal of the Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, Financial Guaranty requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without Financial Guaranty's consent, in each case so long as Financial Guaranty has not failed to comply with its payment obligations under its insurance policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Bonds set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the Issuer is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds. Reference should be made to "RATINGS" for a discussion of the ratings assigned to the Issuer's outstanding parity debt that is not secured by credit enhancement.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of June 30, 2002, the total capital and surplus of Financial Guaranty was approximately $1.01 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

TAX EXEMPTION

In the opinion of Bond Counsel, assuming compliance with the tax covenants described below, under existing law, interest on the 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 Bonds with certain requirements of the Internal Revenue Code of 1986 as amended (the "Code") may result in the inclusion of interest on the Bonds in the federal and North Dakota "gross income" of the owners thereof retroactive to the date of issuance of the 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 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 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 Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the 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 Bonds, (iii) interest on the 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 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 Bonds.

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 and issuance of the Bonds are subject to the unqualified approving opinion of Cook Wegner & Wike PLLP, Bismarck, North Dakota, Bond Counsel. The form of opinion of Bond Counsel is 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. Legal matters incident to the authorization, validity and enforceability of the Leases as to the Issuer and the Agencies 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, March 5, 2003, 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 and S&P will assign the Bonds the ratings of "Aaa" and "AAA" respectively, based on the issuance by Financial Guaranty of its municipal bond insurance policy simultaneously with the delivery of the Bonds. Moody's and S&P have assigned underlying ratings to the 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

Dougherty & Company LLC, as underwriter (the "Underwriter") has agreed, subject to certain conditions described below, to purchase all of the Bonds from the Issuer at an aggregate price of $16,047,844.10 (reflecting an offering premium of $1,016,431.60 less an underwriter's discount of $113,587.50) plus accrued interest, if any, to the date of closing, subject to the terms of the Bond Purchase Agreement between the Issuer and the Underwriter. The Bond Purchase Agreement provides that the Underwriter shall purchase all of the Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The initial public offering prices set forth on the cover page hereof may be changed from time to time by the Underwriter.

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.

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/ Karlene Fine
Executive Director and Authorized Officer
Industrial Commission of North Dakota

APPENDIX A

General Information Regarding
The State of North Dakota

(This page has been left blank intentionally.)

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 Agriculture Commissioner 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, Agriculture Commissioner

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 Budget Section of the Legislative Council may file an objection to an allotment or the failure to allot, but the objection does not change the action of the Office of Management and Budget.

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.

2002 Allotments

On July 9, 2002 Governor John Hoeven stated that based on a new 2001-2003 forecast the State of North Dakota was facing a $43 million shortfall in General Fund revenues. The Governor immediately directed that two steps be taken to resolve the shortfall. First, the Governor directed that an additional $25,000,000 be transferred from the Bank of North Dakota to the General Fund during the 2001-2003 biennium. Secondly, he authorized the Director of the Office of Management and Budget to implement the allotment process and direct a 1.05% allotment (a reduction in General Fund appropriation authority) for all General Fund agencies totaling $18 million. This allotment impacts all state agencies that receive General Fund appropriations except for the Department of Public Instruction as it relates to the funding of foundation aid, transportation aid and special education aid. (As noted above under "Non-Legislative Powers to Control Expenditures from Appropriations" the Department of Public Instruction's allotment is offset by transfers from the foundation aid stabilization fund.) It is not expected that the allotments will impact the lease payments for debt service during the current 2001-2003 biennium.

On August 22, 2002 the Budget Section of the North Dakota Legislature met and approved the transfer of up to $25,000,000 from the Bank of North Dakota to the extent necessary to meet the revenue shortfall. The Budget Section did not file any objections to the allotment.

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
Revenues					
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
Expenditures					
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
Other Financing Sources (Uses)					
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 Fiscal Year 2002 (dollars in millions).

Quarter	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002
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	16.9
Fourth	66.4	76.5	66.0	43.0	74.0	2.7

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.

	1993-95	1995-97	1997-99	1999-01
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
Disbursements	(3,883,879,882)	(4,244,012,868)	(4,770,191,532)	(5,438,453,710)
Cash Balance Ending June 30	$ 170,958,855	$ 210,872,624	$ 221,694,897	$ 334,139,162

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

Purpose		Appropriation
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		25,551,669
TOTAL		$1,746,983,713

Note: Using the allotment process, the General Fund 2001-2003 appropriation has been reduced by $18,316,037. See "2002 Allotments" herein.

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	1997-1999 Actual Collections	1999-2001 Actual Collections	2001-2003 Legislative Forecast	2001-2003 Revised Forecast[(2)]
Sales and Use Tax	$ 569,501,827	$ 613,066,466	$ 643,705,000	$ 642,969,748
Motor Vehicle	94,863,089	109,115,230	113,531,000	118,425,256
Individual Income Tax	358,287,825	409,331,437	450,847,000	397,216,355
Corporate Income Tax	123,420,219	99,134,855	104,439,000	84,701,973
Business Privilege Tax	6,494,162	5,464,955	4,800,000	5,101,892
Cigarette and Tobacco Tax	44,091,170	41,706,350	38,796,000	38,738,046
Oil and Gas Production Tax	26,973,613	38,433,365	38,431,000	38,115,849
Oil Extraction Tax	16,703,114	23,566,635	23,569,000	22,944,638
Coal Severance Tax	22,596,137	22,173,854	0	0
Coal Conversion Tax	23,786,790	25,672,170	48,670,000	47,266,821
Insurance Premium Tax	33,133,216	39,113,433	39,896,000	46,633,682
Wholesale Liquor Tax	11,140,328	10,321,999	10,540,543	11,159,550
Gaming Tax	22,801,868	27,437,507	20,403,000	23,928,000
Departmental Collections	32,997,069	40,816,171	48,977,350	55,647,050
Interest Income	19,013,889	20,832,123	21,011,000	10,889,000
Mineral Leasing Fees	7,257,989	9,531,698	6,757,500	4,976,000
Bank of North Dakota Transfers	29,600,000	50,000,000	60,000,000	60,000,000
State Mill Transfers	3,000,000	3,000,000	6,000,000	6,000,000
Student Loan Trust Fund Transfers	0	0	9,000,000	9,000,000
Gas Tax Administration	1,128,872	1,380,608	1,363,392	1,363,392
Other Transfers[(1)]	36,713,873	5,159,194	15,578,922	16,349,772
Total	$1,483,505,050	$1,595,258,050	$1,706,315,707	$1,641,427,024

(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.

(2) The 2001-2003 revised forecast shows decreased revenues of $64,888,683. This budget gap has been closed by a) the allotment noted in "2002 Allotments" in the amount of $18,343,329; b) the additional $25,000,000 transfer from the Bank of North Dakota, and c) the use of the higher than anticipated ending fund balance from the prior biennium.

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

(1) Using the allotment process, the General Fund 2001-2003 appropriation has been reduced by $18,316,037. See "2002 Allotments" herein.

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:

	2001
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 benefication 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, 1998 TO 2002

TAX TYPE	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Sales and Use Taxes(1)	$363,095,256	$383,173,850	$390,332,981	$ 398,639,332	$401,554,861
Oil Extraction Tax	15,328,212	12,074,588	22,033,670	24,793,997	17,068,846
Gross Production Tax	29,521,309	22,705,995	38,464,671	46,029,027	36,515,072
Motor Fuels Taxes	105,131,399	103,050,448	111,937,585	112,685,871	111,635,118
Individual Income Tax	177,904,251	181,389,034	198,287,830	213,442,150	198,922,525
Corporation Income Tax	65,543,025	57,877,194	47,528,001	51,606,853	41,600,758
Coal Taxes(2)	37,257,693	38,274,528	38,959,421	39,539,107	38,200,783
All Other Taxes and Fees(3)	86,067,863	106,892,031	109,509,989	117,682,317	121,243,054
Total Net Collections	**$879,849,008**	**$905,437,668**	**$957,054,148**	**$1,004,418,654**	**$966,741,017**

(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 in its capacity as the North Dakota Building Authority previously issued and has outstanding as of October 1, 2002, Lease Revenue Bonds as follows:

1993 Series A:	
5.50% to 5.90% Serial Bonds, due June 1, 2003-2007	$10,990,000
6.00% Term Bond, due June 1, 2010	8,270,000
1998 Series A:	
4.40% to 5.125% Serial Bonds, due December 1, 2002-2013	4,640,000
5.125% Term Bond, 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 Bond, due December 1, 2021	2,700,000

2002 Series A:	
3.50% to 5.125% Serial Bonds, due December 1, 2003-2017	7,390,000
5.20% Term Bond, due December 1, 2019	815,000
5.25% Term Bond, due December 1, 2022	1,390,000
2002 Series B:	
4.00% to 5.20% Serial Bonds, due December 1, 2003-2006	1,535,000
2002 Series C:	
3.00% to 4.30% Serial Bonds, due August 15, 2003-2014	10,665,000
2002 Series D:	
3.00% to 4.50% Serial Bonds, due December 1, 2002-2016	16,425,000
Total Outstanding (Excluding the Bonds)	**$95,150,000**

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, at the State Penitentiary and at 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 Bonds will be used to current refund the June 1, 2004 to 2010 maturities, totaling $17,295,000 of the 1993A Bonds. At the time the Bonds are delivered, the amount necessary to defease the 2003 maturity and accrued interest will deposited into the Bond Fund by the Issuer. See "PLAN OF REFUNDING" herein.

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 2002A Bonds were issued to finance a portion of the construction of a Bismarck service delivery office for Job Service North Dakota, a laboratory addition for the North Dakota State Department of Health and certain energy conservation projects at the University of North and North Dakota State University for the State Board of Higher Education.

The 2002B Bonds were issued to finance a portion of certain energy conservation projects at the University of North Dakota for the State Board of Higher Education.

The 2002C Bonds were issued to current refund the callable maturities of the then outstanding 1993 Series B Bonds. The 1993B Bonds were called on August 15, 2002 at a price of par.

The 2002D Bonds were issued to advance refund all of the outstanding maturities of the 1995 Series A Bonds totaling $15,225,000. The 1995A Bonds will be called on December 1, 2004 at a price of par.

North Dakota Building Authority bonds do not constitute an obligation of the State within the meaning of any constitutional or statutory provision. All of the North Dakota 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 June 30, 2002 is shown below:

	Outstanding
State of North Dakota Student Loan Revenue Bonds	$ 190,504,800
North Dakota Municipal Bond Bank Bonds(1)	143,240,000
North Dakota Housing Revenue Bonds, including accreted value	711,640,000
Board of Higher Education(2)	53,014,000
North Dakota State Water Commission(3)	45,629,980
Lignite Bonds(3)	4,600,000
Total	$1,148,628,780

(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.

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

Below is a table listing the major crops of North Dakota in 2001, 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 2001

Crop	Rank in Nation	Percent of U.S. Production
All Wheat	2nd	15%
Durum Wheat	1st	65%
Spring Wheat	1st	46%
Barley	1st	32%
Flaxseed	1st	95%
All Sunflower	1st	44%
Sunflower, Oil	1st	44%
Sunflower, Non-Oil	1st	44%
All Dry Edible Beans	1st	32%
Pinto Beans	1st	47%
Navy Beans	1st	57%
Canola	1st	90%
Dry Edible Peas	1st	46%
Oats	1st	13%
Rye	4th	5%
Sugar Beets	3rd	17%
Lentils	3rd	21%
Potatoes	4th	6%
All Hay	10th	3%
All Other Hay	17th	2%
Alfalfa Hay and Mixtures	10th	4%
Soybeans	11th	2%
Corn for Silage	20th	2%
Corn for Grain	17th	1%
Honey	2nd	14%
Total Acreage of Principal Crops Harvested	4th	6%

Source: North Dakota Agricultural Statistics Service.

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

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

	Receipts	Rank Among All States
Crops	$2,050,659	15th
Livestock	639,401	37th
Total Crops & Livestock	$2,690,060	28th
Government Payments	1,170,234	7th
TOTAL	$3,860,294	
Five Leading Commodities[1]:		
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

Year	Amount
2000	$24,744
1999	16,928
1998	24,706
1997	5,133
1996	34,970

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 84,728 barrels/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

Year	Population	Percent Change
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

Age	Population	Percent
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+	94,478	14.7%
Total	642,200	100.0%

Source: U.S. Census Bureau.

Total average nonagricultural employment in the State in 2001 was approximately 330,050. Below is a table with North Dakota annual nonagricultural employment for the years 1997 through 2001.

North Dakota Annual Average Total Nonagricultural Employment

	1997	1998	1999	2000	2001
Mining	4,200	3,900	3,500	3,750	3,750
Construction	14,950	15,600	16,650	16,150	15,200
Manufacturing:					
Durable Goods	13,450	13,950	14,350	15,200	15,700
Non-Durable Goods	9,950	10,150	9,850	9,750	9,750
Total Manufacturing	23,400	24,100	24,200	24,950	25,450
Total Goods Employment	42,550	43,600	44,350	44,850	44,400
Transportation, Comm. & Public Utilities	18,050	17,950	18,500	18,700	19,100
Wholesale Trade	21,550	21,700	21,850	21,400	20,950
Retail Trade	59,000	59,550	59,550	60,300	60,700
Finance, Insurance & Real Estate	14,750	15,800	16,400	16,600	17,100
Other Services	87,450	89,850	91,400	92,400	94,200
Government	70,750	71,100	71,800	72,850	73,600
Total Services Employment	271,550	275,950	279,500	282,250	285,550
Total Nonagricultural Employment	314,100	319,550	323,850	327,100	330,050

Source: North Dakota Job Service.

Annual Average
Unemployment Rates

	1997	1998	1999	2000	2001
United States	4.9%	4.5%	4.2%	4.0%	4.8%
North Dakota	2.5%	3.2%	3.4%	3.0%	2.8%
Bismarck MSA	2.5%	3.0%	3.0%	2.5%	2.5%
Fargo MSA	1.8%	1.7%	2.0%	2.0%	1.9%
Grand Forks MSA	3.6%	2.7%	3.0%	3.4%	3.2%

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

	1980	1990	1995(1)	1997(1)	1998(1)	1999(1)	2000(1)	2001(2)	2001 Rank
United States	$9,940	$18,667	$23,272	$25,427	$26,909	$27,859	$29,451	$30,271	--
North Dakota	7,641	15,320	18,890	20,506	22,785	23,053	24,780	25,538	37th
Other Northern Plains States									
Minnesota	9,982	18,784	24,320	27,112	29,109	30,127	31,913	32,791	8th
Iowa	9,346	16,683	20,991	23,503	24,531	24,945	26,376	27,283	33rd
South Dakota	7,701	15,628	19,597	21,893	23,484	24,491	25,993	26,301	36th
Montana	8,728	14,743	18,588	19,909	21,235	21,511	22,541	23,532	46th

(1) Revised
(2) Preliminary

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 1997-2001.

Sales Category	1997	1998	1999	2000	2001
Mining, Construction, & Manufacturing	$ 522,743,216	$ 590,765,427	$ 784,407,243	$ 580,127,107	$ 549,977,370
Transportation, Communication, & Public Utilities[1]	480,400,845	514,217,026	514,531,159	557,991,588	663,599,972
Wholesale & Retail Trade	4,714,754,818	4,657,277,531	4,847,392,217	4,959,812,547	5,164,228,454
Services	646,470,862	661,323,260	677,897,340	686,023,822	709,196,225
Other	40,178,554	52,528,621	45,640,042	45,126,743	60,126,069
Total	$6,404,548,295	$6,476,111,865	$6,869,868,001	$6,829,081,807	$7,147,128,090

(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.)

APPENDIX B

The Indenture and a Form of the Lease

(This page has been left blank intentionally.)

$15,145,000
NORTH DAKOTA BUILDING AUTHORITY
LEASE REVENUE REFUNDING BONDS
2003 SERIES A

TRUST INDENTURE

AND

ASSIGNMENT OF LEASE RENTALS

between

NORTH DAKOTA INDUSTRIAL COMMISSION
acting in its capacity as the North Dakota Building Authority

and

BANK OF NORTH DAKOTA
as Trustee

Effective as of March 5, 2003
(Date of Initial Adoption November 13, 2002)

Cook Wegner & Wike PLLP
811 East Interstate Avenue, Suite B
Bismarck, ND 58503
Phone: (701) 255-1008
Fax: (701) 255-6325
E-mail: cww@cwwbondlaw.com

TABLE OF CONTENTS

ARTICLE VII
EVENTS OF DEFAULT; REMEDIES

ARTICLE VIII
THE TRUSTEE, PAYING AGENT AND REGISTRAR

ARTICLE IX
CONCERNING THE BONDHOLDERS

ARTICLE X
PAYMENT, DEFEASANCE AND RELEASE

ARTICLE XI
SUPPLEMENTAL INDENTURES

ARTICLE XII
AMENDMENTS TO LEASES

ARTICLE XIII

ARTICLE XIV
MISCELLANEOUS

TRUST INDENTURE

THIS TRUST INDENTURE AND ASSIGNMENT OF LEASE RENTALS by and between the State of North Dakota acting by and through the INDUSTRIAL COMMISSION OF NORTH DAKOTA acting in its capacity as the NORTH DAKOTA BUILDING AUTHORITY, a governmental agency created by the laws of the State, and the BANK OF NORTH DAKOTA, a bank organized by and existing pursuant to the laws of the State and having its main office and place of business in the City of Bismarck, North Dakota.

WITNESSETH

WHEREAS, the Authority (such term, and each other capitalized term used herein, having the meaning set forth in Appendix A hereof) is a duly organized and existing instrumentality of the State under the Act; and

WHEREAS, the Authority issued on February 1, 1993, the State of North Dakota, North Dakota Building Authority Refunding Lease Revenue Bonds, 1993 Series A in the original principal amount of $34,740,000 (the **"Prior Bonds"**), which refunded the State of North Dakota, North Dakota Building Authority Lease Revenue Bonds, 1990 Series A (State Board of Higher Education) in the original principal amount of $25,830,000, 1990 Series B (North Dakota Department of Corrections and Rehabilitation) in the original principal amount of $5,500,000, and 1990 Series C (Administrative Committee on Veterans' Affairs) in the original amount of $1,405,000 (the "Refunded Bonds"); and

WHEREAS, the Authority is authorized, under the Act, to issue and sell its bonds for the purpose of refunding bonds previously issued, paying all costs of issuance and funding of reserves, and is authorized to pledge revenues as herein provided to a trustee to secure the payment of principal and interest on bonds and to enter into this Indenture with the Trustee for the benefit and security of the Bondholders; and

WHEREAS, the Authority has deemed it advisable to refund the Prior Bonds and to preserve the pledge of the lease revenues and real property security interests pledged to the Prior Bonds to the Bonds issued hereunder and to enter into this Indenture to secure the payment of the Bonds described in this Indenture, and has duly authorized and directed the issuance of such Bonds; and

WHEREAS, the proceeds of such Bonds, together with any other available funds, will be used to refund the Prior Bonds, fund the Reserve Fund and pay costs of issuance; and

WHEREAS, the Authority has acquired interests in the Projects; and

WHEREAS, as permitted by the Act, the Authority has entered into the Leases with the Agency providing for, among other items, rentals payable in amounts and at times which shall include amounts adequate to pay the principal of and interest on the Bonds when due; and

WHEREAS, the execution and delivery of this Indenture and the issuance of the Bonds have been in all respects duly and validly authorized by the Authority pursuant to the Bond Resolution; and

WHEREAS, the execution and delivery of this Indenture has been duly authorized by the Authority, and all conditions, acts and things necessary and required by the Constitution and laws of the State, or otherwise, to exist, to have happened or to have been performed precedent to and in the execution and delivery of this Indenture, and in the issuance of the Bonds, do exist, have happened or have been performed in regular form, time and manner; and

WHEREAS, the Trustee has accepted the trust created by this Indenture and in evidence thereof has joined in the execution hereof;

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

GRANTING CLAUSES

That the Authority, in order to secure the payment of the principal of and interest on the Prior Bonds and the Bonds issued under this Indenture according to their tenor and effect and the performance and observance of each and all of the covenants and conditions herein and therein contained, whether now or hereafter existing and whether absolute or contingent, and for and in consideration of the premises and of the purchase and acceptance of the Bonds by the respective registered Owners thereof, and for other good and valuable consideration, the receipt whereof is hereby acknowledged, executed and delivered pursuant to the Prior Bonds Indenture, the Granting Clauses thereof which are incorporated by reference as though fully set out herein, and by such presents did mortgage, grant, bargain, sell, assign, transfer, convey, and pledge a security interest in and a lien upon and set over, unto the Trustee and to its successor or successors in the trust thereby created and to its assigns forever:

I.

All the Authority's present and future interest in the Projects and any Additional Security, as defined and described herein.

II.

The reversion or reversions, remainder or remainders, in and to the interests in the Projects described in Granting Clause I hereof and each and every part thereof, together with the entire interest of the Authority in and to all and singular the tenements, hereditaments, easements, rights, privileges and appurtenances to the Projects belonging or in any wise appertaining thereto.

III.

All right, title and interest of the Authority as lessor under the Leases and all Basic Rent payable under Section 3.3 of the Leases and the Additional Rent payable under Section 3.5(d) of the Leases, due or to become due thereunder or any extension or renewal thereof.

IV.

All the (i) moneys, securities and investments in the Bond Fund, the Reserve Fund, the Repair and Replacement Fund, and the Administration Fund covenanted to be created and maintained under this Indenture, and (ii) accounts, contract rights, general intangibles, moneys and instruments arising therefrom or relating thereto and all proceeds and products of and accessions to any thereof.

V.

All proceeds from any property described in the Granting Clauses and any and all other interests in the Leases for the Projects of every name and nature from time to time hereafter by delivery or by writing of any kind assigned or transferred, or in which a security interest is granted, by the Authority or the Agency or by anyone on behalf of them or with their written consent, to the Trustee which is hereby authorized to receive any and all such interest in the Leases for the Projects at any and all times and to hold and apply the same subject to the terms hereof.

SUBJECT, however, to Permitted Encumbrances, all benefit, security interest in and protection granted by this Indenture shall be perfected by filing in the records of the Commission pursuant to NDCC §54-17.2-17.

TO HAVE AND TO HOLD all and singular the property interests hereby conveyed and assigned, or agreed or intended so to be, to the Trustee, its successor or successors in trust and its assigns, FOREVER.

IN TRUST NEVERTHELESS, upon the terms and trust herein set forth, for the equal and proportionate benefit, security and protection of all Owners of the Bonds issued or to be issued under and secured by this Indenture, without preference, priority or distinction as to lien or otherwise of any of the Bonds over any of the others.

PROVIDED, HOWEVER, that if the Authority, its successors or assigns, shall well and truly pay or cause to be paid the principal, premium, if any, of the Bonds and the interest due or to become due thereon, at the times and in the manner mentioned in the Bonds according to the true intent and meaning thereof, or shall provide, as permitted hereby, for the payment thereof by depositing with the Trustee sums sufficient to pay the entire amount due or to become due thereon, and shall well and truly keep, perform and observe all the covenants and conditions pursuant to the terms of this Indenture to be kept, performed and observed by it and shall pay to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions hereof; then upon such final payment this Indenture and the rights hereby granted shall cease, determine and be void; otherwise, this Indenture to be and remain in full force and effect.

NOW, THEREFORE, it is mutually covenanted and agreed for the equal and proportionate benefit of all Owners of the Bonds as follows:

ARTICLE I
DEFINITION OF CERTAIN TERMS

Section 1.01. Defined Terms. Definitions used herein are defined in Appendix A hereto.

Section 1.02. Characteristics of Certificate. Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include: (1) a statement that the person or persons making such certificate or opinion have read such covenant or condition and the definitions herein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (3) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such covenant or condition has been complied with; and (4) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such certificate made or given by an officer of the Authority or the Agency may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by Counsel, unless such officer knows that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion may be based as aforesaid are erroneous, or, in the exercise of reasonable care, should have known that the same were erroneous. Any such certificate or opinion made or given by Counsel may be based (insofar as it relates to factual matters or information with respect to which is in the possession of the Authority or the Agency) upon the certificate or opinion of or representations by an officer or officers of the Authority or the Agency, unless such Counsel knows that the certificate or opinion or representations with respect to the matters upon which the opinion may be based as aforesaid are erroneous, or, in the exercise of reasonable care, should have known that the same were erroneous.

Section 1.03. Additional Provisions as to Interpretation. All references herein to "Articles", "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; and the words "herein", "hereof", "hereunder" and other words of similar import refer to this Indenture as a whole and not any particular Article, Section or subdivision hereof.

ARTICLE II
THE BONDS

Section 2.01. Authorization and Terms of Bonds. There is hereby established an issue of Bonds of the Authority to be issued as a single series of Bonds and to be known and designated as "North Dakota Building Authority Lease Revenue Refunding Bonds, 2003 Series

A". The aggregate principal amount of Bonds that may be authenticated and delivered under this Indenture is limited to and shall not exceed $16, 285,000, except as provided in Sections 2.06, 2.07, or 2.11 hereof.

The Bonds shall be dated as provided in Section 2.08 hereof, shall bear interest from their date until payment of principal has been made or provided for, payable at the rates per annum as shown below.

The Bonds shall mature on June 1 in each of the years and in the principal amounts, either as serial bond maturities or as sinking fund installments if all or a part of the Bonds are designated as Term Bonds, and shall bear interest at the rates per annum as set forth in Exhibits D and E hereto.

The Bonds shall be issued as fully registered Bonds without coupons in denominations of $5,000 and any integral multiple thereof. The Bonds shall be numbered in such manner, as the Registrar shall determine.

The Bond shall initially be issued as book-entry only bonds with one certificate issued for each stated maturity of the Bonds in the aggregate principal amount equal to the principal amount of that maturity set forth above. The Bonds shall be initially registered in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York ("DTC"), and the Trustee shall treat the record owner as the absolute owner of the Bonds. So long as Cede & Co. is the registered Owner of the Bonds, references herein to the Owner, Bondholder or Holder shall mean Cede & Co. and shall not mean the beneficial owners of the Bonds.

The Authority hereby authorizes any of its Authorized Officers to execute the Issuer Blanket Letter of Representations and to obtain from DTC an acknowledgment stating that DTC and its participants agree that the State and the Authority shall have no liability for the failure of DTC to perform its obligations to the participants as set forth in the "Operational Arrangements," "Rules" or "Procedures" of DTC; nor shall the State or the Authority be liable for the failure of any participant to perform any obligation the participant may incur to a beneficial owner of any Bond.

Interest on the Bonds is payable on June 1 and December 1 each year commencing December 1, 2003 and at Maturity and at the same respective rates per annum on overdue installments of interest (to the extent that the payment of such interest shall be legally enforceable).

The interest payable on each Interest Payment Date for the Bonds shall be that interest which has accrued through the last day of the last complete Interest Period immediately preceding the Interest Payment Date or, in the case of the Maturity of the Bonds, the last day preceding the date of such Maturity.

The principal of and premium, if any, on the Bonds shall be payable at the Principal Office of the Paying Agent, upon presentation and surrender of the Bonds. Payment of interest on any Bond shall be made to the Person who is the Owner thereof at 5:00 p.m. in the city in which the Principal Office of the Registrar is located on the Record Date for such Interest Payment Date by check or draft drawn upon the Paying Agent and mailed by the Paying Agent or by wire transfer in immediately available funds to any Holder, at its option, according to wire transfer instructions given to the Paying Agent in writing on or before a Record Date who agrees to pay the wire transfer service charge for such purpose in accordance with procedures prescribed by the Paying Agent. All payments of principal of and interest on the Bonds shall be made in lawful money of the United States of America.

The Bonds are subject to redemption before their Stated Maturities upon the terms and conditions and at the Redemption Prices specified in Article III hereof. Subject to the provisions of this Indenture, the Bonds shall be in substantially the form set forth in Section 2.04 hereof.

Section 2.02. Purposes of Issuance of Bonds. The Bonds are being issued (i) to refund the Prior Bonds, (ii) to deposit an amount in the Reserve Fund, and (iii) to pay Costs of Issuance.

Section 2.03. Deposit of Bond Proceeds and Transferred Proceeds. The proceeds derived from the sale of the Bonds, including any accrued interest on the Bonds paid as part of the purchase price thereof, less an underwriter's discount of $113,587.50, shall be deposited with the Trustee as follows:

(a)	To the Bond Fund (accrued interest, if any)	$ 0.00
(b)	To the Reserve Fund	$ 1,514,500.00
(c)	To the Administration Fund (net of $58,829.43 insurance premium)	$ 102,764.67
(d)	To the Bank of North Dakota for deposit in the Prior Bonds Bond Fund pursuant to the Prior Bonds Indenture	$ 19,995,933.75

Section 2.04. Form of Bonds. The Bonds, the certificate of authentication and the assignment shall be in substantially the form(s) of Exhibit A attached hereto with such variations, omissions and insertions as are incidental to their numbers, denominations, maturities, interest rates, redemption provisions and other details as permitted or required by law or by this Indenture.

Section 2.05. Execution, Authentication and Delivery. The Bonds shall be executed on behalf of the Authority by the manual or facsimile signatures of the Governor of the State and the seal of the Commission or a facsimile thereof shall be thereunto affixed and attested by the manual or facsimile signature of the Secretary of the Commission. In case any officer who shall have signed (whether manually or by facsimile) any of the Bonds shall cease to be such officer of the Authority or the Commission, as the case may be, before the Bonds have been authenticated or delivered or sold, such Bonds with the signature thereto affixed may nevertheless be authenticated and delivered, and may be sold by the Authority, as though the person who signed such Bonds had remained in office.

At any time and from time to time after the execution and delivery of this Indenture, the Authority may deliver Bonds executed by the Authority to the Trustee for authentication; and upon Authority Certificate the Trustee shall authenticate and deliver such Bonds as in this Indenture provided and not otherwise.

No Bond shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose, unless there appears on such Bond a certificate of authentication substantially in the form provided for in Exhibit A attached hereto executed by the Trustee by the manual signature of one of its authorized officers, and such certificate upon any Bond shall be conclusive evidence that the Bond has been duly authenticated and delivered hereunder. It shall not be necessary that the same officer or employee sign the certificate of authentication on all of the Bonds.

Section 2.06. Temporary Bonds. Pending the preparation of definitive Bonds, the Authority may execute, and upon Authority Certificate the Trustee shall authenticate and deliver, temporary Bonds which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Bonds in lieu of which they are issued, in fully registered form without coupons, with such appropriate insertions, omissions, substitutions and other variations as the officer of the Authority executing the temporary Bonds may determine, as evidenced by his signing of the temporary Bonds.

If temporary Bonds are issued, the Authority will cause definitive Bonds to be prepared without unreasonable delay. After the preparation of definitive Bonds, the temporary Bonds shall be exchangeable for definitive Bonds upon surrender of the temporary Bonds at the Principal Office of the Registrar, without charge to the Owners thereof. Upon surrender for cancellation of any one or more temporary Bonds, the Authority shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Bonds of authorized denominations of like series, Stated Maturities and interest rates. Until so exchanged the temporary Bonds shall in all respects be entitled to the same benefits under this Indenture as definitive Bonds.

Section 2.07. Mutilated, Destroyed, Lost and Stolen Bonds. If the Authority, the Registrar and the Trustee receive evidence satisfactory to them of the ownership of and the loss, theft, destruction or mutilation of any Bond and, in the case of a lost, stolen or destroyed Bond, indemnity satisfactory to them, and in the case of a mutilated Bond, upon surrender and cancellation of the Bond, then in the absence of notice to the Authority, the Registrar or the Trustee that such Bond had been acquired by a bona fide purchaser, the Authority shall execute, and the Trustee shall authenticate and deliver, a new Bond of like tenor, principal amount, series, Stated Maturity and interest rate in lieu of the lost, stolen, destroyed or mutilated Bond; provided, that if the lost, stolen, destroyed or mutilated Bond shall have matured or shall have been called for redemption, in lieu of executing and delivering a new Bond as aforesaid, the Authority may pay the Bond. Any such new Bond shall bear a number not previously assigned to a Bond. The applicant for any such new Bond shall comply with the reasonable regulations prescribed by the Authority, the Registrar and the Trustee and shall be required to pay all expenses and charges of the Authority, the Registrar and the Trustee in connection with the issuance of the new Bond. All Bonds so surrendered to the Trustee shall be canceled by it, and evidence of the cancellation shall be given to the Authority.

Every new Bond issued pursuant to this Section in lieu of any destroyed, lost or stolen Bond shall constitute an original additional contractual obligation of the Authority, whether or not the destroyed, lost or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Bonds duly issued and authenticated hereunder. Neither the Authority, the Trustee nor the Registrar shall be required to treat both the original Bond and any duplicate Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued hereunder or for the purpose of determining any percentage of Bonds Outstanding hereunder, but both the original and duplicate Bond shall be treated as one and the same.

All Bonds shall be held and owned upon the express condition that, to the extent permitted by law, the foregoing provisions of this Section are exclusive with respect to the replacement and payment of mutilated, destroyed, lost or stolen Bonds.

Section 2.08. Interest Rights Preserved; Dating of Bonds. Each Bond delivered under this Indenture upon transfer or exchange for, or in lieu of, any other Bond shall carry all the rights to interest accrued and unpaid, and to accrue, which were carried by such other Bond, and each such Bond shall be so dated that neither gain nor loss in interest shall result from such transfer, exchange or substitution. Each Bond shall be dated by the Trustee as of the last Interest Payment Date preceding the date of authentication to which interest on the Bond has been paid or made available for payment, unless (i) the date of authentication is an Interest Payment Date to which interest has been paid or made available for payment, in which case such Bond shall be dated as of the date of authentication, or (ii) the date of authentication is before December 1, 2003, in which case such Bond shall be dated as of March 5, 2003.

Section 2.09. Persons Deemed Owners. The Authority, the Trustee, each Paying Agent, the Registrar and any other agent of the Authority may treat the Person in whose name any Bond is registered on the Register as the Owner of such Bond for the purpose of receiving payment of principal of and interest on such Bond and for all other purposes whatsoever, whether or not such Bond be overdue, and neither the Authority, the Trustee, any Paying Agent, the Registrar nor any other agent of the Authority shall be affected by notice to the contrary.

Section 2.10. Cancellation. All Bonds surrendered for payment, redemption, exchange or transfer, if surrendered to the Trustee, shall be promptly cancelled by it, and, if surrendered to any Person other than the Trustee, shall be delivered to the Trustee and, if not already canceled, shall be promptly canceled by it. The Authority may at any time deliver to the Trustee for cancellation any Bonds previously authenticated and delivered hereunder, which Bonds so delivered shall be promptly canceled by the Trustee. The Authority authorizes and directs the Trustee to destroy any Bonds surrendered to it for cancellation and to furnish certification evidencing such destruction to the Authority.

Section 2.11. Registration, Transfer and Exchange of Bonds. The Authority shall cause to be kept at the Principal Office of the Registrar a Register, which subject to such reasonable regulations as it may prescribe, the Authority shall provide for the registration and transfer of Bonds.

The Registrar shall adhere, with respect to transfer of Bonds, to the standards for efficiency in transfer agent performance established in Securities and Exchange Commission Rules 17Ad-2 through 17Ad-7 under the Securities Exchange Act of 1934, including Rule 17Ad-2, which requires that registered transfer agents process at least 90% of routine items (such as certificates presented for transfer) received during any month within three business days of their receipt.

Upon surrender for transfer or exchange of any Bond at the Principal Office of the Registrar, the Authority shall execute and the Trustee shall authenticate and deliver in the name of the transferee or transferees, or in exchange for the Bond surrendered, one or more new fully registered Bonds of authorized denomination or denominations of like aggregate principal amount having the same series, Stated Maturity and interest rate and bearing numbers not previously assigned to Bonds.

All Bonds executed, delivered and authenticated pursuant to the preceding paragraph shall be registered in the name of the Owner presenting the Bond for exchange or the designated transferee, as the case may be, on the Register on the date of such transfer or exchange.

All Bonds surrendered upon any exchange or transfer provided for in this Indenture shall be promptly canceled by the Trustee and thereafter disposed of pursuant to Section 2.10 hereof.

All Bonds issued upon any transfer or exchange of Bonds shall be the valid obligations of the Authority evidencing the same debt, and entitled to the same security and benefits under this Indenture, as the Bonds surrendered upon such transfer or exchange or in lieu of which such Bonds were issued.

Every Bond presented or surrendered for transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Registrar, duly executed, by the Owner thereof or his attorney duly authorized in writing, with signature guarantees satisfactory to the Registrar.

The Authority and the Trustee may require payment by the Bondholder of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Bonds, other than exchanges under Section 2.06 hereof not involving any transfer. All other expenses incurred by the Authority, the Trustee or the Registrar in connection with any transfer or exchange of Bonds shall be paid by the Authority.

The Authority shall not be required to transfer or exchange any Bond, (i) during a period beginning at the opening of business 15 days before any selection of Bonds for redemption and ending at the close of business on the day of such selection, (ii) selected for redemption in whole or in part, or (iii) during the period beginning on the Record Date and ending on the next succeeding Interest Payment Date. The Trustee shall give the Registrar prompt notice of the commencement of any period specified in the respective clauses of the preceding sentence.

ARTICLE III
REDEMPTION; PURCHASE OF BONDS

Section 3.01. Optional Redemption of Bonds. The Bonds are not subject to call and redemption prior to maturity, except as described under Section 3.02(b) below.

Section 3.02. Sinking Fund Redemption of Bonds and Extraordinary Optional Redemption.

(a) Sinking Fund Redemption of Term Bonds. Any Term Bond or Bonds in principal amount set out in any Exhibit E attached hereto is or are subject to sinking fund redemption in part by lot at a Redemption Price equal to 100% of the principal amount thereof together with accrued interest thereon to the Redemption Date on June 1 of the years and in the principal amounts set out in any Exhibit E attached hereto.

Within ten (10) days before the thirtieth (30th) day prior to each Redemption Date, the Trustee will proceed to select for redemption (by lot in such manner as the Trustee may determine) from all Outstanding Term Bonds a principal amount of such Term Bonds equal to the aggregate principal amount of such Term Bonds redeemable on the Redemption Date and will call such Term Bonds or portions thereof ($5,000 in principal amount or any integral multiple thereof) for redemption on such Redemption Date and give notice of such call at the time and in the manner provided by Section 3.04 hereof.

In the event that Term Bonds are purchased or redeemed at the option of the Authority pursuant to Section 3.02(b) hereof, such Term Bonds may, at the option of the Authority, be applied as a credit against any subsequent redemption requirement for the respective series of Bonds under this Section 3.02(a). Such credit shall equal the principal amount of such Term Bonds purchased or redeemed. The Authority shall notify the Trustee in writing not less than forty-five days prior to the Redemption Date of its election to apply such Term Bonds as a credit and the Trustee shall reduce the amount of the respective Term Bonds to be paid or redeemed on the Redemption Date specified by the Authority. If the Authority fails to notify the Trustee at or before the time required above, the Authority shall not be permitted to make such reduction in the redemption payable on such Redemption Date.

(b) Extraordinary Optional Redemption. In the event of damage, destruction or Condemnation of a Project or any portion thereof, which is leased to an Agency pursuant to a Lease, Bonds shall be subject to redemption prior to their Stated Maturity, in whole or in part, on any Business Day, at a Redemption Price equal to 100% of the principal amount of such Bonds or portions thereof to be redeemed, together with accrued interest thereon to the Redemption Date, in the principal amount equal to moneys which are deposited in or transferred to the Bond Fund pursuant to Section 4.4 of the Lease. The Trustee shall apply any such amounts described above to the redemption of the Bonds in accordance with the applicable provisions of such Section and this Section 3.02(b) on the first day of the month after which proper notice of redemption has been given; provided, however, that such amount to be applied to such redemption shall be rounded to the next lower $5,000 multiple.

The Bonds to be redeemed in accordance with this Section 3.02(b) shall be selected by the Authority pursuant to an Authority Certificate in the manner set forth in Section 3.03 hereof.

Section 3.03. Selection of Bonds for Redemption. The Outstanding Bonds subject to redemption shall, unless otherwise directed by the Authority, be redeemed on a pro rata basis among all Outstanding Bonds. If less than all of the Outstanding 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 not less than $5,000.

The Trustee shall promptly notify the Authority, the Registrar and each Paying Agent in writing of the Bonds selected for redemption and, in the case of any Bond selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Bonds shall relate, in the case of any Bond redeemed or to be redeemed only in part, to the portion of the principal of such Bond which has been or is to be redeemed.

Section 3.04. 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 thirty (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.

All notices of redemption shall state:

(a) the Redemption Date,

(b) the Redemption Price,

(c) the name and series designation of the Bond to be redeemed, the principal amount of Bonds to be redeemed, and, if less than all Outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed,

(d) that, on the Redemption Date, the Redemption Price of and accrued interest on each such Bond will become due and payable and that the interest on each such Bond shall cease to accrue on and after such date,

(e) the place or places where such Bonds are to be surrendered for payment of the Redemption Price thereof and accrued interest thereon, and

(f) if it be the case, that such Bonds are to be redeemed by the application of certain specified trust moneys and for certain specified reasons.

Notice of redemption having been given as aforesaid and moneys sufficient to pay the Redemption Price and accrued interest thereon to the Redemption Date having been deposited with the Trustee on or prior to the Redemption Date: the Bonds so to be redeemed shall on the Redemption Date, become due and payable at the Redemption Price specified plus accrued interest thereon to the Redemption Date and on and after such date (unless the Authority shall default in the payment of the Redemption Price and accrued interest) such Bonds shall cease to bear interest. Upon surrender of any such Bonds for redemption in accordance with such notice, such Bond shall be paid at the Redemption Price thereof plus accrued interest to the Redemption Date. Installments of interest due on or before the Redemption Date shall continue to be payable to the applicable Bondholder.

Any Bond which is to be redeemed only in part shall be surrendered to the Registrar (with, if the Registrar so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Registrar, duly executed by the Owner thereof or his attorney duly authorized in writing) and the appropriate officers of the Authority shall execute and the Trustee shall authenticate and deliver to the Owner of such Bond, without service charge, a new Bond or Bonds of any authorized denominations, of the same series and having the same Stated Maturity and interest rate, as requested by such Owner, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Bond so surrendered.

In addition to the foregoing notice, further notice shall be given by the Trustee as set out below, but no defect in such further notice nor any failure to give all or any portion of such further notice shall in any manner affect the validity of the proceeding for redemption of any Bonds if notice thereof is given as above prescribed.

(a) Each further notice of redemption given hereunder shall contain the information required above for an official notice of redemption plus (i) the CUSIP numbers of all Bonds being redeemed; (ii) the date of issue of the Bonds as originally issued; (iii) the rate of interest borne by each Bond being redeemed; (iv) the Maturity date of each Bond being redeemed; and (v) any other descriptive information needed to identify accurately the Bonds being redeemed.

(b) Each further notice of redemption shall be sent at least 30 days before the Redemption Date by telecopy, registered or certified mail or overnight delivery service to:

The Depository Trust Company
Attention: Supervisor, Call Notification Department
55 Water Street
50th Floor
New York, NY 10041-0099
FAX: (212) 855-7232, 7233, 7234, 7285

and if the Depository Trust Company is not the sole depository then to all other registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds designated to the Trustee by the Authority. Such notice shall also be sent to Moody's and S & P and to any other nationally-recognized information services as designated by the Authority to the Trustee.

(c) Upon the payment of the Redemption Price of Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying, by issue and Maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

No notices of redemption under this Section 3.04 other than any redemption of Term Bonds shall be sent by the Trustee until funds sufficient for such redemption have been deposited to the credit of the Bond Fund or until arrangements satisfactory to the Trustee have been made for such deposit of funds.

Section 3.05. 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 this Section 3.05. 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.

ARTICLE IV

(RESERVED)

ARTICLE V
FUNDS; DISPOSITION OF PLEDGED REVENUES

Section 5.01. 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 this Indenture.

The Trustee shall deposit into 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 Leases, (iii) any Balance remaining in the Administration Fund relating to the Bonds as required by Section 5.06 hereof, (iv) investment earnings as provided in Section 5.03 hereof, (v) the money authorized to be transferred from the Reserve Fund hereunder, (vi) money transferred pursuant to Sections 3.01 and 3.02 hereof 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 this Indenture to be deposited in the Bond Fund or paid to the Trustee under the Leases or this Indenture for credit to the Bond Fund.

Any Balances in the Bond Fund shall be used for the payment when due of the principal of and interest on the Bonds and to pay the principal of and interest on the Bonds duly called for redemption in accordance with Article III hereof. Amounts required for such purpose shall be applied by the Trustee therefor without further authorization or direction.

Section 5.02. 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 hereof.

The value of Permitted Investments credited to the Reserve Fund shall be determined by the Trustee as of each Interest Payment Date. In the event the Balance in the Reserve Fund is less than the Reserve Fund Requirement, the Trustee will deposit amounts paid to the Trustee pursuant to Section 3.5(d) of the Leases. In the event the Balance in the Reserve Fund is greater than the Reserve Fund Requirement, the Trustee shall transfer such excess to the Rebate Fund or Bond Fund. Any interest or profit derived from investments shall be credited to the Rebate Fund or the Bond Fund at the direction of the Authority.

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) hereof, 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 5.03. Investment of Funds. Moneys on deposit to the credit of the Funds shall be invested by the Trustee in Permitted Investments. The Trustee may make any and all investments permitted under this Section through its own investment department. Obligations so purchased shall be deemed at all times to be a part of the respective Fund, but may from time to time be sold or otherwise converted into cash, whereupon the proceeds derived from such sale or conversion shall be credited to such Fund. Any interest accruing or any profit realized from such investment shall be credited to the specific Fund as specified elsewhere in this Indenture. However, investment income credited to the Bond Fund shall be credited against the amount of Basic Rent required to be deposited in the Bond Fund under Section 3.3 of the Leases prior to the next Interest Payment Date. The Trustee shall redeem or sell, at the best price obtainable, any obligations so purchased, whenever it shall be necessary to do so in order to provide moneys to meet any payment from the Bond Fund. The Authority shall direct the Trustee to, or in the absence of direction the Trustee shall, invest and reinvest the moneys in any Fund or any combination of Funds in Permitted Investments so that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended. If such Permitted Investments include any book entry government securities, the Trustee shall have such Permitted Investments held in the name of the Trustee at the appropriate Federal Reserve Bank. The Trustee shall sell at the best price obtainable in accordance with usual and customary trust department procedures, or present for redemption, any Permitted Investments purchased by it as an investment whenever it shall be necessary to provide moneys to meet any payment from such Fund. Neither the Trustee nor the Authority shall be liable for any loss resulting from any such investment, nor from failure to preserve rights against endorsers or other prior parties to instruments evidencing any such investment. Investment of funds pursuant to this Section shall be limited as to amount and Yield of investment in such manner that no part of the Outstanding Bonds shall be deemed "arbitrage bonds" under Section 148 of the Internal Revenue Code and regulations promulgated thereunder, and in accordance with the Tax Certificate.

Section 5.04. Transfer of Permitted Investments. Whenever any transfer is required by this Indenture to be made from any Fund to any other Fund, the Trustee may use Permitted Investments included in the Balance of the former to the extent necessary to make such transfer, but only to the extent such Permitted Investments are permissible investments for the Fund to which they are to be transferred. The amount of any such transfer of Permitted Investments shall be the value of Permitted Investments determined with respect thereto as of the date of transfer.

Section 5.05. Termination. When no Bonds remain Outstanding, the Trustee shall transfer to the Authority, or to the order of the Authority, the Balances in all Funds if, and to the extent that, such Balances are in excess of amounts needed to pay principal of and interest on the Bonds, any amount required to be rebated to the United States and the Bond Fees. To the extent that such Balances are needed to pay such amounts or fees, the Trustee shall retain such Balances hereunder and pay such amounts or fees to the Persons to whom such amounts are due and payable as provided hereunder. In the event that any portion or all of the Balances in the Funds payable to the Authority pursuant to this Section consist of Permitted Investments which are payable solely to the Trustee and cannot be effectively transferred to the Authority, the Trustee shall continue to hold such Permitted Investments under this Indenture on behalf of the Authority until such time as such securities can be transferred to the Authority or amounts payable thereunder received, whether by acceleration at the option of the holder thereof, at maturity or otherwise, all at the direction of an Authorized Officer.

Section 5.06. 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 hereof. The Trustee shall also credit to the Administration Fund all amounts received pursuant to Section 3.5(a), (b) and (c) of the Leases.

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 this Indenture, 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.

The Balance in the Administration Fund shall also be applied to the following purposes in the following order of priority: to remedy deficiencies in the Bond Fund; to remedy deficiencies in the Rebate Fund; to pay Costs of Issuance, Bond Fees and Administrative Expenses; and any reimbursement to the Agency.

When directed by the Authority, any Balance remaining in the Administration Fund from the Bond proceeds deposited to the credit of the Administration Fund pursuant to Section 2.03 hereof shall be deposited by the Trustee in the Bond Fund and applied as provided in Section 5.01 hereof.

Pending transfers from the Administration Fund, the moneys therein shall be invested in Permitted Investments, and any earnings on or income from such investments shall be deposited in the Bond Fund as provided in Section 5.01 hereof.

Section 5.07. Building Authority Fund. All Funds created by this Indenture shall be Funds within the Building Authority Fund as established by NDCC §54-17.2-20.

Section 5.08. Rebate Fund. 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 this Section 5.08, 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 5.09. 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, if the Agency has elected to repair or restore the Project as provided in Section 4.4 of the applicable Lease. 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.

ARTICLE VI
PARTICULAR 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 6.01. Payment of Bonds. It will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture and the Bond Resolution and in each and every Bond executed, authenticated and delivered hereunder; will pay or cause to be paid, solely from the Basic Rent, any pledged net revenues and income of the Projects, the principal of, premium, if any, and interest on every Bond issued hereunder 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 Projects, those moneys held by the Trustee hereunder and hereby appropriated to such payment, and/or any other funds available and authorized by law.

Section 6.02. 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 compliance with its continuing disclosure undertaking and for the payment of Rent pursuant to the Leases, if the Agency has failed to comply with the requirements of Section 3.13 of the Leases 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 6.03. Powers of the Authority. It is duly authorized under the Constitution and laws of the State to acquire, install, renovate, construct and lease the Projects, to issue and sell the Bonds, to refund the Prior Bonds, to execute this Indenture and the Bond Purchase Agreement and assign and pledge to the Trustee the Trust Estate, including any pledged net revenues and income of the 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, the refunding of the Prior Bonds, and the execution and delivery of this Indenture and the Bond Purchase Agreement 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 6.04. Title or Other Real Property Interest and Possession. It is lawfully possessed of the Projects, subject only to the provisions of the Act. Title to or other legally sufficient real property interest in the 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 Projects pursuant to the Leases other than the pledge and lien granted or assigned to the Trustee by this Indenture.

Section 6.05. 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 Projects, the Sites, 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 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 6.06. To Maintain the Projects. It will not do or suffer to be done any act or thing whereby the Projects might or could be encumbered or the usefulness thereof impaired, and will at all times cause the Projects and the machinery, equipment, and the Sites 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 6.07. Concerning the Leases. It will not modify or amend or consent to modification or amendment of the provisions of the Leases 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 Leases, including the exercise of any right of repossession of the Projects or termination of the Agency's rights as tenant under the Leases 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 Leases so that the obligations of the Agency thereunder shall not be impaired or excused. If the Leases shall terminate, the Authority shall use its best efforts to again lease the Projects for the purposes and in accordance with the requirements of the Act subject to the rights of the Trustee.

Section 6.08. Not to Sell, Assign, Encumber or Pledge. Except as permitted by the terms of this Indenture, it will not sell, assign or encumber the Projects, or permit the same to be sold, assigned or encumbered except for Permitted Encumbrances; will not mortgage or encumber the Projects or pledge or assign any pledged revenues and income of the Projects or any part thereof, or permit an encumbrance of the 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 Projects or any pledged revenues and income of the 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 6.09. 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 Projects.

Section 6.10. Fire and Extended Coverage Insurance on the Projects. The Authority will cause the Agency to procure and maintain, so long as any Bonds are Outstanding hereunder, insurance pursuant to the requirements of Article IV of the Leases.

Section 6.11. Concerning the Insurance Policies. In case of any default by the Agency in fulfilling the covenants with respect to maintaining any of the insurance policies required under Section 4.3 of the Leases and Section 6.10 hereof, the Trustee may, and at the direction of the Authority upon indemnification of the Trustee satisfactory to the Trustee shall, effect such insurance in the name of the Authority or the Agency or in the name of the Trustee. All money paid by the Trustee as premiums upon such insurance shall be repaid to it by the Agency, upon demand, with interest at the rate equal to the base rate of the Bank of North Dakota and, if not so repaid, shall be secured by the lien of this Indenture subordinate to the indebtedness evidenced by the Bonds issued hereunder.

Upon the happening of any loss or damage covered by any such policies from one or more of the causes to which reference is made in Section 6.10 hereof, the Authority shall make or cause the Agency to make due proof of loss containing a power of attorney in favor of the Trustee to endorse all drafts drawn for the payment thereof to the order of the Trustee, and to sign receipts therefor, and shall do all things necessary or desirable to cause the insuring companies to make payments in full directly to the Trustee.

Section 6.12. Repairs and Reconstruction. Unless the Agency exercises its option to prepay Rent for the purpose of redeeming a portion of the Bonds pursuant to Section 4.4 of the Leases, in the event of any loss or damage to or destruction or Condemnation of the Projects, the Authority will promptly cause to be repaired, reconstructed or restored the damaged or destroyed portion thereof or portion of the 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 Leases, by deposit to the Repair and Replacement Fund to be disbursed pursuant to Section 5.09 hereof.

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 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 this Indenture.

In the event the Agency pursuant to its rights under the Lease, 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 this Indenture.

Section 6.13. 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 Projects granted in this Indenture, 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 6.14. Proper Books and Records. So long as any of the Bonds issued hereunder 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 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 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 6.15. To Observe All Covenants and Terms -- Limitations on Authority's Obligations. It will not issue or permit to be issued any Bonds hereunder in any manner other than in accordance with the provisions of this Indenture and the Act and the agreements in that behalf herein contained, and will not suffer or permit any Default to occur under this Indenture, 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 this Indenture 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 this Indenture or from any funds other than revenues and income of the Projects, moneys in the Funds provided for herein or any other funds authorized by law.

Section 6.16. Change in Project Use. The Authority shall not use the Projects and the Sites nor cause or consent to the use of the Projects and the Sites by the Agency or any subsequent tenant or sublessee in a manner other than as stated in the Leases 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 Projects and the Sites 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.

ARTICLE VII
EVENTS OF DEFAULT; REMEDIES

Section 7.01. 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 a Lease; 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 this Indenture, 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 but, such certification can only be made if the Legislative Assembly of the State has not specifically terminated the Lease.

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

Section 7.02. 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 hereunder 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 hereunder 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 hereof, and moneys from other sources which have been deposited with the Trustee.

Section 7.03. Enforcement of Covenants and Conditions. In any case of Default or breach of any of the covenants and conditions of this Indenture, or to protect the Trust Estate, the Trustee, anything herein contained to the contrary notwithstanding, and without any request from any Bondholder (subject, however, to the provisions of Section 8.06 hereof), may take such action or actions for the enforcement of its rights, the rights of the Bondholders, and the rights of the Authority under the Leases as due diligence, prudence and care would require and to pursue the same with like diligence, prudence and care.

Upon the happening and continuance of an Event of Default, the Trustee may, and the Trustee shall upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of then Outstanding Bonds, proceed forthwith by suit or suits at law or in equity or by any other appropriate remedy to enforce payment of the Bonds, to enforce application to such payment of the funds, revenues and income appropriated thereto by this Indenture and by the Bonds, to exercise the remedies of the Authority under the Leases, and to enforce any such other appropriate legal or equitable remedy as the Trustee, being advised by Counsel, shall deem most effectual to protect and enforce any of its rights or any of the rights of the Bondholders. The Trustee need not proceed upon any such written request of the Bondholders, as aforesaid, unless such Bondholders shall have offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby.

Section 7.04. Right of Trustee to Enter the Projects. If one or more of the Events of Default shall have occurred, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Owners of the Bonds under the Leases or the Indenture, the Trustee may, with the consent of the Authority, and shall pursuant to the request in writing by the Owners of at least twenty-five percent (25%) of the aggregate principal amount of Bonds then Outstanding hereunder, enter into and upon and take and hold possession of the Trust Estate, including the defaulted Project, but not any Project as to which no Event of Default has occurred, or appoint a receiver therefor to use, manage and control the Trust Estate or any portion thereof and conduct the business thereof with respect thereto in such manner as in its discretion it shall deem to be the best advantage of the Owners of the Bonds. Upon every such entry the Trustee, from time to time and at the expense of the Trust Estate, may maintain and restore and insure the Trust Estate or any portion thereof and make all necessary repairs, renewals, replacements, alterations, additions, betterments and improvements, as it may deem judicious. The Trustee, in case of such entry, shall have the right to manage the Trust Estate and to carry on any business which may be conducted with respect thereto and to exercise all the rights and powers of the Authority either in the name of the Authority or otherwise, as the Trustee shall deem best, and shall be entitled to collect, take and receive all fees, earnings, income, rents, issues and profits of the Trust Estate including proceeds from the sale or assignment of the Authority's interest in the Projects.

Section 7.05. 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 Projects, the Trustee shall render annually to the Authority, and the Bondholders, at their addresses as set forth on the list required by this Indenture, a summarized statement of income and expenditures in connection therewith.

Section 7.06. Appointment of a Receiver by Trustee. In case the Trustee shall enforce its rights and the rights of the Bondholders by a suit or suits in equity or at law, the Trustee shall be entitled, pending the outcome of such suit, subject to the approval of the court, to the appointment of a receiver of the Trust Estate, or any part thereof, including the Projects and any pledged income therefrom, to the end that the security provided by this Indenture shall not be reduced and for the purpose of preventing waste. The Trustee or such receiver may receive the rents, issues and profits of the Trust Estate, including the Projects and apply the proceeds to the payment of taxes, assessments, charges and encumbrances on the Trust Estate, due or to become due; to the payment of premiums and charges of any kind or nature upon insurance maintained or covenanted to be maintained on the Trust Estate, due or to become due; to the making of necessary repairs on the Trust Estate or the payment of the expenses or charges necessary to the preservation of the security of this Indenture or to the maintenance of the Trust Estate; and to the payment of interest, or principal and interest, due upon the Bonds as provided in Section 7.05.

Section 7.07. Right of Trustee to Act Without Possession of Bonds. All rights of action (including the right to file proof of claim) under this Indenture or under any of the Bonds, may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceeding relating thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee, without the necessity of joining as plaintiffs or defendants any Owners of the Bonds hereby secured, and any recovery of judgment shall be for the equal benefit of the Owners of the Outstanding Bonds.

Section 7.08. Power of Majority of Bondholders. The Owners of a majority in aggregate principal amount of Bonds then Outstanding hereunder shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken hereunder; provided that such direction shall not be otherwise than in accordance with the provisions of law and that the Trustee shall be indemnified as provided in Section 8.06 hereof.

Section 7.09. Limitation on Suit by Bondholders. No Owner of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of this Indenture or for the execution of any trust hereof or for any other remedy hereunder, unless a Default has occurred of which the Trustee has been notified or of which it is deemed to have notice; nor unless also such Default shall have become an Event of Default and the Owners of twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding hereunder shall have made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers hereinabove granted or to institute such action, suit or proceeding in its own name; nor unless also they shall have offered to the Trustee indemnity as provided hereinafter, except as otherwise required by Section 7.02 hereof; and such notification, request and offer of indemnity are hereby declared in every such case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of this Indenture, and to any action or cause of action for enforcement or for any other remedy hereunder, except as otherwise required by Section 7.02 hereof; it being understood and intended that no one or more Owners of the Bonds shall have any right in any manner whatsoever to affect, disturb, or prejudice the lien of this Indenture by his or their action or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal benefit of the Owners of all Bonds Outstanding hereunder. Nothing in this Indenture contained shall, however, affect or impair the right of any Bondholder, which is absolute and unconditional, to enforce and bring suit for the payment of the principal of and interest on any Bond at and after the Maturity thereof or the obligations of the Authority to pay the principal of and interest on each of the Bonds issued hereunder to the respective Owners thereof at the time and place in said Bonds, in accordance with the terms of the Bonds.

Section 7.10. Waiver by Bondholders. The Trustee, upon the written request of the Owners of not less than a majority in principal amount of the Bonds at the time Outstanding hereunder, shall waive any Default hereunder and its consequences, except a Default in the payment of the principal of the Bonds at the date of Maturity specified therein; provided, however, that a Default in the payment of interest on the Bonds shall not be waived unless, prior to such waiver, all arrears of interest, and all expenses of the Trustee shall have been paid or shall have been provided for by deposit with the Trustee of a sum sufficient to pay the same. In case of any such waiver, the Authority, the Agency, the Trustee and the Owners of the Bonds shall be restored to their former positions and rights hereunder respectively. No such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

Section 7.11. Remedies Cumulative, Delay Not to Constitute Waiver. No remedy by the terms of this Indenture conferred upon or reserved to the Trustee (or the Bondholders) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any Default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Default or Event of Default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any Default or Event of Default hereunder whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent Default or Event of Default or shall impair any rights or remedies consequent thereon.

Section 7.12. 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 hereof have the right to foreclose the mortgage granted by this Indenture in the manner permitted by law, enter and take possession of the defaulting Projects or any part thereof, with or without termination of the Leases, and have continuous access to the Sites for the use of the Projects, and may lease the Projects to the State or any of its boards and agencies including the Agency subject to the requirements of the Act and the Leases.

The Trustee shall be permitted to sell, convey or sublease its interest in the Projects subject to the requirements of this Indenture and the Act.

Section 7.13. Restoration of Rights Upon Discontinuance of Proceedings. In case the Trustee or Bondholders shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned for any reason, or shall not have been determined adversely to the Trustee or Bondholders, then and in every such case the Agency, the Authority, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder with respect to the Trust Estate, and all rights, remedies and powers of the Trustee and the Bondholders shall continue as if no such proceedings had been taken.

ARTICLE VIII
THE TRUSTEE, PAYING AGENT AND REGISTRAR

Section 8.01. Acceptance of Trust and Prudent Performance Thereof. The Trustee, prior to the occurrence of an Event of Default as defined in Section 7.01 hereof and after the curing of all such Events of Default as may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. The Trustee shall during the existence of any such Event of Default (which has not been cured) exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

The Trustee shall not be required to take notice or be deemed to have notice of any Default hereunder or under the Leases, except Default in the deposits or payments specified in the Leases, unless the Trustee shall be specifically notified in writing of such Default by the Agency, by the Authority or by the Owners of at least twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding hereunder, and all notices or other instruments required by this Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the office of the Trustee, and in the absence of such notice so delivered, the Trustee may conclusively assume that there is no Default, except as aforesaid. The Trustee shall provide written notice to the Agency in the event any payment of Basic Rent is not made when due or within two Business Days after the due date of such payment, which shall be hand delivered or given by telephone (confirmation thereof being given by mail).

No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that

(a) prior to such an Event of Default hereunder, and after the curing of all such Events of Default which may have occurred:

(1) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee, and

(2) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and to the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Trustee conforming to the requirements of this Indenture; but in the case of any such certificate or opinion which by any provision hereof is specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not it conforms to the requirements of this Indenture;

(b) at all times, regardless of whether or not any such Event of Default shall exist:

(1) the Trustee shall not be liable for any error or judgment made in good faith by an officer or officers of the Trustee unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts, and

(2) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of all the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Section 8.02. Trustee May Rely Upon Certain Documents and Opinions. Except as otherwise provided in Section 8.01:

(a) the Trustee may rely and shall be protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request, direction, election, order, certification or demand of the Authority or the Agency shall be sufficiently evidenced by an instrument signed by an Authorized Officer or an Agent, as the case may be (unless otherwise in this Indenture specifically prescribed), and any resolution of the Authority may be evidenced to the Trustee by a certified resolution;

(c) the Trustee may consult with Counsel (who may be Counsel for the Authority) and the opinion of such Counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such Counsel;

(d) whenever, in the administration of the trusts of this Indenture, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a Certificate of the Authority and such Certificate of the Authority shall, in the absence of negligence or bad faith on the part of the Trustee, be full warrant to the Trustee for any action taken or suffered by it under the provisions of this Indenture.

Section 8.03. Trustee Not Responsible for Indenture Statements, Validity. The Trustee (as such) shall not be responsible for any recital or statement herein, or in the Bonds (except in respect of the Certificate of the Trustee endorsed on such Bonds), or for the recording or re-recording, filing, or re-filing of this Indenture, or for insuring the Projects, or collecting any insurance moneys, or for the validity of the execution by the Authority or the Agency (as the case may be) of this Indenture, the Leases, the Bond Resolution or of any supplemental instrument, or for the sufficiency of the security of the Bonds issued hereunder or intended to be secured hereby, or for the value or title of any of the Trust Estate, or otherwise as to the maintenance of the security hereof; and the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any covenants, condition or agreement on the part of the Authority or the Agency except as herein set forth, but the Trustee may require of the Authority or the Agency full information and advice as to the performance of the covenants, conditions and agreements aforesaid and of the condition of the physical property included in the Trust Estate. The Trustee shall not be accountable for the use of any proceeds of the Bonds authenticated or delivered hereunder or of any of the proceeds of such Bonds except as specifically stated in this Indenture.

Section 8.04. Limits on Duties and Liabilities of Trustee. The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty of the Trustee and the Trustee shall be answerable only for its own negligence or willful misconduct. The Trustee shall not be required to give any bond or surety in respect of the execution of the trusts and powers or otherwise in respect of the premises. The Trustee shall not be liable for any debts contracted or for damages to persons or to personal property injured or damaged, or for salaries or nonfulfillment of contracts during any period in which it may be in the possession of or managing the real and tangible personal property of the Trust Estate as in this Indenture provided, if such debts, damages, salaries, or contracts have been incurred, suffered, earned, or made in connection with the possession or management of such property.

Section 8.05. Money Held in Trust. Money held by the Trustee hereunder is held in trust and shall be segregated from other funds to the extent required by law.

Section 8.06. Obligation of Trustee. The Trustee shall be under no obligation to institute any suit, or to take any proceeding under this Indenture, or to enter any appearance or in any way defend in any suit which it may be defendant, or to take any steps in the execution of the trusts hereby created or in the enforcement of any rights and powers hereunder until it shall have reasonable grounds for believing that repayment of all costs and expenses, outlays and Counsel fees and other reasonable disbursements in connection therewith and adequate indemnity against all risk and liability is reasonably assured to it, except as required by Section 7.02 hereof. The Trustee may, nevertheless, begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as such Trustee, without assurance of reimbursement or indemnity, and in such case the Trustee shall be reimbursed for all costs and expenses, outlays and Counsel fees and other reasonable disbursements properly incurred in connection therewith. If the Authority shall fail to make such reimbursement, the Trustee may reimburse itself from any moneys in its possession under the provisions of this Indenture and shall be entitled to a preference therefor over any of the Bonds Outstanding hereunder.

Section 8.07. Intervention in Judicial Proceedings. In any judicial proceeding to which the Authority or the Agency is a party and which, in the opinion of the Trustee and its Counsel, has a substantial bearing on the interests of the Owners of Bonds issued hereunder, the Trustee may intervene on behalf of Bondholders and shall do so if requested in writing by the Owners of at least twenty-five percent (25%) in the aggregate principal amount of Bonds then Outstanding hereunder. The rights and obligations of the Trustee under this Section are subject to the approval of the court having jurisdiction in the premises.

Section 8.08. Further Investigation by Trustee. The resolutions, opinions, certificates and other instruments provided for in this Indenture may be accepted by the Trustee as conclusive evidence of the facts and conclusions stated therein and shall be in full warrant, protection and authority to the Trustee for the release of property and the withdrawal of such hereunder; but the Trustee may, in its unrestricted discretion, and shall, if requested in writing to do so by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding hereunder, cause to be made such independent investigation as it may see fit, and in that event may decline to release such property or pay over such cash unless satisfied by such investigation of the truth and accuracy of the matters to be investigated. The expense of such investigation shall be paid by the Agency, or, if paid by the Trustee, shall be repaid by the Agency upon demand with interest at the rate equal to the Bank of North Dakota Base Rate.

Section 8.09. Right to Inspect Projects and Records of Authority. At any and all reasonable times the Trustee, and its duly authorized agents, attorneys, experts, engineers, accountants and representatives, shall have the right fully to inspect the Projects, including all books, papers, and contracts of the Authority and the Agency relating solely thereto and to take such memoranda from and in regard thereto as may be desired.

Section 8.10. Right of Trustee to Perform Certain Acts. 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 Trust Estate, to the extent, if any, that the Authority or the Agency may be liable for same, the Trustee may pay such tax, assessment or governmental charge, without prejudice, however, to any rights of the Trustee or the Bondholders arising hereunder 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 equal to the Bank of North Dakota Base Rate, shall be repaid by the Agency upon demand, and shall become an additional obligation secured by this Indenture, and the same shall be given a preference in payment over any of the Bonds, and shall be paid out of any pledged revenues of the Projects or other proceeds of the Trust Estate if not otherwise paid by the Authority or the Agency, 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 Bonds then Outstanding hereunder, and shall have been provided with adequate funds for the purpose of such payment.

Section 8.11. Trustee to Retain Financial Records. The Trustee shall retain all current financial statements furnished by the Authority or the Agency in accordance with this Indenture.

Section 8.12. Fees, Charges and Expenses of the Trustee, the Registrar and Paying Agent. The Trustee, the Registrar and each Paying Agent shall be entitled to payment and/or reimbursement for reasonable fees for services rendered hereunder and under the other agreements which the Authority and the Trustee have entered into to facilitate the issuance and sale of the Bonds, all advances, legal fees and other expenses reasonably and necessarily made or incurred in and about the execution of the trusts created by this Indenture and under the other agreements which the Authority and the Trustee have entered into to facilitate the issuance and sale of the Bonds, and in and about the exercise and performance of the powers and duties of the Trustee, the Registrar and each Paying Agent hereunder and under the other agreements which the Authority and the Trustee have entered to facilitate the issuance and sale of the Bonds, and for the reasonable and necessary costs and expenses incurred in defending any liability in the premises of any character whatsoever (unless such liability is adjudicated to have resulted from the negligence or willful misconduct of the Trustee, the Registrar or the Paying Agent).

Section 8.13. Notice to the Bondholders if Default Occurs. The Trustee shall give all Owners of all Bonds by first class mail, notice of all Defaults or Events of Default known to the Trustee, within thirty (30) days after the occurrence of a Default or Event of Default unless such Default or Event of Default shall have been cured before the giving of such notice; provided that, except in the case of a Default in Payment, or in the making of any payment required to be made by the Bond Fund, the Trustee shall be protected in withholding such notice if and so long as the Trustee in good faith determines that the withholding of such notice is in the best interest of the Bondholders. The Registrar shall provide the Trustee with all information, which the Trustee reasonably requires in connection with the giving of such notices.

Section 8.14. Successor Trustee, Paying Agents and Registrar. Any corporation, association or Agency into which the Trustee, the Registrar or any Paying Agent may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, ipso facto, shall be and become a successor trustee, paying agent or bond registrar hereunder and vested with all of the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

Section 8.15. Resignation by Trustee, Paying Agents and Registrar. The Trustee, any Paying Agent, and the Registrar may at any time resign from the trusts and be discharged of the duties and obligations hereby created by giving sixty (60) days written notice to the Authority, the Trustee and all Bondholders by first class mail and such resignation shall take effect upon the appointment of a successor trustee, paying agent, or registrar. If any instrument of acceptance by a successor trustee, paying agent or registrar shall not have been delivered to the resigning Trustee, Paying Agent or Registrar within sixty (60) days after the giving of such notice of resignation, the resigning Trustee, Paying Agent or Registrar may petition any court of competent jurisdiction for the appointment of a successor. Notwithstanding any other provision of this Indenture, no removal, resignation or termination of the Trustee, Paying Agent or Registrar shall take effect until a successor shall be appointed.

Section 8.16. Removal of Trustee. The Trustee may be removed by the Authority at any time for any breach of the Trust set forth herein. Notwithstanding the foregoing, the Trustee may not be removed unless and until a successor trustee has been appointed pursuant to Section 8.17 hereof.

Section 8.17. Appointment of Successor Trustee. In case the Trustee shall resign or be removed, or be dissolved or otherwise become incapable of acting hereunder, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, the Authority, by an Authority Resolution, may remove the Trustee and shall promptly appoint a successor. If, within one year of such vacancy occurring, the Owners of a majority in aggregate principal amount of the then Outstanding Bonds, by an instrument or concurrent instruments in writing signed by such Owners, or by their attorney-in-fact, duly authorized appoint a successor, such successor shall supersede the successor appointed by the Authority. If no successor trustee has been appointed as herein provided after sixty (60) days from the mailing of notice of resignation by the Trustee under Section 8.15 hereof, or from the date the Trustee is removed or otherwise incapable of acting hereunder, any Bondholder may petition a court of competent jurisdiction to appoint a successor trustee. The Authority shall promptly notify the Paying Agent and the Registrar as to the appointment of any successor trustee.

Every successor trustee appointed pursuant to this Section shall be a trust company or bank in good standing located in or authorized to do business under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than $75,000,000.

Section 8.18. Concerning Any Successor Trustee. Every successor trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor, and to the Authority, an instrument in writing accepting such appointment hereunder, and thereupon such successor, without any further act, assignment or conveyance, shall become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessor as trustee; but such predecessor shall, nevertheless, on the written request of the Authority, or of its successor trustee, execute and deliver an instrument transferring to such successor trustee all the estates, properties, rights, powers and trusts of such predecessor hereunder, and every predecessor trustee shall deliver all securities and moneys and Balances held by it as Trustee hereunder to its successor together with an accounting of the Balances held by it hereunder. Should any instrument in writing from the Authority be required by any successor trustee for more fully and certainly vesting in such successor the estates, rights, powers and duties hereby vested or intended to be vested in the predecessor trustee, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Authority.

Section 8.19. Trustee Protected in Relying Upon Resolutions, Etc.. The resolutions, orders, requisitions, opinions, certificates and other instruments conforming to the requirements of this Indenture may be accepted by the Trustee as conclusive evidence of the facts and conclusions stated therein and shall be full warrant, protection and authority to the Trustee for the withdrawal of cash hereunder.

Section 8.20. Successor Trustee as Custodian of Funds. In the event of a change in the office of the Trustee, the predecessor trustee which has resigned or been removed shall cease to be custodian of the Funds, and the successor trustee shall be and become such custodian.

Section 8.21. Co-Trustee. At any time or times, for the purpose of meeting any legal requirements of any state in which the Trustee determines it necessary to take any action hereunder, the Trustee shall have power to appoint one or more Persons approved by the Trustee either to act as co-trustee or co-trustees, jointly with the Trustee of all or any part of the Trust Estate, or to act as a separate trustee or separate trustees of all or any part of the Trust Estate, and to vest in such Person or Persons, in such capacity, such title to the Trust Estate or any part thereof, any such rights, powers, duties, trusts or obligations as the Trustee may consider necessary or desirable subject to the remaining provisions of this Section 8.21.

In the event the Trustee deems the appointment of a separate or co-trustee necessary, and before such appointment will be effective, the Trustee shall request and obtain the Authority's approval of such appointment, provided that the Authority's approval shall not be unreasonably withheld.

The Authority shall execute, acknowledge and deliver all such instruments as may be required by any such co-trustee or separate trustee.

Every co-trustee or separate trustee shall, to the extent permitted by law but to such extent only, be appointed subject to the following terms, namely:

(a) The Bonds shall be authenticated and delivered, and all rights, powers, trusts, duties and obligations by this Indenture conferred upon the Trustee in respect of the custody, control and management of moneys, papers, securities and other personal property shall be exercised solely by the Trustee or, to the extent otherwise respectively specified herein, and the Paying Agent.

(b) All rights, powers, trusts, duties and obligations conferred or imposed upon the trustees shall be conferred or imposed upon and exercised or performed by the Trustee, or by the Trustee and such co-trustee or co-trustees or separate trustee or separate trustees jointly, as shall be provided in the instrument appointing such co-trustee or co-trustees or separate trustee or separate trustees, except to the extent that, under the law of any jurisdiction in which any particular act or acts are to be performed, the Trustee shall be incompetent or unqualified to perform such act or acts, in which event such act or acts shall be performed by such co-trustee or co-trustees or separate trustee or separate trustees.

(c) Any request in writing by the Trustee to any co-trustee or separate trustee to take or to refrain from taking any action hereunder shall be sufficient warrant for the taking, or the refraining from taking, of such action by such co-trustee or separate trustee.

(d) Any co-trustee or separate trustee may delegate to the Trustee the exercise of any right, power, trust, duty or obligations, discretionary or otherwise.

(e) The Trustee at anytime, by any instrument in writing, may accept the resignation of or remove any co-trustee or separate trustee appointed under this Section 8.21. Upon the request of the Trustee, the Authority shall join with the Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal.

(f) No Trustee hereunder shall be personally liable by reason of any act or omission of any other trustee or co-trustee hereunder.

(g) Any demand, request, direction, appointment, removal, notice, consent, waiver or other action in writing delivered to the Trustee shall be deemed to have been delivered to each such co-trustee or separate trustee.

(h) Any moneys, papers, securities or other items of personal property received by any such co-trustee or separate trustee hereunder shall forthwith, so far as may be permitted by law, be turned over to the Trustee.

Upon the acceptance in writing of such appointment by any such co-trustee or separate trustee, it or he or she shall be vested with such title to the Trust Estate or any part thereof, and with such rights, powers, duties or obligations, as shall be specified in the instrument of appointment jointly with the Trustee (except insofar as local law makes it necessary for any such co-trustee or separate trustee to act alone) subject to all the terms of this Indenture. Every such acceptance shall be filed with the Trustee. Any co-trustee or separate trustee may, at any time by an instrument in writing, constitute the Trustee, its or his attorney-in-fact and agent, with full power and authority to do all acts and things and to exercise all discretion on its or his behalf and in its or his name.

In case any co-trustee or separate trustee shall die, become incapable of acting, resign or be removed, the title to the Trust Estate, and all rights, powers, trusts, duties and obligations of said co-trustee or separate trustee shall, so far as permitted by law, vest in and be exercised by the Trustee unless and until a successor co-trustee or separate trustee shall be appointed in the manner herein provided.

Section 8.22. Qualification of Trustee: Eligibility. There shall at all times be a Trustee hereunder which shall be a trust company or a bank having the powers of a trust company and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers and shall be subject to supervision or examination by a federal or state authority. Any trust company or bank acting as Trustee hereunder, other than the Bank of North Dakota, shall have combined capital stock, capital surplus and undivided profits of at least $75,000,000. If such trust company or bank publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section 8.22, the combined capital stock, capital surplus and undivided profits of such trust company or bank shall be deemed to be its combined capital stock, capital surplus and undivided profits as set forth in its most recent report of condition so published.

Section 8.23. Statement by Trustee of Funds and Other Matters. Not more than ninety (90) days after the close of each Fiscal Year, or more frequently if requested by the Authority, the Trustee shall furnish the Authority a statement setting forth (to the extent applicable) in respect to such Fiscal Year, (a) all transactions relating to the receipt, disbursement and application of all moneys received by the Trustee pursuant to all terms of this Indenture, (b) the Balances held by the Trustee at the end of such Fiscal Year to the credit of each Fund, (c) a brief description of the Balances of all moneys and Permitted Investments (including an itemization of Permitted Investments) held by the Trustee as a part of the Balance of each Fund as of the end of such Fiscal Year, (d) the principal amount of Bonds purchased by the Trustee during such Fiscal Year from moneys available therefor in any Fund pursuant to the provisions of this Indenture and the respective purchase price of such Bonds, (e) the principal amount of Bonds retired during such Fiscal Year, and (f) any other information which the Authority may reasonably request.

Section 8.24. Trustee, Paying Agents, and Registrar May Buy, Hold, Sell or Deal in Bonds. The Trustee, the Registrar, or any Paying Agent and its directors, officers, employees or agents may, in good faith, buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner of a Bond may be entitled to take, with like effect as if such Trustee, Paying Agent, or Registrar were not the Trustee, a Paying Agent, or Registrar, as the case may be, under this Indenture.

Section 8.25. Paying Agent; Paying Agents to Hold Moneys in Trust. The Paying Agent shall hold in trust for the benefit of the Owners of the Bonds and the Trustee any sums held by such Paying Agent for the payment of the principal of and interest on the Bonds. Anything in this paragraph to the contrary notwithstanding, the Authority may, at any time, for the purpose of obtaining a satisfaction and discharge of this Indenture, or for any other reason, cause to be paid to the Trustee all sums held in trust by any Paying Agent hereunder as required by this paragraph, such sums to be held by the Trustee upon the trusts herein contained, and such Paying Agents shall thereupon be released from all further liability with respect to such sums.

Each Paying Agent other than the Trustee shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it by this Indenture by executing and delivering to the Authority a written acceptance thereof under which the Paying Agent will agree particularly;

(1) to hold all sums held by it pursuant to this Indenture in trust for the benefit of the Owners of the Bonds until such sums shall be paid to such Owners or otherwise disposed of as herein provided;

(2) at any time during the continuance of any Event of Default, upon the written request of the Trustee, to forthwith pay to the Trustee all sums so held in trust by such Paying Agent; and

(3) in the event of the resignation or removal of such Paying Agent, pay over, assign and deliver any moneys, records or securities held by it as Paying Agent to its successor or, if there be no successor, to the Trustee.

No Paying Agent shall be obligated to expend its own funds in paying Debt Service on the Bonds.

Section 8.26. Removal of Paying Agents; Successors. The Paying Agent may be removed at any time by an instrument filed with the Paying Agent and the Trustee, and signed by the Authority. Any successor paying agent shall be appointed by the Authority and shall be a commercial bank having trust powers or trust company duly organized under the laws of any state of the United States or a national banking association having trust powers, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Indenture and any supplemental indenture.

In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys, records or securities held by it as Paying Agent, as the case may be, to its successors or, if there be no successor, to the Trustee.

Section 8.27. Authority Administration. The Authority, in exercising its administrative responsibilities pursuant to this Indenture and the Act, may assess a reasonable fee (the "NDBA Fee"), which shall be collectable through the Trustee as part of the Additional Rent payable by the Agency under Section 3.5 of the Leases.

ARTICLE IX
CONCERNING THE BONDHOLDERS

Section 9.01. Execution of Instruments by Bondholders. Any request, direction, consent or other instrument in writing required by this Indenture to be signed or executed by Bondholders may be in any number of concurrent instruments of similar tenor and may be signed or executed by such Bondholders in person or by their agent duly appointed by an instrument in writing. Proof of the execution of any such instrument and of the ownership of Bonds shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee with regard to any action taken by it under such instrument if made in the following manner:

(a) The fact and date of the execution by any Person of any such instrument may be proved by the certificate of any officer in any jurisdiction who, by the laws thereof, has power to take acknowledgments of deeds to be recorded within such jurisdiction, to the effect that the Person signing such instrument acknowledged to him the execution thereof, or by an affidavit of a witness to such execution.

(b) The ownership of Bonds shall be proved by the Register kept under the provisions of this Indenture.

Nothing in this Article shall be construed as limiting the Trustee to the proof above specified, it being intended that the Trustee may accept any other evidence of the matters herein stated which to it may seem sufficient. Any request or consent of the Owner of any Bond shall bind every future Owner of the same Bond in respect of anything done by the Trustee in pursuance of such request or consent.

Section 9.02. Waiver of Notice. Any notice or other communication required by this Indenture to be given by delivery, publication or otherwise to the Bondholders or any one or more thereof may be waived, at any time before such notice or communication is so required to be given, by a writing mailed or delivered to the Trustee by the Owner or Owners of all of the Bonds entitled to such notice or communication.

Section 9.03. Revocation by Bondholders. At any time prior to (but not after) the evidencing to the Trustee of the taking of any action by the Owners of the percentage in aggregate principal amount of the Bonds specified in this Indenture in connection with such action, any Owner of a Bond may, by filing written notice with the Trustee at its Principal Office revoke any consent given by such Owner or the predecessor Owner of such Bond. Except as aforesaid, any such consent given by the Owner of any Bond shall be conclusive and binding upon such Owner and upon all future Owners of such Bond and of any Bond issued in exchange therefor or in lieu thereof, irrespective of whether or not any notation in regard thereto is made upon such Bond. Any action taken by the Owners of the percentage in aggregate principal amount of the Bonds specified in this Indenture in connection with such action shall be conclusively binding upon the Authority, the Trustee and the Owners of all the Bonds.

ARTICLE X
PAYMENT, DEFEASANCE AND RELEASE

Section 10.01. Payment and Discharge of Indenture. 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 hereof, 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 hereunder 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 this Indenture, 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 this Indenture 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 hereunder as a part of the Trust Estate.

In case of any discharge of the lien of the Indenture pursuant to paragraph (b) or (c) above, there shall be submitted to the Trustee (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 Indenture 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 10.02. 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 this Indenture except the right to receive the funds so deposited, and such Bonds shall be deemed not to be Outstanding hereunder; 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 10.03. Unclaimed Money. Any moneys deposited with the Trustee or a Paying Agent pursuant to the terms of this Indenture, 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 Indenture 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 Indenture 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 this Section 10.03.

Section 10.04. Release of Property. If the Agency shall request the Authority or the Trustee to release property which is part of the 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) 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 Projects and will not impair the character or significance of the 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 Projects from the lien of this Indenture 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 Projects or the security provided to the Owners of the Bonds by this Indenture.

Section 10.05. Partial Refunding - Allocation of Funds and Accounts. Notwithstanding any other provision of this Indenture, in the event the Authority elects to advance refund less than all of the Bonds Outstanding and defease such bonds in accordance with the provisions of Section 10.01 of this Indenture, in accordance with and upon direction of the Authority, the Trustee shall transfer such portions of such Funds and any accounts or subaccounts created by this Indenture, including but not limited to any moneys on deposit in any Reserve Funds as constitute, as nearly as practicable, a pro rata share of the principal amount of Bonds Outstanding as of the date of such proposed transfer. Provided however that no such transfers shall be made by the Trustee unless the Trustee is in receipt of an Opinion of Bond Counsel stating that such action when taken by the Trustee as directed by the Authority will not result in the interest payable on the Bonds to be includable in the gross income of the Owners for federal income tax purposes.

ARTICLE XI
SUPPLEMENTAL INDENTURES

Section 11.01. 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 this Indenture, may enter into such indentures supplemental hereto 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 this Indenture;

(b) To add to the covenants and agreements of the Authority in this Indenture, 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 this Indenture and in any and every supplemental indenture contained or the succession, removal or appointment of any Trustee or Paying Agent hereunder;

(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 indenture, or to make such other provisions in regard to matters or questions arising under this Indenture or any supplemental indenture as the Authority may deem necessary or desirable and which shall not be inconsistent with the provisions of this Indenture or any supplemental indenture and which shall not impair the security of the same;

(e) To modify, eliminate and/or add to the provisions of this Indenture to such extent as shall be necessary to maintain the exempt status of this Indenture from the Trust Indenture 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 11.02. Execution of Supplemental Indenture. The Trustee is authorized to join with the Authority in the execution of any such supplemental indenture, to make the further agreements and stipulations which may be therein contained, and accept the conveyance, transfer and assignment of any property thereunder, but the Trustee shall not be obligated to enter into any such supplemental indenture which affects its rights, duties or immunities under this Indenture.

Section 11.03. Discretion of Trustee. In each and every case provided for in this Article (other than a supplemental indenture approved by the Owners of a majority in aggregate principal amount of the Bonds pursuant to Section 11.04 hereof), the Trustee shall be entitled to exercise its unrestricted discretion in determining whether or not any proposed supplemental indenture or any term or provisions therein contained is necessary or desirable, having in view the needs of the Authority and the respective rights and interests of the Owners of Bonds theretofore issued hereunder; and the Trustee shall be under no responsibility or liability to the Authority or to the Agency or to any Owner of any Bond, or to anyone whatever, for any act or thing which it may do or decline to do in good faith subject to the provisions of this Article, in the exercise of such discretion.

Section 11.04. Modification of Indenture with Consent of Bondholders. Exclusive of supplemental indentures covered by Section 11.01 hereof 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 indenture or indentures supplemental hereto 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 this Indenture or in any supplemental indenture; 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 hereunder, 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 this Indenture, 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 Leases 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 indenture and shall specifically consent to and approve the execution thereof, thereupon, the Authority and the Trustee may execute such supplemental indenture 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 indenture 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 indenture, 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 11.05. Supplemental Indentures to be Part of Indenture. Any supplemental indenture executed in accordance with any of the provisions of this Article shall thereafter form a part of this Indenture; and all the terms and conditions contained in any such supplemental indenture as to any provisions authorized to be contained therein shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes, and the respective rights, duties and obligations under this Indenture of the Authority, the Trustee and all Owners of Bonds then Outstanding shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments. If deemed necessary or desirable by the Trustee, reference to any such supplemental indenture or any of such terms or conditions thereof may be set forth in reasonable and customary manner in the text of the Bonds or in a legend stamped on the Bonds.

Section 11.06. Rights of Agency Unaffected. Anything herein to the contrary notwithstanding, a supplemental indenture under this Article XI which adversely affects the rights of the Agency under the Leases or this Indenture, so long as the Leases and Indenture are in effect and the Agency is not in Default under any terms or conditions of the Leases, shall not become effective unless and until the Agency shall consent to the execution and delivery of such supplemental indenture. The Authority shall cause notice of the proposed execution and delivery of any such supplemental indenture of which the Agency has not already consented, together with a copy of the proposed supplemental indenture, to be mailed to the Agency at least thirty (30) days prior to the proposed date of execution and delivery of any such supplemental indenture.

ARTICLE XII
AMENDMENTS TO LEASES

Section 12.01. Amendments to Leases 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 Leases as may be deemed necessary or desirable (i) by the provisions of the Leases and this Indenture, (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 hereof.

Section 12.02. Amendments to Leases Requiring Consent of Bondholders. Except for the amendments, changes or modifications as provided in Section 12.01 hereof, neither the Authority nor the Trustee shall consent to any other amendment, change or modification of the Leases, 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 hereof. If the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding hereunder 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 12.03. No Amendment May Reduce Basic Rent. Under no circumstances shall any amendment to the Leases reduce the Basic Rent payable under the Leases to an amount which together with the credits against Basic Rent provided for in Section 3.10 of the Leases 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.

ARTICLE XIII

(RESERVED)

ARTICLE XIV
MISCELLANEOUS

Section 14.01. Covenants of Authority Bind Successors and Assigns. All the covenants, stipulations, promises and agreements in this Indenture contained, by or in behalf of the Authority, shall bind and inure to the benefit of its successors and assigns, whether so expressed or not.

Section 14.02. 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 this Indenture and the issuance of the Bonds.

Section 14.03. No Benefits to Outside Parties. Nothing in this Indenture, express or implied, is intended or shall be construed to confer upon or to give to any Person, other than the Agency, the parties hereto and the Owners of the Bonds issued hereunder, any right, remedy or claim under or by reason of this Indenture or any covenant, condition or stipulation hereof; and the covenants, stipulations and agreements in this Indenture contained are and shall be for the sole and exclusive benefit of the Agency, the parties hereto, their successors and assigns, and the Owners of the Bonds.

Section 14.04. Separability of Indenture Provisions. In case any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Indenture, but this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

Section 14.05. Execution of Indenture in Counterparts. This Indenture may be simultaneously executed in several counterparts, each of which, when so executed, shall be deemed to be an original, and such counterparts shall together constitute one and the same instrument.

Section 14.06. Headings Not Controlling. The headings of the several Articles and Sections hereof are inserted for the convenience of reference only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 14.07. Notices to Trustee, Authority, and Agency. Any request, demand, authorization, direction, notice, consent of Bondholders or other document provided or permitted by this Indenture shall be sufficient for any purpose under this Indenture or the Leases, when mailed registered or certified mail, return receipt requested, postage prepaid (except as otherwise provided in this Indenture) (with a copy to the other parties) at the following addresses (or such other address as may be provided by any party by notice) and shall be deemed to be effective upon receipt:

To the Authority: North Dakota Building Authority
State Capitol, 14th Floor
600 East Boulevard Avenue
Bismarck, ND 58505-0840
Attn: Executive Director, Industrial Commission

To the Trustee: Bank of North Dakota
700 East Main Avenue
P.O. Box 5509

Bismarck, ND 58506-5509
Attn: Trust Department

To the Agency: State Board of Higher Education
State Capitol, 10th Floor
600 East Boulevard Avenue
Bismarck, ND 58505
Attn: Chancellor

North Dakota Department of Corrections and Rehabilitation
3100 Railroad Avenue
P.O. Box 1898
Bismarck, ND 58502-1898
Attn: Director

North Dakota Veterans Home
P.O. Box 673
Lisbon, ND 58054
Attn: Commandant

Section 14.08. Indenture Constitutes a Valid Pledge. An executed counterpart or certified copy of this Indenture delivered to and accepted by the Trustee shall constitute a valid pledge pursuant to and for all purposes of NDCC §54-17.2-17(2).

Section 14.09. Payments Due on Saturdays, Sundays and Other Non-Business Days. In any case where the principal of or interest on the Bonds shall be due on a Saturday, Sunday or other day which is not a Business Day, then payment of such principal and interest may be made on the next succeeding Business Day with the same force and effect as if made on the date due and no interest shall accrue for the intervening period.

Section 14.10. Governing Law. This Indenture shall be governed by and construed in accordance with the laws of the State.

Section 14.11. Notices to Moody's and S & P. So long as any Bonds are rated by Moody's and S & P, the Trustee and the Authority agree to give Moody's and S & P prompt written notice of the appointment of any successor Trustee, any material amendments to this Indenture and the Leases, and the redemption or defeasance of any of the Bonds. All such notices shall be addressed as follows: (i) for Moody's, Moody's Investors Service, 99 Church Street, New York, New York 10007, Attention: Public Finance Department, State Ratings Group, and (ii) for S & P, Standard & Poor's Corporation, 55 Water Street, New York, New York 10041, Attention: Municipal Finance Group.

Section 14.12. Bondholder Consent when Bonds Held by Depository. The consent of the Holder of any Bond held by a third party depository shall be deemed to be binding upon the Holder and any successor Holder of such Bond when the consent is given by the registered Holder of the Bond as shown on the records of the depository or a depository participant at the time of the mailing of the request for such consent to the registered Holder (the "Holder of Record"); provided, however, that to be binding on successor Holders, the consent of the Holder of Record must be executed within forty-five (45) days of the date of mailing the request for consent to the Holder of Record.

Section 14.13. Reserve Fund Surety Bond. The Authority may elect while any of the Bonds are outstanding to substitute or replace all or part of the amounts held pursuant to any Reserve Fund Requirement with a comparable credit facility rated "A1" or better by Moody's or "A+" by S & P providing security for the payment of principal and interest on the Bonds from the Reserve Fund, including but not limited to letters of credit, policies of insurance or lines of credit, to the extent that such substitution is, in the opinion of Bond Counsel, permitted by the then prevailing law and consistent with the requirements for tax exemption under federal income tax laws and regulations in effect on the date of such substitution. A comparable credit facility for an issue of bonds must be (i) equal in amount to any Reserve Fund balance, (ii) replenishable in the event the facility is drawn upon, and (iii) of a term equal to the longest maturity of the Bonds.

Section 14.14. Municipal Bond Insurance. Notwithstanding anything in this Indenture to the contrary, all of the provisions set out in Exhibit F hereto are incorporated into and made a part of this Indenture.

IN WITNESS WHEREOF, the parties hereto have caused this TRUST INDENTURE AND ASSIGNMENT OF LEASE RENTALS to be duly executed, and the INDUSTRIAL COMMISSION OF NORTH DAKOTA acting as the NORTH DAKOTA BUILDING AUTHORITY has caused its seal to be hereunto affixed and attested, all the date and year first above written.

INDUSTRIAL COMMISSION OF NORTH DAKOTA, Acting in its capacity as the NORTH DAKOTA BUILDING AUTHORITY

By______________________________
John Hoeven, Governor
Chairman

ATTEST:

____
Karlene Fine

Executive Director and Secretary

(S E A L)

BANK OF NORTH DAKOTA
Bismarck, North Dakota, as Trustee

By________________________________

Title______________________________

APPENDIX A

Definitions

Defined Terms. Unless the context otherwise requires, the terms herein defined shall, for all purposes of this Indenture and of any indenture supplemental hereto, have the meanings herein specified. Any terms defined in the Leases, but not defined herein shall have the same meaning herein as defined in the Leases. Unless the context clearly requires otherwise such definitions to be equally applicable to both the singular and plural forms of any of the terms defined:

"**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 Leases.

"**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 Leases.

"**Administration Fund**" means the Administration Fund established by Section 5.06 hereof.

"**Administrative Expenses**" means the Authority's expenses of carrying out and administering its powers, duties and functions under the Leases and this Indenture. 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, the State Board of Higher Education, the North Dakota Department of Corrections and Rehabilitation, and the Administrative Committee on Veterans' Affairs, or any other body or agency of the State which succeeds to the respective rights, responsibilities and duties of any Agency.

"**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 anybody succeeding to its rights or duties under this Indenture.

"**Authority Bonds**" means (i) Bonds owned or held by the Authority or held by the Trustee, or their agents, for the account of the Authority 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 with moneys furnished by the Authority.

"**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 this Indenture.

"**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 Leases.

"**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 NDBA Fee in carrying out and administering its powers, duties and functions under this Indenture and the Leases.

"**Bond Fund**" means the Bond Fund created under Section 5.01 hereof.

"**Bond Purchase Agreement**" means that Forward Delivery Bond Purchase Agreement dated October 31 , 2002, and entered into between the Authority and the Original Purchaser.

"**Bond Resolution**" means the General Authorization Resolution of the Authority adopted by the Authority on October 17, 2002, authorizing the issuance and sale of the Bonds, as the same may be amended, modified or supplemented by any amendments or modifications thereof.

"**Bond Year**" means a one (1) year period beginning on June 1 and ending on May 31 of the next succeeding calendar year, or such other dates as designated by the Authority.

"**Bonds**" means the "North Dakota Building Authority Lease Revenue Refunding Bonds, 2003 Series A" described in this Indenture, and any additional bonds authorized to be issued hereunder and any bonds issued to refund the Bonds in whole or in part.

"**Building Authority Fund**" means the Building Authority Fund established pursuant to Section 5.07 hereof.

"**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 Leases or this Indenture, 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 hereof, 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 this Indenture shall be given by law.

"**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.

"**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, initial fees and charges of the 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 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 this Indenture, exclusive of any notice or period of grace required to constitute a default as an "Event of Default" as described in Section 7.01 hereof.

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

"**Event of Default**" means an event of default described in Section 7.01 of this Indenture, 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 a Lease during any Renewal Term of a Lease, wherein Basic and Additional Rent are payable, on or before the commencement of such Renewal Term.

"**Excess Earnings**" means (a) investment earnings on obligations purchased with amounts deposited in any Fund created pursuant to this Indenture (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 the 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 this Indenture.

"**Indenture**" means this Trust Indenture and Assignment of Lease Rentals, constituting a trust agreement between the Authority and the Bank of North Dakota, as Trustee, and including any indenture which amends or is supplemental hereto entered into in accordance with the provisions hereof.

"**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 hereof.

"**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 hereof.

"**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 Agreement I, dated as of March 5, 2003, between the Authority and the State Board of Higher Education for various projects, the Lease Agreement II, dated as of March 5, 2003, between the Authority and the North Dakota Department of Corrections and Rehabilitation for the State Penitentiary – Phase III Improvements project, and the Lease Agreement III, dated as of March 5, 2003, between the Authority and the Administrative Committee on Veterans' Affairs for the Veterans Home Improvements project.

"**Lease Term**" means the duration of the leasehold estate created in the Leases 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 Projects or elsewhere on the Sites, 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 Leases.

"**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 hereof.

"**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 this Indenture, 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 Indenture 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 Indenture, 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 this Indenture 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) this Indenture, (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 Projects or elsewhere on the Sites, and (iii) such minor defects, irregularities, encumbrances, easements, and rights-of-way as normally exist with respect to properties similar in character to the 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 NDCC §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 this Indenture is located at the address specified in Section 14.07 hereof, 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.

"**Prior Bonds**" mean the bonds defined as Prior Bonds on page 1 of this Indenture.

"**Prior Bonds Bond Fund**" means the Bond Fund created under Section 5.01 of the Prior Bonds Indenture.

"**Prior Bonds Indenture**" means the Trust Indenture dated as of February 10, 1993, between the Authority and the Bank of North Dakota, as Trustee, relating to the Prior Bonds.

"**Project**" or "**Projects**" means the interests in real or personal property, or both, acquired, constructed, or improved with the bond proceeds from the bonds which were refunded by the Prior Bonds, and which interests are described in Exhibit A to the Leases between the Authority and the Agency.

"**Rebate Fund**" means the Rebate Fund created under Section 5.08 hereof.

"**Record Date**" means the fifteenth day of the month, whether or not a Business Day, immediately 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 this Indenture.

"**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 this Indenture.

"**Register**" means the Bond register maintained by the Registrar pursuant to Section 2.11 hereof.

"**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 this Indenture 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 this Indenture.

"**Renewal Term**" means any two-year renewal period of the Leases as set out in the Leases.

"**Repair and Replacement Fund**" means the Repair and Replacement Fund established by Section 5.09 hereof.

"**Reserve Fund**" means the Reserve Fund established by Section 5.02 hereof.

"**Reserve Fund Requirement**" means that amount set out in Section 2.03(b) hereof which 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 hereof.

"**Site**" or "**Sites**" means the real property as defined and described in the Leases and in 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 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 any Exhibit E attached hereto and payable through sinking fund redemption in amounts set out in Section 2.01 hereof and redeemed as provided in Section 3.02(a) hereof.

"**Trust Estate**" means interests in the Projects and any Additional Security assigned under the Granting Clauses hereof.

"**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 this Indenture.

"**Yield**" means 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.

NORTH DAKOTA BUILDING AUTHORITY
LEASE REVENUE REFUNDING BONDS
2003 Series A

Book Entry Bond

Principal Amount: ______________________ Dollars ($___,000.00)

Registered Holder: Cede & Co.

Dated Date	Maturity Date	Interest Rate	CUSIP
March _, 200_	June 1, 200_	[illegible]	658906 ___

Interest Payment Dates	Initial Interest Payment Date	Registrar/Paying Agent
June 1 and December 1	December 1, 2003	Bank of North Dakota

THE INDUSTRIAL COMMISSION OF NORTH DAKOTA (the "**Commission**") acting in its capacity as the North Dakota Building Authority (the "**Authority**"), acknowledges itself indebted and for value received hereby promises to pay to the Registered Holder on the Record Date (the fifteenth day of the month, whether or not a Business Day, immediately preceding each Interest Payment Date) the Principal Amount on the Maturity Date, unless redeemed prior thereto as provided in the Trust Indenture and Assignment of Lease Rentals dated as of the date of the sale of the 2003 Series A Bonds (the "**Indenture**") at which time interest shall cease to accrue provided money for such redemption is on deposit with the Trustee, and to pay interest on the Principal Amount at the Interest Rate specified above from the Dated Date hereof to the Initial Interest Payment Date and on each Interest Payment Date thereafter until paid in full. Interest will be payable by wire transfer to DTC.

This book-entry bond is one of a duly authorized series of bonds of the State (the "**2003 Series A Bonds**") issued by the Authority in the initial aggregate principal amount of $15,145,000 under and pursuant to Chapter 54-17.2 of the North Dakota Century Code (the "**Act**") and the Indenture as authorized by the Bond Resolution duly adopted by the Authority on October 17, 2002. (Capitalized terms used herein, which are not specifically defined herein, shall have the same meanings given to such terms in the Indenture.) Copies of the Indenture are on file in the office of the Trustee and the office of the Commission in Bismarck, North Dakota.

The 2003 Series A Bonds:

(i) are transferable, as provided in the Indenture;

(ii) are subject to extraordinary optional redemption prior to maturity as a whole or in part at such time or times, under such circumstances and in such manner as is set forth in the Indenture, upon notice as provided in Article III of the Indenture, or the Blanket Issuer Letter of Representations entered into between the Authority and DTC;

(iii) shall not be valid or obligatory for any purpose until the Trustee's Certificate of Authentication hereon shall have been signed by the Trustee; and

(iv) shall, if a term bond, be subject to the payment of the sinking fund installments set out on the reverse hereof.

Notwithstanding any other provisions herein set out, so long as Cede & Co. is the registered owner hereof, the provisions of the Blanket Issuer Letter of Representations entered into by and between the Authority and DTC shall be controlling as to the matters addressed therein and all the terms and provisions therein are incorporated herein as though fully set out herein.

<u>This Bond and the series of which it is one do not constitute a direct obligation of the State or any agency or political subdivision of the State within the meaning of any statutory or constitutional provision. The principal or redemption price of and interest on this Bond and the series of which it is one is payable solely from the revenues derived by the Authority pursuant to the Leases, as provided in the Indenture, and as provided in NDCC ch. 54-17.2.</u>

IN WITNESS WHEREOF, the Authority has caused the 2003 Series A Bonds to be executed in the name of the State and on its behalf by the manual or facsimile signatures of the members of the Commission and the official seal of the Commission (or a facsimile thereof) to be hereunto affixed, imprinted, engraved or otherwise reproduced and attested to by the manual or facsimile signature of an Authorized Officer of the Commission.

INDUSTRIAL COMMISSION OF NORTH DAKOTA

Governor and Chairman

Attorney General

ATTEST:

Agriculture Commissioner

Executive Director of the Commission
Authorized Officer

TRUSTEE'S CERTIFICATE OF AUTHENTICATION
This bond is one of the 2003 Series A Bonds described in the within mentioned Indenture authorizing the issuance of the 2003 Series A Bonds of the Authority.
BANK OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA, AS TRUSTEE

By_______________________________________
Authorized Signature

(To be printed on the bonds)

STATEMENT OF INSURANCE

Financial Guaranty Insurance Company ("Financial Guaranty") has issued a policy containing the following provisions with respect to the Bonds, such policy being on file at the principal office of the Bank of North Dakota, as paying agent (the "Paying Agent"):

Financial Guaranty hereby unconditionally and irrevocably agrees to pay for disbursement to the Bondholders that portion of the principal of and interest on the Bonds which is then due for payment and which the issuer of the Bonds (the "Issuer") shall have failed to provide. Due for payment means, with respect to principal, the stated maturity date thereof, or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which the payment of principal of the Bonds is due by reason of call for redemption (other than mandatory sinking fund redemption), acceleration or other advancement of maturity, and with respect to interest, the stated date for payment of such interest.

Upon receipt of telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or the Paying Agent to Financial Guaranty that the required payment of principal or interest (as applicable) has not been made by the Issuer to the Paying Agent, Financial Guaranty 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., or its successor as its agent (the "Fiscal Agent"), sufficient to make the portion of such payment not paid by the Issuer. Upon presentation to the Fiscal Agent of evidence satisfactory to it of the Bondholder's right to receive such payment and any appropriate instruments of assignment required to vest all of such Bondholder's right to such payment in Financial Guaranty, the Fiscal Agent will disburse such amount to the Bondholder.

As used herein the term "Bondholder" means the person other than the Issuer or the borrower(s) of bond proceeds who at the time of nonpayment of a Bond is entitled under the terms of such Bond to payment thereof.

The policy is non-cancellable for any reason.

FINANCIAL GUARANTY INSURANCE COMPANY

EXHIBIT B

$15,145,000
STATE OF NORTH DAKOTA
NORTH DAKOTA BUILDING AUTHORITY
LEASE REVENUE REFUNDING BONDS
2003 Series A

Descriptions of Sites

STATE BOARD OF HIGHER EDUCATION:

North Unit of United Hospital - UND:

Lot Three (3), in Block "A", a replat of portions of Blocks 1, 2, 4 and 5, University Place, Grand Forks County, North Dakota, according to the plat thereof on file in the Office of the Register of Deeds within and for Grand Forks County, North Dakota and recorded as Document No. 400260 and located in and a part of the NE¼SE¼ of Section 5, Township 151, Range 50.

Library Facility – MSU:

That portion of the N½SE¼ Section 14, Township 155 North, Range 83 West of the 5th P.M., described as follows: Beginning at a point 196.00 feet, N 90°00'00" E of the Northeast corner of Block 1, Subdivision of Block 14, North Minot, Ward County, North Dakota; thence S00°00'00" E, a distance of 255.00 feet; thence N90°00'00" W, a distance of 130.00 feet; thence S00°00'00" E, a distance of 110.00 feet, thence N90°00'00" E, a distance of 130 feet; thence N00°00'00" E, a distance of 75.00 feet; thence N90°00'00" E, a distance of 350.00 feet; thence N33°00'00" E, a distance of 165.00 feet; thence N00°00'00" E, a distance of 120.00 feet; thence N90°00'00" E, a distance of 130.00 feet; thence N00°00'00" E, a distance of 175.00 feet; thence N90°00'00" W, a distance of 290.00 feet; thence S65°17'21" W, a distance of 264.04 feet; thence S00°00'00" E, a distance of 33.00 feet; thence N90°00'00" W, a distance of 40.00 feet to the point of beginning.

Agriculture Mechanics Technology Facility – NDSCS-Wahpeton:

All that part of BLOCK 4 OF THE STATE SCHOOL OF SCIENCE ADDITION TO THE CITY OF WAHPETON, COUNTY OF RICHLAND, NORTH DAKOTA described as follows:

Commencing at the northeast corner of said Block 4; thence on an assumed bearing of South 1 degree 27 minutes 20 seconds East on and along the east line of said Block 4 a distance of 983.00 feet; thence South 89 degrees 28 minutes 08 seconds West a distance of 550.76 feet to the point of beginning; thence South 0 degrees 26 minutes 26 seconds West a distance of 383.42 feet to the northwest corner of the Mildred Johnson Library building face; thence North 89 degrees 33 minutes 34 seconds West a distance of 155.68 feet to the Barnard Hall building east wall face; thence North 0 degrees 26 minutes 26 seconds East on and along said east wall face a distance of 108.12 feet to the northeast corner thereof; thence North 89 degrees 33 minutes 34 seconds West on and long said Barnard Hall buildings north wall face a distance of 129.07 feet to the northwest corner thereof: thence North 0 degrees 26 minutes 26 seconds East a distance of 275.30 feet; thence South 89 degrees 33 minutes 34 seconds East a distance of 284.75 feet to the point of beginning.

The above described tract contains 95,224 square feet more or less and shall be subject to existing utility easements and also support, over-hang and similar rights for said Barnard Hall and Mildred Johnson Library buildings.

Abbott Hall - UND:

LAND DESCRIPTION FOR EXISTING ABBOTT HALL TRACT NO. 1:

That part of the Southeast Quarter of the southeast Quarter of Section 5, Township 151 North, Range 50 West of the 5th Principal Meridian, Grand Forks County, North Dakota described as follows:

Commencing at the Southeast corner of said Southeast Quarter of the Southeast Quarter of Section 5; thence on an assumed bearing of North 00 degrees 00 minutes 00 seconds East along the east line of said Section 5 a distance of 700.41 feet; thence South 89 degrees 54 minutes 00 seconds West a distance of 543.56 feet to the point of beginning; thence North 00 degrees 06 minutes 00 seconds West a distance of 230.00 feet: thence North 89 degrees 54 minutes 00 seconds East a distance of 110.00 feet; thence South 00 degrees 06 minutes 00 seconds East a distance of 230.00 feet; thence South 89 degrees 54 minutes 00 seconds West a distance of 110.00 feet to the point of beginning. Containing .581 acres more or less.

LAND DESCRIPTION FOR ABBOTT HALL ADDITION TRACT NO. 2:

That part of the Southeast Quarter of the Southeast Quarter of Section 5, Township 151 North, Range 50 West of the 5th Principal Meridian, Grand Forks County, North Dakota described as follows:

Commencing at the Southeast corner of said Southeast Quarter of the Southeast Quarter of Section 5; thence on an assumed bearing of North 00 degrees 00 minutes 00 seconds East along the east line of said Section 5 a distance of 700.41 feet; thence South 89 degrees 54 minutes 00 seconds West a distance of 543.56 feet to the point of beginning; thence continuing South 89 degrees 54 minutes 00 seconds West a distance of 200.00 feet; thence North 00 degrees 06 minutes 00 seconds West a distance of 115.00 feet; thence North 89 degrees 54 minutes 00 seconds East a distance of 200.00 feet; thence South 00 degrees 06 minutes 00 seconds East a distance of 115.00 feet to the point of beginning. Containing .528 acres more or less.

Computer Technology Transfer Center - NDSU:

That part of the SE¼ of Section 36, Township 140 N, Range 49 W of the 5th principal meridian; Cass County, North Dakota described as follows:

That part of the North Dakota State University campus property described as follows: Commencing at the centerline intersection of Centennial Boulevard and Bolley Drive, thence on an assumed bearing of South 00 degrees 00 minutes 00 seconds East along the centerline of Bolley Drive 50.11 feet; thence South 89 degrees 44 minutes 25 seconds East 27.30 feet to the intersection of the back of sidewalks paralleling Centennial Boulevard and Bolley Drive and being the point of beginning, thence South 89 degrees 44 minutes 25 seconds East along the back (property side) side of the existing sidewalk 280.27 feet to the intersection of sidewalks (property side) which parallel Centennial Boulevard and College Street, thence South 00 degrees 11 minutes 00 seconds East along the back (property side) of the sidewalk paralleling College Street for a distance of 231.01 feet; thence South 89 degrees 51 minutes 45 seconds West 280.66 feet to a point on the back side (property side) of the existing sidewalk (aforementioned property line being 20.00 feet north of the north side of Hultz Hall), thence North 00 degrees 05 minutes 09 seconds West alone the back of sidewalk for a distance of 232.96 feet and the point of beginning. Said tract contains 1.49 acres more or less and is subject to all easements of sight or record.

NORTH DAKOTA DEPARTMENT OF CORRECTIONS AND REHABILITATION:

North Dakota State Penitentiary:

FOOD SERVICE

All that Part of the West 1/2 of Section 2, Township 138 North, Range 80 West of the 5th Principal Meridian, Burleigh County, North Dakota that lies within the following described tract:

Beginning at a point 2131.11 feet north and 82.89 feet west (measured along and perpendicular to the east line of the West 1/2 of Section 2) from the south 1/4 corner (the bearing of said 1/4 line being North 00 degrees 50 minutes 57 seconds East); thence North 90 degrees 00 minutes 00 seconds West a distance of 11.00 feet; thence South 00 degrees 00 minutes 00 seconds West a distance of 1.20 feet; thence North 90 degrees 00 minutes 00 seconds West a distance of 81.50 feet; thence South 45 degrees 00 minutes 00 seconds West a distance of 9.00 feet; thence North 45 degrees 00 minutes 00 seconds west a distance of 9.00 feet; thence North 90 degrees 00 minutes 00 seconds West a distance of 59.30 feet; thence South 45 degrees 00 minutes 00 seconds West a distance of 12.70 feet; thence North 45 degrees 00 minutes 00 seconds West a distance of 8.00 feet; thence North 45 degrees 00 minutes 00 seconds East a distance of 7.50 feet; thence North 90 degrees 00 minutes 00 seconds East a distance of 3.00 feet; thence North 00 degrees 00 minutes 00 seconds East a distance of 44.80 feet; thence North 90 degrees 00 minutes 00 seconds East a distance of 60 feet; thence North 00 degrees 00 minutes 00 seconds East a distance of 5.00 feet; thence North 45 degrees 00 minutes 00 seconds East a distance of 25.00 feet; thence North 90 degrees 00 minutes 00 seconds East a distance of 5.00 feet; thence North 00 degrees 00 minutes 00 seconds East a distance of 42.50 feet; thence North 90 degrees 00 minutes 00 seconds East a distance of 85.50 feet; thence South 00 degrees 00 minutes 00 seconds East a distance of 14.30 feet; thence North 90 degrees 00 minutes 00 seconds West a distance of 8.30 feet; thence South 00 degrees 00 minutes 00 seconds East a distance of 63.00 feet; thence South 90 degrees 00 minutes 00 seconds East a distance of 11.00 feet; thence South 00 degrees 00 minutes 00 seconds East a distance of 33.50 feet to the point of beginning.

The above described tract contains 13,480 square feet, more or less.

EDUCATION AND LIBRARY

All that Part of the West 1/2 of Section 2, Township 138 North, Range 80 West of the 5th Principal Meridian, Burleigh County, North Dakota that lies within the following described tract:

Beginning at a point 1976.05 feet north and 228.22 feet west (measured along and perpendicular to the east line of the West 1/2 of Section 2) from the south 1/4 corner (the bearing of said 1/4 line being North 00 degrees 50 minutes 57 seconds East); thence South 00 degrees 00 minutes 00 seconds East along an existing east building wall a distance of 76.30 feet; thence South 90 degrees 00 minutes 00 seconds West a distance of 69.00 feet; thence North 00 degrees 00 minutes 00 seconds East a distance of 104.50 feet; thence North 45 degrees 00 minutes 00 seconds East a distance of 11.30 feet; thence North 90 degrees 00 minutes 00 seconds East a distance of 32.30 feet; thence South 38 degrees 27 minutes 00 seconds East, along the northeast building wall, a distance of 46.20 feet to the point of beginning.

The above described tract contains 7,211 square feet, more or less.

PROGRAMS

All that Part of the West 1/2 of Section 2, Township 138 North, Range 80 West of the 5th Principal Meridian, Burleigh County, North Dakota that lies within the following described tract:

Beginning at a point 2027.07 feet north and 147.86 feet west (measured along and perpendicular to the east line of the West 1/2 of Section 2) from the south 1/4 corner (the bearing of said 1/4 line being North 00 degrees 50 minutes 57 seconds East); thence North 90 degrees 00 minutes 00 seconds West a distance of 141.20 feet; thence North 00 degrees 00 minutes 00 seconds West a distance of 68.35 feet; thence North 90 degrees 00 minutes 00 seconds West a distance of 8.33 feet; thence North 00 degrees 00 minutes 00 seconds East a distance of 35.55 feet; thence North 90 degrees 00 minutes 00 seconds East a distance of 42.20 feet; thence South 45 degrees 00 minutes 00 seconds West a distance of 7.50 feet; thence South 45 Degrees 00 minutes 00 seconds East a distance of 8.00 feet; thence North 45 degrees 00 minutes 00 seconds East a distance of 12.70 feet; thence North 90 degrees 00 minutes 00 seconds East a distance of 59.30 feet; thence South 45 degrees 00 minutes 00 seconds East, a distance of 9.00 feet; thence North 45 degrees 00 minutes 00 seconds East a distance of 9.00 feet; thence North 90 degrees 00 minutes 00 seconds East a distance of 26.00 feet; thence South 00 degrees 00 minutes 00 seconds East a distance of 101.90 feet to the point of beginning.

The above described tract contains 14,643 square feet, more or less.

ADMINISTRATIVE COMMITTEE ON VETERANS' AFFAIRS:

South Half of the Southwest Quarter (S½ SW¼) of Section Twelve (12), Township One Hundred Thirty-four (134), Range Fifty-six (56), Ransom County, North Dakota, containing 80 acres more or less.

EXHIBIT C

$15,145,000
NORTH DAKOTA BUILDING AUTHORITY
LEASE REVENUE REFUNDING BONDS
2003 Series A

ORIGINAL PURCHASER

DOUGHERTY & COMPANY LLC

2003 Series A
Serial Bond Interest Rate Schedule

Maturity (June 1)	Principal Amount	Interest Rate
2004	$ 1,780,000	5.250%
2005	2,060,000	5.250%
2006	2,160,000	5.250%
2007	2,280,000	5.250%
2008	2,675,000	5.250%
2009	2,810,000	5.250%
2010	1,380,000	5.250%

EXHIBIT E

2003 Series A
Term Bond Interest Rate Schedule

None

Municipal Bond Insurance Provisions

1. Definitions

(a) "**Bond Insurance Policy**" means the municipal bond new issue insurance policy issued by the Bond Insurer that guarantees payment of principal of and interest on the Bonds.

(b) "**Bond Insurer**" means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

2. Default-Related Provisions

(a) In determining whether payment default has occurred or whether a payment on the Bonds has been made under the Indenture, no effect shall be given to payments made under the Bond Insurance Policy.

(b) Any acceleration of the Bonds or any annulment thereof shall be subject to the prior written consent of the Bond Insurer (if it has not failed to comply with its payment obligations under the Bond Insurance Policy).

(c) The Bond Insurer shall receive immediate notice of any payment default and notice of any other default known to the Trustee within 30 days of the Trustee's knowledge thereof.

(d) For all purposes of the Indenture provisions governing events of default and remedies, except the giving of notice of default to Bondholders, the Bond Insurer shall be deemed to be the sole holder of the Bonds it has insured for so long as it has not failed to comply with its payment obligations under the Bond Insurance Policy.

(e) The Bond Insurer shall be included as a party in interest and as a party entitled to (i) notify the Authority, the Trustee, if any, or any applicable receiver of the occurrence of an event of default and (ii) request the Trustee or receiver to intervene in judicial proceedings that affect the Bonds or the security therefor. The Trustee or receiver shall be required to accept notice of default from the Bond Insurer.

3. Amendments and Supplements. Any amendment or supplement to the Indenture or any other principal financing documents shall be subject to the prior written consent of the Bond Insurer. Any rating agency rating the Bonds must receive notice of each amendment and a copy thereof at least 15 days in advance of its execution or adoption. The Bond Insurer shall be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

4. Successor Trustees, Etc. No resignation or removal of the Trustee, Paying Agent or Bond Registrar shall become effective until a successor has been appointed and has accepted the duties of Trustee, Paying Agent or Bond Registrar, as applicable. The Bond Insurer shall be furnished with written notice of the resignation or removal of the Trustee, Paying Agent or Bond Registrar and the appointment of any successor thereto.

5. Defeasance Provisions. Only cash, direct non-callable obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, Refcorp interest strips, CATS, TIGRS, STRPS, or defeased municipal bonds rated AAA by S&P or Aaa by Moody's (or any combination of the foregoing) shall be used to effect defeasance of the Bonds unless the Bond Insurer otherwise approves. In the event of an advance refunding, the Authority shall cause to be delivered a verification report of any independent nationally recognized certified public accountant. If a forward supply contract is employed in connection with the refunding, (i) such verification report shall expressly state that the adequacy of the escrow to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement (or the authorizing document, if no separate escrow agreement is utilized), the terms of the escrow agreement or authorizing document, if applicable shall be controlling.

6. Reporting Requirements. The Bond Insurer shall be provided with the following information:

(a) Notice of any drawing upon or deficiency due to market fluctuation in the amount, if any, on deposit, in the debt service reserve fund;

(b) Notice of any material events pursuant to Rule 15c2-12 of the Securities Exchange Act of 1934;

(c) Notice of the redemption, other than mandatory sinking fund redemption, of any of the Bonds, or of any advance refunding of the Bonds, including the principal amount, maturities and CUSIP numbers thereof; and

(d) Such additional information as the Bond Insurer may reasonably request from time to time.

7. Payments Unconditional. Except for an Event of Nonappropriation, the payment obligations under the lease, installment sale agreement or other document evidencing the Agencies' obligations shall be absolute and unconditional, free of deductions and

without any abatement, offset, recoupment, diminution or set-off whatsoever.

8. Notice Addresses. The notice addresses for the Bond Insurer and the fiscal agent are as follows:

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
Attn: Risk Management

State Street Bank and Trust Company, N.A.
61 Broadway
New York, NY 10006
Attn: Corporate Trust Department

Draft 10/16/02

LEASE AGREEMENT I

between

INDUSTRIAL COMMISSION OF NORTH DAKOTA
acting in its capacity as the
NORTH DAKOTA BUILDING AUTHORITY

and

NORTH DAKOTA STATE BOARD
OF HIGHER EDUCATION

Dated as of March 5, 2003

Cook Wegner & Wike PLLP
811 East Interstate Avenue, Suite B
Bismarck, ND 58503-1136
Phone: 701-255-1008
Fax: 701-255-6325
E-mail: cww@cwwbondlaw.com

TABLE OF CONTENTS

LEASE AGREEMENT I

THIS LEASE AGREEMENT I (the "**Lease**") made and entered into as of March 5, 2003, by and between the Industrial Commission of North Dakota acting in its capacity as the NORTH DAKOTA BUILDING AUTHORITY, a governmental agency created, organized and existing under the authority of NDCC Chapter 54-17.2, (the "**Authority**"), and the NORTH DAKOTA STATE BOARD OF HIGHER EDUCATION (the "**Agency**");

WITNESSETH:

WHEREAS, the Authority has been established under and in pursuance of the provisions of the Act (this capitalized term and all other capitalized terms used herein shall have the meaning given to such terms in Article I hereof) for the purpose of promoting the general welfare of the citizens of the State by providing public service facilities through acquiring, constructing, furnishing, equipping, owning, improving, enlarging, operating, repairing and maintaining buildings, for the use of the State, including making any improvements to those buildings and providing equipment necessary to the use of those buildings in the provision of services to the public; and

WHEREAS, the Authority has acquired interests in the Project and any Additional Security and hereby leases the Site, that being the real property on which all or a portion of the Project is located, and the portion of the Project located on the Site back to the Agency; and

WHEREAS, the execution and delivery of this Lease has been in all respects duly and validly authorized and approved by the Authority and by the Agency;

NOW, THEREFORE, in consideration of the premises and of the covenants and undertakings herein expressed, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS, REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 1.1. Definitions. Definitions used herein are defined in Appendix A hereto.

Section 1.2. Representations, Warranties, and Covenants of the Agency. The Agency represents, warrants, and covenants as follows:

(a) The Agency is an agency of the State duly organized and existing as such under the Constitution and laws of the State.

(b) The Agency is authorized to enter into the transactions contemplated by this Lease and to carry out its obligations hereunder. The Agency has been duly authorized to execute and deliver this Lease and covenants that it will do or cause to be done all things necessary to preserve and keep its existence in full force and effect.

(c) The Agency has entered into this Lease not only for the benefit of the Agency and the Authority but also for the benefit of the Trustee and all Owners of the Bonds issued for the purpose of refinancing the Project and other costs of the financing pursuant to the Indenture, and the provisions of this Lease may be enforced, to the extent and in the manner allowed under the Indenture, not only by the parties hereto but also by the Trustee.

(d) The Agency, at all times when Bonds are Outstanding, will maintain and abide by this Lease with the Authority.

(e) The execution, delivery and performance by the Agency of this Lease will not (i) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award as currently in effect to which it is subject; (ii) result in a breach of or constitute a default under the provisions of any indenture, loan or credit agreement or any other agreement, lease or instrument to which the Agency is subject or by which it, or its property, is bound; and (iii) the Agency is not in default under any such law, rule, regulation, order, writ, judgment, injunction, decree, determination or award or any such indenture, agreement, lease or instrument.

(f) There is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body pending or, to the knowledge of the Agency threatened against or affecting the Agency (i) wherein an unfavorable decision, ruling or finding would materially adversely affect the transactions contemplated by, or the validity of, this Lease to which it is a party, or any agreement or instrument to which the Agency is a party and which is in use or contemplated for use in the consummation of the transactions contemplated by this Lease or (ii) which in any way contests the existence, organization or powers of the Agency or the members or officers of the Agency to their respective offices.

Section 1.3. Representations, Warranties, and Covenants of the Authority. The Authority represents, warrants, and covenants as follows:

(a) The Authority is a governmental agency of the State duly organized and existing as such under the constitution and laws of the State.

(b) The Authority has the authority to enter into the transactions contemplated by this Lease and to carry out its obligations hereunder. The Authority has the authority to execute and deliver this Lease and agrees that it will do or cause to be done all things necessary to preserve and keep in full force and effect its existence.

(c) The Authority has entered into this Lease not only for the benefit of the Agency and the Authority, but also for the benefit of the Trustee and all Owners of the Bonds, and the provisions of this Lease may be enforced, to the extent and in the manner allowed under the Indenture, not only by the parties hereto but also by the Trustee.

(d) The Authority will diligently and reasonably exercise for the benefit of the Agency and the Owners of the Bonds, any and all rights that it or they may have under the Indenture and this Lease for the financing and use of the Project.

(e) The execution and delivery of the Lease will not (i) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award as currently in effect to which the Authority is subject; (ii) result in a breach of or constitute a default under the provisions of any indenture, loan or credit agreement or any other agreement, lease or instrument to which the Authority may be or is subject or by which it, or its property, is bound; and (iii) the Authority is not in default under any such law, rule, regulation, order, writ, judgment, injunction, decree, determination or award or any such indenture, agreement, lease or instrument.

ARTICLE II

THIS ARTICLE INTENTIONALLY LEFT BLANK

ARTICLE III
LEASE OF PROJECT

Section 3.1. Term of this Lease. The term of this Lease shall commence on the date of the issuance of the Bonds and shall continue for the original term ending June 30, 2003, with an automatic extension of the term of the Lease, 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 and for two years from the expiration of each Renewal Term of the Lease, until the original term of the Lease has been extended through June 2, 2010.

Section 3.2. Lease of Site and Projects Thereon. In consideration of the Rent and other terms and conditions herein specified, the Authority does hereby let and lease its interests in the Site and the portions of the Project located thereon to the Agency and the Agency does hereby let and lease those interests in the Site and the portions of the Project located thereon from the Authority for the term of this Lease as stated in Section 3.1 hereof.

Section 3.3. Basic Rent. During the term of this Lease, and subject to any credits referred to in Section 3.10 hereof, the Agency agrees to pay and shall pay as Basic Rent for the use of the Site and the portions of the Project located thereon on or before a date which is five Business Days prior to December 1, 2003, 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 pursuant to the Indenture and premium, if any, due on the Bonds on such date.

Section 3.4. Place of Payment of Basic Rent. The Basic Rent provided for in Section 3.3 shall be paid directly to the Authority at its office for payment to the Trustee. The Basic Rent is then paid to the Trustee for deposit in the Bond Fund as provided in the Indenture.

Section 3.5. Additional Rent. During the term of this Lease, 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 Indenture during the preceding billing period, (ii) the annual NDBA Fee payable under the Indenture 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 Indenture, 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 Indenture, 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 Indenture; provided, that the Agency may, without creating a default hereunder, 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 Site or the portions of the Project located thereon, 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 hereunder 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 Indenture, 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 Indenture related to the Project and exercise and performance of the powers and duties of the Trustee under the Indenture related to the Project; and (iii) the cost and expense incurred by the Trustee in defending against any liability in the Project 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 Indenture related to the Project; 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 Site or the portions of the Project located thereon, or shall fail to maintain any insurance as required by the provisions of this Lease, or to do any other thing or make any other payment required to be done or made by any other provision of this Lease; 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 or to pay Basic Rent pursuant to the Lease 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 3.6. Net Lease. This is a net lease, and the Authority shall not be required to make any expenditures whatsoever in connection with this Lease or the Project (except as otherwise provided in this Lease and the Indenture from proceeds of the Bonds), or to make any repairs to or to maintain the Project, including any costs and expenses incurred by the Agency in the operation of the Project, or arising in connection therewith, including but not limited to any or all government charges or taxes, if any, levied on the Project or the operation thereof, and all charges for services including utility services supplied to, or used in the operation of the Project. The obligations of the Agency to make the payments of the Basic Rent and Additional Rent required in Sections 3.3 and 3.5 hereof and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional and shall not be subject to abatement for any reason; and until such time as the principal, premium (if any) and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, the Agency (i) will not, subject to the provisions of Sections 3.8 and 3.9 hereof suspend or discontinue any payments of the Basic Rent and Additional Rent provided for in Sections 3.3 and 3.5 hereof, (ii) will perform and observe all of its other agreements contained in this Lease, and (iii) except as provided in Article VI, will not terminate this Lease for any cause, including, without limiting the generality of each of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, frustration of purpose, any change in the tax or other laws or administrative rulings of or administrative actions by the United States of America or the State, or any failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Lease or the Indenture. Nothing contained in this Section shall be construed to release the Authority from the performance of any of the agreements on its part contained in this Lease; and in the event the Authority should fail to perform any such agreement on its part, the Agency may institute such action against the Authority as the Agency may deem necessary, so long as no judgment or court order sought or obtained in such action shall interfere with the prompt and full payment of the Basic Rent and Additional Rent as contemplated hereby. Neither the Rent payable under this Article or this Lease or any obligation of the Agency shall be subject to setoff by the Authority.

Section 3.7. Interest on Unpaid Rent. In the event the Agency shall fail to make any payment of Basic Rent or Additional Rent under Sections 3.3 or 3.5 hereof, the item or installment so in default shall continue as an obligation of the Agency until the amount in default shall have been fully paid. The Agency agrees to pay interest on any Basic Rent in default at the rate or rates of interest payable on the Bonds as specified in Article II of the Indenture. The Agency agrees to pay interest on any Additional Rent in default at the rate or rates of interest equal to the Bank of North Dakota Base Rate.

Section 3.8. Prepayment of Rents; Redemption of Bonds. There is expressly reserved to the Agency the right, and the Agency is authorized and permitted, at any time it may choose, to prepay all Rent in an amount equal to the Discharge Price pursuant to Section 6.2 hereof or any part of the Basic Rent payable under Section 3.3 hereof or the Additional Rent payable under Section 3.5 hereof, and the Authority agrees that the Trustee may accept such prepayment of Rents when the same are tendered by the Agency. All Rents so prepaid shall be credited to the Basic Rent or Additional Rent payments specified in Sections 3.3 or 3.5 hereof respectively, in a manner determined by the Authority in compliance with the requirements of the Indenture.

The Agency with the consent of the Authority and the Trustee also may at any time deliver to the Trustee moneys in addition to the Rents required under this Lease with instructions to the Trustee to deposit such funds in the Bond Fund and to use such moneys for the purpose of purchasing any of the Outstanding Bonds or to call for redemption any of the Bonds in accordance with the provisions of the Indenture.

Section 3.9. Agency Entitled to Basic Rent Abatement if Bonds Paid Prior to Maturity. If at any time the aggregate moneys in the Bond Fund and the Reserve Fund shall be sufficient to retire, in accordance with the provisions of the Indenture, all of the Bonds at the time Outstanding, and fees and charges of the Trustee, the Registrar and Paying Agent due or to become due through the date on which the last of the Bonds is retired, under circumstances not resulting in termination of this Lease, and if the Agency is not at the time in default hereunder, the Agency shall be entitled to use and occupy the Project from the date on which such aggregate moneys are in the hands of the Trustee to the date of termination of the Lease without the payment of the Basic Rent specified in Section 3.3 hereof during that interval (but otherwise on the terms and conditions hereof).

Section 3.10. 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 Indenture. Any interest accruing on and any profit realized from such investment to be credited to the Bond Fund pursuant to the Indenture 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 Indenture, shall be borne by the Trustee.

Section 3.11. 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 hereof in an amount sufficient to allow the Agency to pay the Rent as it shall come due during the next Renewal Term of this Lease 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 3.12. Tax Certificate. The Agency shall take no action authorized to be taken under this Lease 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 for any purpose, or (ii) otherwise sublease or assign any rights under this Lease 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 3.13. Appropriation Request. The Agency shall include in its submission to the Governor for inclusion by the Governor in the biennial executive budget of the State for each year of the respective biennium during any Renewal Term of this Lease an amount fully sufficient to pay the Basic Rent required to be paid in each year of the biennium, Additional Rent estimated to be payable in each year of the biennium and any Additional Rent remaining unpaid less the amount, if any, from moneys from non-general fund sources. Provided that should the Governor not include in the executive budget for any reason the amounts required to be so included by the previous sentence of this Section 3.13, the Agency shall request independently that the Legislative Assembly of the State amend the executive budget appropriation so as to include such amounts. The Agency is hereby contractually obligated to provide in each year of the biennium from Legislative appropriations for such purpose, amounts sufficient to pay the Rent required hereunder when due, the same being an ordinary annual expense for each year of the biennium and a contract obligation of the Agency and the Agency will do all things lawfully within its power to obtain and maintain the appropriated funds from which the Rent may be paid. In an Event of Nonappropriation, the Agency is not required to continue to make the Rent payments required under this Lease. However, the Agency reserves the right to make payments of Rent from legally available sources other than appropriations in accordance with Section 7.01(e) of the Indenture.

ARTICLE IV
OPERATION, MAINTENANCE AND INSURANCE OF PROJECT

Section 4.1. Operation of Project. The Agency intends to use the Site or the portions of the Project located thereon for the purpose of providing for the carrying out of the normal presently authorized functions of the Agency, but the Agency may use the Site of the portions of the Project located thereon for any lawful governmental purpose. The Agency may locate and use any of its personal property in the furtherance of such purpose in or on the Project and such personal property shall remain the property of the Agency and shall not become part of the Project and shall not be subject to this Lease. If the personal property of the Agency so located in or on the Project cannot be readily distinguished from the real and personal property comprising the Project by reference to Exhibit A or other records of the Authority, then such personal property of the Agency shall be and remain identified as property of the Agency by tags or other symbols attached thereto or otherwise clearly associated therewith, and any such items of personal property not so identified shall be presumed to be part of the Project, but such presumption shall not be conclusive.

Section 4.2. Maintenance and Repair of Project. The Agency shall not cause or permit any waste, damage or injury to the Project. During the term of this Lease, the Agency shall, at its expense, keep the Project in good condition and repair with reasonable wear from normal use, and damage by act of God, fire, or other causes beyond the control of the Agency, excepted. The Agency shall indemnify the Authority, its members, officers, agents or employees, against all costs, expenses, liabilities, losses, damages, suits, fines, penalties, claims and demands, including reasonable Counsel fees, arising out of the Agency's failure to comply with the foregoing covenant to the extent not prohibited by law and for which appropriations in sufficient amounts are available.

Section 4.3. Insurance. To the extent practicable or insurable the Agency shall at its own expense keep the Project insured by the State Fire and Tornado Fund at all times during the term of this Lease. Such insurance shall be in an amount equal to the greater of (i) the Discharge Price established pursuant to Section 6.2 hereof, or (ii) one hundred percent (100%) of the full replacement costs of the Project as certified by the Agency on the effective date of this Lease 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 this Lease or Sections 6.11 and 6.12 of the Indenture. The Agency shall supply evidence to the Authority and the Trustee of the acquisition and maintenance of the insurance required by this Lease 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 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 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 or with respect to the Project 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 4.4. Damage, Destruction, and Condemnation.

(a) In the event the portion of the Project located on the Site or any part thereof is 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 prepay Rent for the purposes of redeeming a portion of the Outstanding Bonds. If the Agency elects to rebuild and restore the Project, the provisions of subsection (b) of this Section 4.4 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 4.4 shall apply.

(b) If the Agency elects to repair or restore the Project, 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 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 hereunder, 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 shall be deemed a part of the Project 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 this Lease; provided that no equipment shall be acquired subject to any lien or encumbrance not approved by the Trustee.

(f) If the Project is to be replaced by a new facility or property, which is substantially dissimilar in construction or use from the original Project, then the Project 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) 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 4.5. Improvements to the Project. The Agency may make any improvements to the Project as it deems necessary or desirable, provided that (a) all improvements to the Site constituting real property shall become the property or be included in the leasehold interest of the Authority, but subject to this Lease, immediately upon the placement thereof in the Project, and (b) the Agency shall indemnify the Authority, its members, officers, agents or employees, from any and all losses, damages, liabilities or claims arising from or in connection with the making of the improvements to the Project by the Agency to the extent not prohibited by law for which appropriations, including insurance proceeds, in sufficient amount were available.

ARTICLE V
EVENTS OF DEFAULT AND REMEDIES

Section 5.1. Events of Default. The term "Event of Default" shall mean, whenever used in this Lease, any one or more of the following events:

(a) Failure to pay the Basic Rent required to be paid under Section 3.3 hereof at the times specified therein.

(b) Failure to pay Additional Rent as required to be paid under Section 3.5 hereof.

(c) Failure by the Agency to observe and perform any covenant, condition or agreement or pay any amounts specified in this Lease, 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 5.2. Remedies. Whenever any Event of Default referred to in Section 5.1 hereof 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 this Lease, 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 Site and the portions of the Project located thereon, enforcing the Lease or terminating the Lease, and sell or lease or sublease the Project for the account of the Agency or foreclose the lien of the Indenture in the manner afforded by law for the foreclosure of mortgages (as provided in the Indenture);

(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 this Lease.

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

Section 5.3. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Lease or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice other than such notice as may be required in this Article. Such rights and remedies as are given the Authority hereunder shall also extend to the Trustee, and the Trustee and the Owners of the Bonds, subject to the provisions of the Indenture, shall be entitled to the benefit of all covenants and agreements herein contained.

Section 5.4. Agreement to Pay Attorneys' Fees and Expenses. If the Agency should default under any of the provisions of this Lease and the Authority or Trustee should employ attorneys or incur other expenses for the collection of Rent or the enforcement of performance or observance of any obligation or agreement on the part of the Agency herein contained, the Agency agrees that it will on demand therefor pay, but only from Additional Rents subject to appropriation, to the Authority or Trustee the reasonable fee of such attorneys and such other reasonable expenses so incurred by the Authority or Trustee.

Section 5.5. No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Lease should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE VI
OPTIONS IN FAVOR OF AGENCY

Section 6.1. Option to Terminate. The Agency shall have the option to cancel or terminate the term of this Lease at any time when the Bonds shall be deemed to have been paid and discharged under the provisions of Article X of the Indenture, the other costs and expenses due under the Indenture have been paid, and when any Additional Rent payable to the Authority, Trustee, Paying Agent or Registrar due or to become due has been paid. Such option shall be exercised by giving the Authority notice in writing and such cancellation or termination shall forthwith become effective. Upon such termination any funds or investments then remaining on deposit to the credit of the Bond Fund established pursuant to the Indenture (not set aside for the payment of Bonds and interest thereon pursuant to the Indenture) and deposited therein pursuant to this Lease shall be paid over by the Trustee to the order of the Authority.

Section 6.2. Option to Acquire Project Prior to Payment of the Bonds. The Agency shall have, and is hereby granted, the option to acquire the Site and the portions of the Project located thereon 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 Indenture 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 Indenture (i) to pay and discharge under the Indenture, the Outstanding Bonds including interest due thereon to the Redemption Date established by the Authority under the

Indenture, 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 Indenture; 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 Indenture. 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 without rendering the portion of any payment or prepayment hereunder 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 Indenture.

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 hereof, and the Authority will deliver to the Agency the documents referred to in Section 6.3 hereof.

The mutual agreements contained in this Section 6.2 are independent of, and constitute an agreement separate and distinct from, any and all provisions of this Lease and shall be unaffected by any fact or circumstance which might impair or be alleged to impair the validity of any other provisions.

Section 6.3. 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 this Lease 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 this Lease; and (ii) any Permitted Encumbrances other than the Indenture and this Lease.

Section 6.4. Relative Position of this Lease and Indenture. The rights and options granted to the Agency in this Lease shall be and remain subordinate to the rights of the Trustee under the Indenture and may be exercised only when no Event of Default has occurred or is continuing hereunder.

ARTICLE VII
MISCELLANEOUS

Section 7.1. Assignment of Lease and Rentals. The Authority acknowledges that contemporaneously with the date hereof it will assign its interest in this Lease to the Trustee pursuant to the Indenture and the Agency hereby consents to such assignment. The Authority and the Agency may at any time make any other assignment of their interest under this Lease for use not prohibited by the Act; provided, however, that (a) the Agency shall remain liable for all Rent and other obligations of the Agency under this Lease, and (b) the Authority and the Trustee receive an Opinion of Bond Counsel to the effect that such assignment will not cause the interest payable on the Bonds to become includable in gross income of the Owners for federal income taxes.

Section 7.2. Entry. The Authority, its agents or employees shall have the right at reasonable times to enter the Project for the purpose of inspecting the Project to determine whether all of the terms, agreements, covenants and conditions herein contained are being complied with.

Section 7.3. Amendment to Lease. Except as may otherwise be provided in this Lease, no amendment to this Lease 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 Indenture, 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 Indenture and the Act respectively have been complied with.

Section 7.4. Member, Officer, and Employee Liability. The promises, covenants, agreements and obligations made or assumed by the Authority or the Agency in this Lease 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 this Lease or for the performance of any other duty or obligation required of the Authority or the Agency under this Lease against any member, officer or employee of the Authority or the Agency or any person executing or attesting to this Lease or the Indenture.

Section 7.5. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when mailed by registered or certified mail, postage prepaid, return receipt requested, addressed to the Authority, the Agency or the Trustee, as the case may be, or hand delivered to the above at their respective addresses. A duplicate copy of each such notice, certificate or other communication given hereunder to the Authority, the Agency or the Trustee shall also be given to the others. Until otherwise provided in writing by the respective parties, all notices and communications to the parties shall be addressed as follows:

Authority: North Dakota Building Authority
State Capitol, 14th Floor

600 East Boulevard
Bismarck, North Dakota 58505-0840
Attention: Executive Director and Secretary,
Industrial Commission

Agency: State Board of Higher Education
State Capitol, 10th Floor
600 East Boulevard
Bismarck, North Dakota 58505
Attention: Chancellor

Trustee: Bank of North Dakota
700 East Main Avenue
P.O. Box 5509
Bismarck, North Dakota 58506-5509
Attention: Trust Department

Section 7.6. Entire Agreement. This Lease contains all agreements between the parties relative to the Project and the Site and there are no other representations, warranties, promises, agreements or understandings, oral, written or inferred, between the parties relative to the Project and the Site, unless reference is made to them in this Lease. Provided, however, that all provisions contained herein shall be construed in accordance with provisions of the Act and to the extent of inconsistencies, if any, between the covenants and agreements in this Lease and the provisions of the Act, the provisions of the Act shall be deemed to be controlling and binding upon the parties hereto.

Section 7.7. Severability. If any clause, provision or section of this Lease be ruled invalid or unenforceable by any court of competent jurisdiction, the invalidity or unenforceability of such clause, provision or section shall not affect any of the remaining clauses, provisions or sections.

Section 7.8. Execution in Counterparts. This Lease may be executed in several counterparts, each of which shall be an original and all, which shall constitute but one and the same instrument.

Section 7.9. Captions. The captions or headings in this Lease are for convenience only and in no way define, limit or describe the scope or intent of any provision of this Lease.

Section 7.10. Applicable Law. This Lease shall be governed in all respects, whether as to validity, construction, performance or otherwise, by the laws of the State.

Section 7.11. Quiet Enjoyment. The Authority covenants that the Agency, upon compliance with the terms of this Lease, shall and may peacefully and quietly have and hold and enjoy the Project for the term herein provided, subject to any and all rights of the Authority, or its assignees, herein granted.

Section 7.12. Title or Other Real Property Interest. As required by Section 54-17.2-08 of the Act, after the Agency has paid its proportionate share of the debt service on the Bonds, in the form of Basic Rent, or provision for the payment thereof is made as provided in the Indenture, and upon request by the Agency, the Authority shall grant and convey any and all of its right, title and interest in and to the Site and the Project to the Agency for consideration of the Agency's assumption of all monetary obligations and legal responsibilities for the operation and maintenance of the Project. The Authority agrees that it will not amend the Indenture in any way that would result in a delay in the conveyance of the interest in the Site and Project to the Agency without the consent of the Agency. The Authority and the Agency hereby specifically agree that the obligations of the Agency to pay the Rent and perform the other duties and obligations of each party specified in this Lease, do not depend upon the conveyance of the interest in the Project to the Agency as herein provided, and each party warrants and represents that this Lease would have been executed and delivered by each of them even though such interest would not pass. It is understood by the Authority and the Agency that the passage of such interest is merely incidental to this Lease and that the Rent is not greater than the economic or market value to the Agency for the use of the Project over and above estimated expenses of operation, maintenance and repair of the Project, not taking into account passages of such interest to the Project as provided in this Section.

Section 7.13. Binding Effect. This Lease shall inure to the benefit of and be binding upon the Authority and the Agency and their successors and assigns.

Section 7.14. Declaration of Governmental Function. The Authority and the Agency, in accordance with the Act, hereby specifically declare that the Project described herein are essential to the proper, efficient and economic operation of the Agency and are intended to serve an essential governmental function and nothing herein is to be construed to conclude a contrary intent.

Section 7.15. Continuing Disclosure Obligation of Agency. The Agency hereby acknowledges the Authority's continuing disclosure obligations under the Securities and Exchange Commission Rule 15c2-12 and agrees to provide on an ongoing basis such information as may be required as and when required by the Authority to the Authority to update the information as it relates to the Agency in the Official Statement regarding the Bonds. The Agency further agrees to furnish to the Authority on or before December 15 of each year that Bonds are outstanding a written statement of any changes to that part of the Official Statement entitled "The Project" and any changes to Appendix D of the Official Statement. The Agency further acknowledges its obligation to promptly advise the Authority of any "Material Event" as that term is defined in the Authority's Undertaking to Provide Continuing Disclosure with regard to the Bonds, a copy of which the Agency acknowledges receipt.

IN WITNESS WHEREOF, the Authority and the Agency have caused this Lease Agreement to be executed and attested by their duly authorized officers, all as of the date first above written.

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

____
John Hoeven, Governor
Chairman

Attest:

____
Karlene Fine
Executive Director and Secretary

(SEAL)

NORTH DAKOTA STATE BOARD OF HIGHER EDUCATION

By __________________________________
Larry A. Isaak
Chancellor

Attest:

____
Hugh Patrick Seaworth
Secretary

Definitions

Definitions. In addition to the (a) words and terms defined in the Indenture which shall have the same meaning in this Lease unless defined otherwise herein, and (b) words and terms defined elsewhere in this Lease, the following words and terms as used in this Lease and the preamble hereto shall have the following meanings unless the context or use indicates another or different meaning or intent:

"**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 hereof.

"**Additional Security**" means that real or personal property described in Exhibit C, if any.

"**Agency**" means the North Dakota State Board of Higher Education or any body or agency of the State succeeding to its rights and duties.

"**Agent**" means the person at any time designated to act on behalf of the Agency by written certificate of the chief administrative officer of the Agency or by his or her designee of the Agency furnished to the Authority and the Trustee.

"**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 and duties.

"**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 hereof.

"**Bonds**" means the "North Dakota Building Authority, Lease Revenue Refunding Bonds, 2003 Series A", and any additional bonds authorized to be issued hereunder and any bonds issued to refund the Bonds in whole or in part.

"**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 Indenture shall be given by law.

"**Condemnation**" shall mean 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.

"**Discharge Price**" means the amount required to be paid pursuant to Section 6.2 hereof to discharge the Agency's obligation under this Lease and the Bonds.

"**Governor**" means the Governor of the State.

"**Indenture**" means the Trust Indenture and Assignment of Lease Rentals constituting a trust agreement between the Authority and the Bank of North Dakota, as Trustee, effective as of March 5. 2003, authorizing issuance and sale of the Bonds and any amendments or supplements thereto.

"**Lease Agreement I**" means this Lease Agreement I between the Authority and the Agency with regard to the Project and any Additional Security dated as of March 5, 2003, as amended or supplemented as herein provided.

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

"**Permitted Encumbrances**" means, as of any particular time, (i) the Indenture, (ii) utility, access and other easements and rights-of-way, mineral rights, restrictions and exceptions that exist as of the date of issue of the Bonds and that the Agency certifies will not interfere with or impair the use of or operations being conducted in the Project or elsewhere on the Site, and (iii) such minor defects, irregularities, encumbrances, easements, and rights-of-way with respect to properties similar in character to the Project and as do not in the aggregate, 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.

"**Prior Bonds**" mean the State of North Dakota, North Dakota Building Authority Refunding Lease Revenue Bonds, 1993 Series A in the original principal amount of $34,740,000.

"**Project**" means the interest in real or personal property, or both, acquired, constructed or improved with the bond proceeds from the bonds which were refunded by the Prior Bonds, and which interests are described in Exhibit A hereto attached.

"**Renewal Term**" means any two-year renewal period of the Lease commencing on July 1 of the years 2003, 2005 and 2007 as necessary and a final Renewal Term commencing July 1, 2009, and ending June 2, 2010.

"**Rent**" means the Basic Rent and Additional Rent required to be paid to the Authority by the Agency pursuant to Article III hereof.

"**Site**" means the real property described in Exhibit B attached hereto.

"**State**" means the State of North Dakota.

"**Trustee**" means the Bank of North Dakota, Bismarck, North Dakota, as designated in the Indenture, or any successor trustee at the time, serving as such under the Indenture.

EXHIBIT A

DESCRIPTION OF PROJECT

Facility	Institution
Computer Technology Transfer Center	North Dakota State University
United Hospital – North Unit	University of North Dakota
Abbot Hall Addition	University of North Dakota
Agricultural Mechanics Technology Facility	North Dakota State College of Science
Library Facility	Minot State University
Handicapped Access Projects:	
Schafer Hall – elevator and bathrooms	Bismarck State College
Horticulture Building – elevator	North Dakota State University
Administration Building – elevator and entrance	North Dakota State University
South Engineering Building – elevator	North Dakota State University
Science Building – elevator	Minot State University
Administration Building – elevator	Minot State University
Hektner, Haverty, Horton Halls - elevators	North Dakota State College of Science
Student Center – elevator	North Dakota State College of Science
Library – elevator	North Dakota State College of Science
McFarland-Vangstad Complex – elevator	Valley State University
Montgomery Hall – elevator	University of North Dakota
Old Science Building – elevator and bathrooms	University of North Dakota
Burtness Theatre – elevator and bathrooms	University of North Dakota
Murphy Hall – elevator	Dickinson State University

EXHIBIT B

LEGAL DESCRIPTION OF SITE

STATE BOARD OF HIGHER EDUCATION:

North Unit of United Hospital - UND:

Lot Three (3), in Block "A", a replat of portions of Blocks 1, 2, 4 and 5, University Place, Grand Forks County, North Dakota, according to the plat thereof on file in the Office of the Register of Deeds within and for Grand Forks County, North Dakota and recorded as Document No. 400260 and located in and a part of the NE¼SE¼ of Section 5, Township 151, Range 50.

Library Facility – MSU:

That portion of the N½SE¼ Section 14, Township 155 North, Range 83 West of the 5th P.M., described as follows: Beginning at a point 196.00 feet, N 90°00'00" E of the Northeast corner of Block 1, Subdivision of Block 14, North Minot, Ward County, North Dakota; thence S00°00'00" E, a distance of 255.00 feet; thence N90°00'00" W, a distance of 130.00 feet; thence S00°00'00" E, a distance of 110.00 feet, thence N90°00'00" E, a distance of 130 feet; thence N00°00'00" E, a distance of 75.00 feet; thence N90°00'00" E, a distance of 350.00 feet; thence N33°00'00" E, a distance of 165.00 feet; thence N00°00'00" E, a distance of 120.00 feet; thence N90°00'00" E, a distance of 130.00 feet; thence N00°00'00" E, a distance of 175.00 feet; thence N90°00'00" W, a distance of 290.00 feet; thence S65°17'21" W, a distance of 264.04 feet; thence S00°00'00" E, a distance of 33.00 feet; thence N90°00'00" W, a distance of 40.00 feet to the point of beginning.

Agriculture Mechanics Technology Facility – NDSCS-Wahpeton:

All that part of BLOCK 4 OF THE STATE SCHOOL OF SCIENCE ADDITION TO THE CITY OF WAHPETON, COUNTY OF RICHLAND, NORTH DAKOTA described as follows:

Commencing at the northeast corner of said Block 4; thence on an assumed bearing of South 1 degree 27 minutes 20 seconds East on and along the east line of said Block 4 a distance of 983.00 feet; thence South 89 degrees 28 minutes 08 seconds West a distance of 550.76 feet to the point of beginning; thence South 0 degrees 26 minutes 26 seconds West a distance of 383.42 feet to the northwest corner of the Mildred Johnson Library building face; thence North 89 degrees 33 minutes 34 seconds West a distance of 155.68 feet to the Barnard Hall building east wall face; thence North 0 degrees 26 minutes 26 seconds East on and along said east wall face a distance of 108.12 feet to the northeast corner thereof; thence North 89 degrees 33 minutes 34 seconds West on and long said Barnard Hall buildings north wall face a distance of 129.07 feet to the northwest corner thereof: thence North 0 degrees 26 minutes 26 seconds East a distance of 275.30 feet; thence South 89 degrees 33 minutes 34 seconds East a distance of 284.75 feet to the point of beginning.

The above described tract contains 95,224 square feet more or less and shall be subject to existing utility easements and also support, over-hang and similar rights for said Barnard Hall and Mildred Johnson Library buildings.

Abbott Hall - UND:

LAND DESCRIPTION FOR EXISTING ABBOTT HALL TRACT NO. 1:

That part of the Southeast Quarter of the southeast Quarter of Section 5, Township 151 North, Range 50 West of the 5th Principal Meridian, Grand Forks County, North Dakota described as follows:

Commencing at the Southeast corner of said Southeast Quarter of the Southeast Quarter of Section 5; thence on an assumed bearing of North 00 degrees 00 minutes 00 seconds East along the east line of said Section 5 a distance of 700.41 feet; thence South 89 degrees 54 minutes 00 seconds West a distance of 543.56 feet to the point of beginning; thence North 00 degrees 06 minutes 00 seconds West a distance of 230.00 feet: thence North 89 degrees 54 minutes 00 seconds East a distance of 110.00 feet; thence South 00 degrees 06 minutes 00 seconds East a distance of 230.00 feet; thence South 89 degrees 54 minutes 00 seconds West a distance of 110.00 feet to the point of beginning. Containing .581 acres more or less.

LAND DESCRIPTION FOR ABBOTT HALL ADDITION TRACT NO. 2:

That part of the Southeast Quarter of the Southeast Quarter of Section 5, Township 151 North, Range 50 West of the 5th Principal Meridian, Grand Forks County, North Dakota described as follows:

Commencing at the Southeast corner of said Southeast Quarter of the Southeast Quarter of Section 5; thence on an assumed bearing of North 00 degrees 00 minutes 00 seconds East along the east line of said Section 5 a distance of 700.41 feet; thence South 89 degrees 54 minutes 00 seconds West a distance of 543.56 feet to the point of beginning; thence continuing South 89 degrees 54 minutes 00 seconds West a distance of 200.00 feet; thence North 00 degrees 06 minutes 00 seconds West a distance of 115.00 feet; thence North 89 degrees 54 minutes 00 seconds East a distance of 200.00 feet; thence South 00 degrees 06 minutes 00 seconds East a distance of 115.00 feet to the point of beginning. Containing .528 acres more or less.

Computer Technology Transfer Center - NDSU:

That part of the SE¼ of Section 36, Township 140 N, Range 49 W of the 5th principal meridian; Cass County, North Dakota described as follows:

That part of the North Dakota State University campus property described as follows: Commencing at the centerline intersection of Centennial Boulevard and Bolley Drive, thence on an assumed bearing of South 00 degrees 00 minutes 00 seconds East along the centerline of Bolley Drive 50.11 feet; thence South 89 degrees 44 minutes 25 seconds East 27.30 feet to the intersection of the back of sidewalks paralleling Centennial Boulevard and Bolley Drive and being the point of beginning, thence South 89 degrees 44 minutes 25 seconds East along the back (property side) side of the existing sidewalk 280.27 feet to the intersection of sidewalks (property side) which parallel Centennial Boulevard and College Street, thence South 00 degrees 11 minutes 00 seconds East along the back (property side) of the sidewalk paralleling College Street for a distance of 231.01 feet; thence South 89 degrees 51 minutes 45 seconds West 280.66 feet to a point on the back side (property side) of the existing sidewalk (aforementioned property line being 20.00 feet north of the north side of Hultz Hall), thence North 00 degrees 05 minutes 09 seconds West alone the back of sidewalk for a distance of 232.96 feet and the point of beginning. Said tract contains 1.49 acres more or less and is subject to all easements of sight or record.

EXHIBIT C

ADDITIONAL SECURITY

None

APPENDIX C

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

(This page has been left blank intentionally.)

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

Proprietary Fund Types		Fiduciary Fund Type	Account Groups			Totals (Memorandum Only) Primary Government		Totals (Memorandum Only) Reporting Entity
Enterprise	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	-	-	-	-	610,395	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

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

Combined Statement Of Revenues, Expenses And Changes In Fund Equity
All Proprietary Fund Types, NonexpendableTrust 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	41,372,283	25,049,183	2,235,671	68,657,137	4,001,457	72,658,594
Claims And Benefits	92,730,578	1,098,000	-	93,828,578	5,714,090	99,542,668
Interest	140,177,052	-	27,890	140,204,942	8,686,000	148,890,942
Depreciation	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

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)

(Continued On The Next Page)

Total (Memorandum Only) Primary Government June 30 2001	Component Units	Total (Memorandum Only) Reporting Entity June 30 2001
$ 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
50,300,854	724,261	51,025,115
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
43,294,702	15,078,000	58,372,702

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				Total (Memorandum Only) Reporting Entity	
June 30 2001		Component Units		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)
	(14,498,566)		(4,000)		(14,502,566)
	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
	18,928,311		(14,536,336)		4,391,975
	98,025,301		1,261,925		99,287,226
	739,501,878		8,952,932		748,454,810
$	837,527,179	$	10,214,857	$	847,742,036
$	137,108,954	$	7,877,309	$	144,986,263
	747,076,827		2,337,548		749,414,375
	(46,658,602)		-		(46,658,602)
$	837,527,179	$	10,214,857	$	847,742,036
$	(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
$	(39,544,825)	$	722,012	$	(38,822,813)

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

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

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

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.

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.

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

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 $595,504. 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 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

<u>DUE TO/DUE FROM</u>

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).

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 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

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	$ 115,303	$ 3,330	$ 118,633
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
	$ 103,698	$ 22,033	$ 125,731
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
	$ 141,880	$ 249,883	$ 391,763
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
	$ 44,960	$ (1,607)	$ 43,353

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
Total-Primary Government	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:	General Fund	Enterprise	Internal Service	Agency
Appropriated Expenditures	$ 12,963	$ -	$ -	$ (148)
Capital Acquisitions	-	(3,191)	(14,824)	-
Depreciation	-	3,849	8,258	-
Total	$ 12,963	$ 658	$ (6,566)	$ (148)

(***) 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
Total – Primary Government	2,863,085	373,797	375	14,382	22	3,251,661
Component Units	18,565	-	-	-	-	18,565
Total – Reporting Entity	$ 2,881,650	$ 373,797	$ 375	$ 14,382	$ 22	$ 3,270,226

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

University System:

	Category 1	Category 2	Category 3	Total Bank Balance	Carrying Amount
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 1	Category 2	Category 3	Total Bank Balance	Carrying Amount
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 Schools 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,

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			
	1	2	3	Fair Value
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
	$ 2,902,110	$ -	$ -	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				$ 4,692,729

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

Component Units:

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

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	$ 112,594	$ 110,640	$ 232	$ 2	$ 1,917,998	$ 289	$ 109,399	$ 52,617	$ 15,067	$ 2,318,838

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):

Primary Government:	Cash	Investments	Loans Receivables	Other Assets
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	-	-	-
	$ 286,678	$ 99,069	$ 594,023	$ 13,718
Component Unit:				
Municipal Bond Bank	$ 963	$ 98,678	$ -	$ 11,880

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

Fund Type/Fund	Due From	Due To
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

Fund Type/Fund	Due From	Due To
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	-

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

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

	Amount
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	(823)
Due To's	$ 70,764

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

INTERFUND RECEIVABLES/PAYABLES

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

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

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

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

OPERATING TRANSFERS (expressed in thousands)

Fund Type/Fund	In	Out
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

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

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	(185)
Operating Transfers Out	$ 373,798

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

OPERATING TRANSFERS IN/OUT OF COMPONENT UNITS

Fund Type/Fund	In	Out
General	$ -	$ 375
Total	$ -	$ 375

OPERATING TRANSFERS IN/OUT OF PRIMARY GOVERNMENT

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

ADVANCES TO AND FROM OTHER FUNDS

Fund Type/Fund	Advance To	Advance From
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	$ 50,568	$ 58,242

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

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

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

ADVANCES TO/FROM COMPONENT UNITS

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

ADVANCES TO/FROM PRIMARY GOVERNMENT

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

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):

Description	Enterprise	Internal Service	Fiduciary Funds	General Fixed Assets	University System	Component Units
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)	$ 53,867	$ 46,223	$ 1,035	$ 480,520	$ 880,078	$ 16

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

Description	Balance July 1, 2000	Minimum Valuation Adjustments	Additions	Retirements	Transfers Between Asset Class and Funds	Balance June 30, 2001
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	$ 506,838	$ (42,892)	$ 22,988	$ (6,414)	$ -	$ 480,520

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.

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

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

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

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

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):

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

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):

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

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):

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	$ 3,232	$ 187	$ 2	$ 24,147

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	$ 3,232	$ 187	$ 2	$ 24,147

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 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):

Description	Maturity Date	Interest Rate (%)	Balance 6/30/01
Primary Government			
General Long-Term Debt Account Group:			
Building Authority			
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	2,870
Subtotal			83,264
Lignite Research			
Series A:			
1995	2002-2006	4.70-5.75	5,400

Description	Maturity Date	Interest Rate (%)	Balance 6/30/01
Water Commission			
Series 1997 A:			
Serial Bonds	2002-2012	4.85-5.50	1,615
Term Bonds	2018	5.70	1,370
Term Bonds	2028	5.75	3,590
Series 1997 B:			
Serial Bonds	2002-2038	5.00	3,368
Series 1998 A:			
Serial Bonds	2002-2018	4.40-5.75	740
Term Bonds	2024	5.875	455
Term Bonds	2002-2039	4.75	100
Series 1999 A:			
Term Bonds	2003-2040	4.375	1,000
Series 2000 A:			
Serial Bonds	2002-2021	5.00-6.00	32,095
Term Bonds	2022	2.50	1,500
Series 2000 B:			
Term Bonds	2004-2040	5.125	400
Series 2001 A:			
Term Bonds	2041	4.75	270
Subtotal			46,503
Enterprise Funds:			
State Fair			
Series A:			
1994	2002-2012	3.50-6.00	2,284
Student Loan Trust			
Series A:			
1989	2002-2006	6.90-7.00	3,630
1996	2003	2.80	6,850
1997	2002-2003	3.05	52,974
1998	2002	2.85	16,188
2000	2036	2.97	55,000
Series B:			
1988	2002-2003	7.80-7.90	4,056
1996	2006	2.849	10,550
1997	2006-2028	2.80	15,334
1998	2006	2.90	29,901
2000	2026	5.85	8,000
Series C:			
1989	2003-2006	7.20-7.25	5,885
1996	2003	5.45	4,160
Series D:			
1996	2007-2015	5.80-6.40	3,000
Subtotal			215,528
Housing Finance			
Multi-Family Bonds			
Series 1990 D:			

Description	Maturity Date	Interest Rate (%)	Balance 6/30/01
Term Bonds	2002-2016	7.75	285
Series 1990 E:			
Term Bonds	2002-2016	7.75	270
Series 1993 A:			
Term Bonds	2002-2005	5.125	50
Term Bonds	2004-2024	5.75	1,795
Series 1995 A:			
Serial Bonds	2002-2008	4.60-5.50	1,510
Term Bonds	2016	6.125	3,590
Term Bonds	2018	6.15	1,300
Term Bonds	2021	6.20	2,325
Series 1995 B:			
Serial Bonds	2002-2005	6.40-6.85	215
Single Family Bonds			
Series 1989 A:			
Serial Bonds	2002-2005	7.80-8.00	760
Cap. Apprec. Bonds	2005-2009	8.00-8.10	7,822
Term Bonds	2012	8.30	953
Term Bonds	2022	8.375	4,538
Series 1989 B:			
Term Bonds	2014	8.00	580
Series 1990 A:			
Serial Bonds	2002-2006	7.20-7.50	420
Term Bonds	2011	7.90	685
Term Bonds	2024	8.05	3,740
Series 1990 B:			
Serial Bonds	2002-2006	6.70-7.20	615
Term Bonds	2011	7.625	955
Term Bonds	2025	7.75	5,325
Series 1990 C:			
Serial Bonds	2002-2006	6.45-7.00	775
Term Bonds	2011	7.25	1,200
Term Bonds	2025	7.30	6,990
Series 1991 A:			
Serial Bonds	2002-2007	6.15-6.75	810
Term Bonds	2013	6.95	1,135
Term Bonds	2024	7.00	3,920
Series 1992 A;			
Serial Bonds	2002-2007	5.95-6.50	1,380
Term Bonds	2013	6.75	2,035
Term Bonds	2024	6.80	6,330
Series 1992 B:			
Serial Bonds	2002-2007	5.60-6.25	2,570
Term Bonds	2014	6.70	3,145
Term Bonds	2019	6.00	3,660
Term Bonds	2026	6.80	5,090
Series 1993 A:			
Serial Bonds	2002-2009	4.35-5.10	1,290

Description	Maturity Date	Interest Rate (%)	Balance 6/30/01
Term Bonds	2025	5.55	5,170
Series 1994 A:			
Serial Bonds	2003-2010	5.10-5.50	2,045
Term Bonds	2026	5.95	4,005
Series 1994 B:			
Serial Bonds	2002-2003	4.60-4.80	370
Term Bonds	2026	5.80	4,560
Series 1994 C:			
Serial Bonds	2002-2010	5.40-6.40	1,795
Term Bonds	2026	6.95	7,650
Series 1994 D:			
Serial Bonds	2002-2010	5.35-6.25	5,145
Term Bonds	2020	6.25	1,695
Term Bonds	2025	6.75	8,320
Series 1994 E:			
Term Bonds	2015	6.30	4,555
Series 1995 A:			
Serial Bonds	2002-2010	6.20-7.15	755
Term Bonds	2016	7.40	200
Term Bonds	2021	7.10	780
Series 1995 B:			
Serial Bonds	2002-2011	5.00-6.00	3,950
Term Bonds	2016	6.25	3,170
Term Bonds	2027	6.32	8,510
Series 1995 D:			
Serial Bonds	2002-2012	4.95-6.15	1,290
Term Bonds	2017	6.30	975
Term Bonds	2021	5.80	560
Term Bonds	2028	6.325	2,255
Series 1995 F:			
Serial Bonds	2002-2011	4.70-5.85	3,165
Term Bonds	2016	6.00	2,515
Term Bonds	2020	5.50	285
Term Bonds	2026	6.15	880
Term Bonds	2027	6.15	5,625
Series 1996 A:			
Serial Bonds	2002-2012	4.95-6.15	3,890
Term Bonds	2017	6.30	2,910
Term Bonds	2021	5.80	965
Term Bonds	2028	6.325	7,400
Series 1996 B:			
Serial Bonds	2002-2012	4.90-6.05	4,105
Term Bonds	2017	6.25	2,960
Term Bonds	2021	5.70	680
Term Bonds	2028	6.40	3,850
Term Bonds	2028	6.45	4,170
Series 1996 C:			
Serial Bonds	2002-2013	4.50-5.75	7,075

Description	Maturity Date	Interest Rate (%)	Balance 6/30/01
Term Bonds	2018	5.95	4,380
Term Bonds	2021	5.15	1,665
Term Bonds	2029	6.10	12,475
Series 1996 D:			
Serial Bonds	2002-2013	4.45-5.60	5,155
Term Bonds	2018	5.80	3,350
Term Bonds	2022	5.10	1,895
Term Bonds	2029	5.90	8,550
Series 1997 A:			
Serial Bonds	2002-2013	4.60-5.90	2,960
Term Bonds	2018	6.00	2,040
Term Bonds	2021	5.30	645
Term Bonds	2028	6.15	1,920
Term Bonds	2028	6.15	3,045
Series 1997 B:			
Serial Bonds	2002-2013	4.40-5.50	2,210
Term Bonds	2018	5.75	1,495
Term Bonds	2021	5.00	560
Term Bonds	2029	5.85	3,475
Series 1997 C:			
Serial Bonds	2002-2014	4.15-5.35	8,005
Term Bonds	2019	5.50	4,955
Term Bonds	2022	4.70	3,040
Term Bonds	2030	5.55	5,720
Term Bonds	2030	5.55	6,030
Series 1997 D:			
Serial Bonds	2002-2014	3.80-5.00	10,290
Term Bonds	2019	5.15	6,020
Term Bonds	2023	4.50	3,975
Term Bonds	2030	5.25	990
Term Bonds	2030	5.25	13,600
Series 1997 F:			
Serial Bonds	2002-2014	4.45-5.60	3,565
Term Bonds	2019	5.80	2,255
Term Bonds	2023	5.20	1,715
Term Bonds	2029	5.90	4,725
Series 1997 G:			
Serial Bonds	2002-2014	4.40-5.45	7,090
Term Bonds	2018	4.80	1,965
Term Bonds	2021	5.05	2,445
Term Bonds	2029	5.75	4,510
Term Bonds	2030	5.75	8,260
Series 1998 A:			
Serial Bonds	2002-2014	4.10-5.15	8,355
Term Bonds	2019	5.25	5,090
Term Bonds	2023	4.60	4,270
Term Bonds	2028	5.35	2,750
Term Bonds	2029	5.35	6,750

Description	Maturity Date	Interest Rate (%)	Balance 6/30/01
Series 1998 B:			
Serial Bonds	2002-2014	4.10-5.30	15,400
Term Bonds	2019	5.45	9,470
Term Bonds	2023	4.75	9,195
Term Bonds	2029	5.50	3,860
Term Bonds	2030	5.50	15,965
Series 1998 E:			
Serial Bonds	2002-2014	3.80-5.00	3,980
Term Bonds	2019	5.15	1,970
Term Bonds	2030	4.60	5,900
Term Bonds	2030	5.25	6,880
Series 1998 F:			
Term Bonds	2019	5.28	7,726
Series 1999 A:			
Serial Bonds	2002-2015	3.20-5.15	13,510
Term Bonds	2020	5.20	5,085
Term Bonds	2030	4.85	17,595
Term Bonds	2030	5.25	16,620
Series 1999 B:			
Term Bonds	2019	6.10	2,837
Series 1999 D:			
Serial Bonds	2002-2015	4.45-5.80	8,955
Term Bonds	2020	5.95	4,200
Term Bonds	2030	5.40	8,965
Term Bonds	2030	6.00	17,245
Series 2000 A:			
Serial Bonds	2003-2016	4.85-6.25	13,615
Term Bonds	2021	6.40	7,350
Term Bonds	2031	5.70	12,945
Term Bonds	2031	6.50	8,260
Term Bonds	2031	6.50	17,505
Series 2000 C:			
Serial Bonds	2003-2016	4.70-5.80	11,330
Term Bonds	2021	6.00	5,865
Term Bonds	2031	5.55	11,380
Term Bonds	2032	6.15	21,425
Series 2000 D:			
Term Bonds	2002	4.45	60,000
Series 2001 A:			
Serial Bonds	2004-2015	3.90-5.15	12,120
Term Bonds	2022	5.45	9,465
Term Bonds	2032	4.70	13,220
Term Bonds	2032	5.55	8,195
Term Bonds	2032	5.55	17,000
Series 2001 B:			
Term Bonds	2002	3.35	60,000
Subtotal			843,516

Description	Maturity Date	Interest Rate (%)	Balance 6/30/01
University System:			
VCSU - Valley City			
Dormitory Bonds Of 1961	2002	4.25	10
Dormitory Bonds Of 1971	2011	7.20-7.25	430
Technology Fee-1996	2006	4.30-4.75	175
Williston State College			
Williston Center	2019	3.00	286
Technology Fee-1996	2006	4.30-4.75	43
2001 Building Authority	2011	-	1,500
Lake Region State College			
Dorm Revenue			
Bonds of 1965	2004	4.20	50
Building Revenue			
Bonds of 1972	2013	5.90	695
UND-Grand Forks			
EERC Revenue			
Bonds 92	2003	6.30-6.40	705
Housing & Auxiliary			
Facilities 93A	2013	4.60-5.25	3,840
Building Authority	2010	-	113
Technology Fee-1996	2006	4.30-4.75	841
Building Authority	2010	-	291
1998 A Housing and			
Refunding	2014	4.10-4.80	21,620
NDSU-Fargo			
1988 Memorial Union			
Addition	2007	7.25-7.70	300
1992 Refunding	2011	6.00-6.50	6,880
IACC Building Match	2009	-	222
Technology Fee-1996	2006	4.30-4.75	583
1996 B Refunding	2008	4.60-5.25	1,090
1999 Student Health & Wellness Center	2029	5.00-5.60	3,405
NDSCS-Wahpeton			
McMahon & Forkner Halls	2006	4.00	140
Robertson Hall	2008	4.50	330
Building Authority	2010	-	125
Technology Fee-1996	2006	4.30-4.75	149
Building Authority	2010	-	200
2001 Housing Facilities	2016	4.00-5.50	2,785
MISU-Minot			
1992 Refunding	2006	6.50-6.75	1,190
Student Center 1994	2014	4.40-5.40	1,545
Building Authority	2013	-	21
Building Authority	2010	-	791

Description	Maturity Date	Interest Rate (%)	Balance 6/30/01
Technology	2006	4.30-4.75	179
2001 Housing Facilities	2011	-	2,299
MISU-Bottineau			
1971 Milligan Hall	2011	6.90	228
Technology Fee-1996	2006	4.30-4.75	17
MSU-Mayville			
Agassiz Hall	2007	3.00	195
1998 Refunding	2006	4.30-4.80	535
Technology Fee-1996	2006	4.30-4.75	98
DSU-Dickinson			
1999 Student Union Improvement	2019	4.50-5.90	955
Technology Fee-1996	2006	4.30-4.75	205
Building Authority	2003	-	92
BSC-Bismarck			
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			56,500
Total Revenue Bonds Payable-Primary Government			$1,252,995

Description	Maturity Date	Interest Rate (%)	Balance 6/30/01
Component Units			
Municipal Bond Bank			
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
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	4,215
Total Revenue Bonds Payable-Component Units			$ 144,983

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	(1,301)	1,301
Total	$ 1,252,995	$ 935,823

Component Units

Fiscal Year	Principal	Interest
2002	$ 10,960	$ 7,954
2003	6,930	7,395
2004	6,950	7,040
2005	7,240	6,669
2006	7,550	6,242
Thereafter	105,353	40,401
Total	$ 144,983	$ 75,701

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
General Long-Term Debt Account Group:			
Job Service	2002-2006	7.90-9.00	$ 319
Enterprise Funds:			
Bank of North Dakota	2002-2020	3.00-7.35	254,439
Mill and Elevator	2002-2006	6.90	6,800
Internal Service Funds:			
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):

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Notes Payable	$ 477	$ -	$ (158)	$ 319
Intergovernmental Payable	91	151	-	242
Bonds Payable	126,725	13,142	(4,700)	135,167
Claims/Judgments Payable	1,041	962	(379)	1,624
Capital Leases	6,088	-	(2,856)	3,232
Total	$ 134,422	$ 14,255	$ (8,093)	$ 140,584

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.

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.

NOTE 5 - CONTRIBUTED CAPITAL RECONCILIATION

Changes in contributed capital for the year ended June 30, 2001, were (expressed in thousands):

	Enterprise	Internal Service	Com-ponent Units	Total
Contributed Capital, June 30, 2000	$ 21,960	$ 21,362	$ 1,285	$ 44,607
Additions	-	-	-	-
Deletions	-	-	-	-
Contributed Capital, June 30, 2001	$ 21,960	$ 21,362	$ 1,285	$ 44,607

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	$ 422,408

(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:	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	$ 96,773

2. FUND BALANCES: RESERVED FOR OTHER

	General Fund	Special Revenue	Trust And Agency	Univer-sity 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	$ 1,612	$ 108,589	$ 3,210,987	$ 83,019

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 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.

<u>NORTH DAKOTA HIGHWAY PATROLMEN'S RETIREMENT SYSTEM (NDHPRS)</u>

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:

Type	Number
Special Education Units	19
Vocational Education Units	4
Public School Districts	228
County Superintendents	16
Other	17
Total	284

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
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 Open	Level Dollar Closed	Level Payment 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

* 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 Accrued 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%
	over 10	2.00%	10.00%	12.00%
IV	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 Covered Payroll	Dollar Effect
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	17,110
Total Membership	20,416

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	24,776,548
"Unfunded" accrued liability	$ 40,690,917

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	$ 7,687

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 administration, 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):

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

Housing Finance	Mill And Elevator	PERS Uniform Group Insurance	Roughrider Industries	State Fair	Student Loan	Workers Compensation	Total Enterprise Funds 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):

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	78,556
	$ 341,752

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 lessor 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 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	18,331
Total	20,142

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 estimates 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):

	Low	Expected Value	High
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	$ 4,331	$ 1,801	$ 103	$ 82	$ 515,000	$ 499,700

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.

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 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.

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 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	$ 6,930

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	1,000
Total	$ 9,133

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
NDSCS	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 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 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.

Minot State University (MiSU) is a comprehensive, mid-size university offering 50 undergraduate degrees and nine master's degree programs. Current enrollment is nearly 3,500 students. Programs are offered in five colleges: Education and Human Services, Business, Arts and Sciences, Nursing and the Graduate School. MiSU has a campus center in Bottineau.

The campus encompasses 41 buildings with 1.2 million square feet. MiSU and its Bottineau campus employs 400 full-time equivalent personnel and has a $35 million operating budget for the fiscal year beginning July 1, 2001 for MiSU and MiSU-BC.

The North Dakota State College of Science (NDSCS) is located in Wahpeton, a city with a population of over 9,800 in the southeastern corner of North Dakota. The college is structured to offer two years of pre-professional and liberal arts training, after which students typically transfer to a four-year institution, and vocational training.

During the 2001-02 academic year, NDSCS awarded 116 certificates of completion, 20 diplomas, and 518 associate degrees, with 33 percent of the associate degrees awarded to business, engineering, and allied health. Enrollment at NDSCS was approximately 2,100 students in Fall 2001.

Facilities of NDSCS consist of 32 buildings which cover 1.2 million square feet of space. The budget from all sources for the fiscal year beginning July 1, 2002 is $29.4 million.

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.

FALL FTE STUDENT ENROLLMENT

Academic Year	UND	NDSU	MiSU	NDSCS
2002-03	10,458	9,368	2,789	2,112
2001-02	9,906	9,056	2,739	2,106
2000-01	9,302	8,469	2,491	2,276
1999-00	8,911	8,253	2,588	2,139
1998-99	8,684	8,142	2,597	2,219
1997-98	8,725	8,079	2,727	2,271
1996-97	9,221	8,190	2,964	2,340
1995-96	9,390	8,196	3,134	2,259
1994-95	9,463	8,092	3,216	2,170
1993-94	9,671	7,917	3,417	2,014
1992-93	10,059	7,504	3,278	2,013
1991-92	9,786	7,254	3,349	2,047

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

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	21,620,000
Total Bonds Payable			$27,005,805

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.

North Dakota State University:

	Interest Rate	Original Issue	6/30/01 Balance
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	3,405,000
Total Bonds Payable			$12,258,000

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.

Minot State University:

	Interest Rate	Original Issue	6/30/01 Balance
Bottineau Milligan Hall (1971)	6.90%	$ 390,000	$ 228,000
Refunding Bonds (1992)	6.50%-6.75%	2,620,000	1,190,000
Student Center (1994)	4.40%-4.50%	2,000,000	1,545,000
Technology Fee (1996)	4.30%-4.75%	300,000	179,250
Bottineau Technology Fee (1996)	4.30%-4.75%	28,955	17,301
Total Bonds Payable			$3,159,551

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.

North Dakota State College of Science:

	Interest Rate	Original Issue	6/30/02 Balance
Housing & Aux. Fac. Imp. & Refunding	4.00%-5.50%	$2,785,000	$2,605,000
Student Technology Fee	3.70%-4.70%	250,000	126,875
			$2,731,875

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.)

APPENDIX E

General Information Concerning the North Dakota Department of Corrections and Rehabilitation and the North Dakota State Penitentiary

(This page has been left blank intentionally.)

GENERAL INFORMATION

Senate Bill No. 2212 passed by the 1989 Legislative Assembly created the Department of Corrections and Rehabilitation (the "Department"). The primary reason for creation of the Department was the need to bring all of the State's corrections' programs together under one direction and one philosophy for both juveniles and adults. Elaine Little has served as the Director of the Department since 1989.

The Mission for the Department is:

To protect the public while providing a safe and humane environment for both adults and juveniles placed in the Department's care and custody. The Department will carry out the judgments of the North Dakota courts to both incarcerate inmates for the protection of society and to provide rehabilitative programs in an effort to successfully reintegrate offenders back into society.

In addition to the Central Office that has responsibility for the overall management of the Department, county correctional officer training and jail inspections, the Department has two major divisions:

- ?? Division of Adult Services; and
- ?? Division of Juvenile Services.

The Division of Adult Services includes the Field Services Division (adult parole and probation across the State) and the Prisons Division.

The mission of the Field Services Division is to protect society by ensuring that the community-placed offenders are provided responsible supervision that requires them to be an active participant in their rehabilitation. The Division is equally committed to the compensation and restoration of crime victims.

The Field Services Division has offices across the state staffed by highly trained parole and probation officers. It manages offenders sentenced to supervision by the Court, released to parole by the Parole Board, or sent to Community Placement by the Director. Over three thousand offenders are supervised in the community. Field Services also manages the Victim Services program to help mitigate the suffering of crime victims by providing fiscal support and services to crime victims.

Within the Prisons Division are the following facilities: North Dakota State Penitentiary; James River Correctional Center, Missouri River Correctional Center and Rough Rider Industries. The mission of this Division is *to protect the public by maintaining proper custody of the offenders sentenced by the courts; to provide a safe and healthy environment for staff and inmates; and to offer the best work, education, and treatment programs possible, encouraging inmates to make the needed changes to be law abiding and successful in society.*

The North Dakota State Penitentiary (NDSP) in east Bismarck is the main prison complex and houses maximum-security inmates as well as some medium security treatment inmates. NDSP is the original prison built in the State and consists of seven housing units. The maximum capacity at NDSP is 517.

The James River Correctional Center (JRCC) at Jamestown is designed to hold medium security male inmates and has the majority of the women inmates. The JRCC is located on the North Dakota State Hospital Grounds. It has three buildings that were renovated in 1998 to house inmates. The current capacity of the JRCC is approximately 350.

The Missouri River Correctional Center (MRCC) in southwest Bismarck houses minimum-security inmates (male and female). The facility has a single housing unit with ten male dormitories and two female dormitories. The current capacity at MRCC is 150.

Rough Rider Industries is a self-sufficient, state operated industrial program which puts inmates to work in the production of goods and services for sale to State agencies and other tax-supported entities.

The Division of Juvenile Services includes Community Services and the Youth Correctional Center (NDYCC). Across the State, the Division of Juvenile Services provides intensive supervision and case management services to delinquent youth placed under their care, custody and control.

The mission of the Division of Juvenile Services/Community Services is to provide a continuum of services to juvenile delinquent and unruly youth in North Dakota and to protect society from those juveniles who are a danger to themselves and others. This will be accomplished through the development of a Treatment and Rehabilitation plan for each juvenile and through the provision of an array of services by a dedicated staff who will ensure that the juvenile receives these services in the least restrictive environment.

Each case is assigned to a Corrections Specialist prior to or at the time of commitment and that worker follows the case for the duration of the court order. Within 60 days of commitment, an individualized plan for treatment and rehabilitation is drafted and submitted to the committing court. Placement may be made anywhere along a continuum that includes parental home, relative care, family foster care, treatment foster care, group home treatment, residential treatment, hospitalization and the Youth Correctional Center. Overall, the Community Services Division strives to provide effective, responsive services that insure that the treatment needs of youth are met while maintaining an acceptable level of community safety.

The NDYCC is the State's only secure juvenile correctional institution and is located in Mandan. Generally, the daily census is 90 and the capacity is 113 beds. The NDYCC provides long and short term programming, referred to as treatment, as well as detention and short term behavioral evaluation for delinquent adolescents who are committed by State district court order, Federal Bureau of Prisons or tribal court. NDYCC provides a full accredited (North Central Accreditation) middle school and high school educational program in a 12-month academic year. Overall, NDYCC strives to provide high quality treatment and educational services in a way that can be flexibly interfaced with other residential facilities, community based programs and schools.

The basic mission of the NDYCC is to protect society while providing education and therapeutic services to troubled adolescents within a safe and secure environment. Juveniles at NDYCC are prepared to return to a less restrictive environment in their communities with the skills to choose more appropriate behavior and to find success in life. NDYCC accomplishes its mission with a dedicated staff that cares about young people by emphasizing the three rehabilitative factors of structure, accountability and relationship.

FACILITIES

The 1989 Legislature approved $6 million for the phase III construction which was financed by the 1990B Bonds, Phase III involved the construction of the Education Building, a food service facility, and the Programs/Employee Training and Wellness Center.

Construction of the Education building was completed during the summer of 1990. The State Penitentiary food service department moved into the new Food Service Building in early January of 1992. The Program/Training and Wellness Center was completed in 1993.

All projects have been completed within the original time schedule and at projected costs.

APPENDIX F

General Information Concerning the Office the North Dakota Veterans' Home

(This page has been left blank intentionally.)

GENERAL INFORMATION

The North Dakota Veterans' Home is a State institution established in 1891 by the First Legislative Assembly of the State and has been in operation since 1893. The Home is located on a 90 acre tract of land adjacent to the city of Lisbon, North Dakota.

Control of the Home is vested with the Administrative Committee on Veterans' Affairs. A subcommittee for the Veterans' Home is appointed. The Subcommittee is responsible for the supervision, government and implementation of programs or services provided by the Home. It also makes recommendations to the Administrative Committee on matters needing attention by the full committee. The day to day operation of the Home is under the control of the Commandant, Ken Anderson. Appointment to that position is made by the Administrative Committee for a two-year term at the beginning of each biennium.

The mission of the Home is to provide a safe, clean, homelike environment to meet the medical, social, emotional and psychological needs of veterans, spouses and surviving spouses, with a focus on improving their health and maintaining their independence while respecting their confidentiality and personal dignity. The Home currently offers both basic care and skilled nursing care for the residents, and is licensed by the State of North Dakota and approved for Medicaid and Medicare payments.

FACILITIES

The original barracks building was completed August 1, 1893, and on August 2, the first veteran entered the Home. The Commandant's residence, the only original building remaining, was constructed in 1907 and is still used today for the Commandant and his family.

On March 14, 1947, the Legislature approved construction of a new barracks building designed to accommodate 135 residents. The new facility was formally dedicated on June 7, 1950.

A $1.7 million construction and remodeling project was completed in 1980. The construction included the addition of a wing and remodeling the barracks building to conform with state and federal codes. This project increased the capacity of the Home to 159 residents.

A new power plant and garage were added in 1981 which provided the Home with an alternative fuel source by using peak electricity for primary heating and fuel oil as a standby. A large generator was also added to provide power to the facility in case of electrical outages.

A $3.6 million skilled nursing addition was added to the facility in 1991. The home converted 17 beds from the 1980 addition and added 21 new beds, a new kitchen facility including equipment, and a totally new heating and air conditioning system. The total bed count is 38 beds, dedication was on October 4, 1991, the first resident was accepted, November 5, 1991. The Home was filled by February 14, 1992. New parking lots and a roadway system were provided in the construction grant. The Home has a total of 112 licensed basic care and 38 licensed skilled care beds.

PROGRAMS AND SERVICES

Medical Services are provided by local physicians who conduct regular visits and are on emergency call 24 hours a day to the Home. The Home has a full complement of nursing staff providing registered nurse coverage 24 hours a day, and all the required nursing assistants, licensed practical nurses, physical therapy assistants and activity personnel. The nursing department participates in preventative medicine, focusing on restorative care.

A qualified activities director supervises all activity and recreational programs at the Home. The Home provides a broad spectrum which includes arts and crafts, ceramics, exercise classes, concerts, trips, community programs, parties, games, dances, and special holiday activities.
A licensed social worker provides help for residents' needs for daily living and admittance to this or other facilities.

Residents living at the Home may procure jobs at the Home for which they are paid minimum wage.

APPENDIX G

Form of Legal Opinion

(This page has been left blank intentionally.)

Cook Wegner & Wike *PLLP*

Maurice E. Cook
Scott D. Wegner*
Jaclin M. Wike

Attorneys at Law

*Also Licensed in South **Dakota and** Minnesota

July 11, 2002

Industrial Commission of North Dakota
acting as the North Dakota Building Authority

Re: **$16,285,000***
NORTH DAKOTA BUILDING AUTHORITY
LEASE REVENUE REFUNDING BONDS
2003 SERIES A

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 $16,285,000* North Dakota Building Authority Lease Revenue Refunding Bonds, 2003 Series A (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 October 17, 2002, and a Trust Indenture and Assignment of Lease Rentals, effective as of March 5, 2003, (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 March 5, 2003 and will mature on June 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, 2003) 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. 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 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, including the section entitled "Tax Exemption" 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 refunding of certain maturities of the bonds issued by the Authority on March 11, 1993, being the North Dakota Building Authority Refunding Lease Revenue Bonds, 1993 Series A in the original principal amount of $34,740,000 (the "**Prior Bonds**").

4. Pursuant to the Act, the Indenture creates a valid lien on the Sites, that being the real property on which all or a portion of the Projects financed with the proceeds of the Prior Bonds are located, and the portion of the Projects located on the Sites, and any Additional Security and appropriated rental revenues 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 Agency 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 Agency 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 banks, trust companies and building and loan associations 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

APPENDIX H

Form of Undertaking to Provide Continuing Disclosure

(This page has been left blank intentionally.)

NORTH DAKOTA BUILDING AUTHORITY
LEASE REVENUE REFUNDING BONDS
2003 SERIES A -- $15,145,000

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 Trust Indenture and Assignment of Lease Rentals effective as of March 5, 2003 (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 for each fiscal year ending June 30th on or before December 15th of the same calendar year (the "**Report Date**"), beginning in 2003, 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 13th day of November, 2002.

North Dakota Building Authority

By: ______________________________________
An Authorized Officer

Bank of North Dakota, as Trustee

By: ______________________________________
An Authorized Officer

APPENDIX I

Specimen Municipal Bond Insurance Policy

(This page has been left blank intentionally.)

Exhibit A

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

SPECIMEN

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Municipal Bond
New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

SPECIMEN

Deborah M. Reif

President

Effective Date: **Authorized Representative**

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Bondholder" shall not include the (as such term is defined in the bond documentation).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Deborah M. Reif

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent

<u>APPENDIX J</u>

Form of Delayed Delivery Contract

(This page has been left blank intentionally.)

DELAYED DELIVERY CONTRACT

Dougherty & Company LLC
90 South Seventh Street, Suite 4400
Minneapolis, Minnesota 55402-4114

Re: $15,145,000 North Dakota Building Authority Lease Revenue Refunding Bonds, 2003 Series A

Dear Madam or Sir:

The undersigned Purchaser (the "Purchaser") hereby agrees to purchase from Dougherty & Company LLC (the "Underwriter") and the Underwriter agrees to sell to the Purchaser, upon the issuance thereof by the North Dakota Building Authority (the "Issuer") and the purchase thereof by the Underwriter:

Par Amount	Maturity Date	Coupon	CUSIP Number	Purchase Price

in aggregate principal amount of North Dakota Building Authority Lease Revenue Refunding Bonds, 2003 Series A (the "Bonds") offered by the Issuer's Preliminary Official Statement dated October 18, 2002 and the Official Statement dated October 31, 2002 (the "Official Statement"), receipt and review of copies of which (including without limitation the section entitled "Delayed Delivery Risks" therein), is hereby acknowledged, at a purchase price (plus accrued interest, if any, from the dated date of the Bonds) at the interest rates, principal amounts and maturity dates shown above, and on the further terms and conditions set forth in this Delayed Delivery Contract.

The Purchaser hereby confirms that it has reviewed the Preliminary Official Statement and the Official Statement (including without limitation the sections entitled "Delayed Delivery of Bonds" and "Delayed Delivery Risks" therein), has considered the risks associated with purchasing the Bonds, and is duly authorized to purchase the Bonds. The Purchaser further acknowledges and agrees that the Bonds are being sold on a "forward" basis, and the Purchaser hereby purchases and agrees to accept delivery of such Bonds from the Underwriter on or about March 5, 2003 (the "Delivery Date"), as they may be issued pursuant to the Forward Delivery Bond Purchase Agreement (the "Bond Purchase Agreement") between the Issuer and the Underwriter.

Payment for the Bonds which the Purchaser has agreed to purchase on the Delivery Date shall be made to the Underwriter or its order to a bank account specified by the Underwriter on the Delivery Date upon delivery to the Purchaser of the Bonds then to be purchased by the Purchaser through the book-entry system of The Depository Trust Company.

Upon issuance by the Issuer of the Bonds and purchase thereof by the Underwriter, the obligation of the Purchaser to take delivery hereunder shall be unconditional. The Bond Purchase Agreement may be terminated by the Underwriter if any of certain events, including but not limited to the following, occurs: (i) Bond Counsel cannot issue an opinion substantially in the form attached as Appendix G to the Preliminary Official Statement; or (ii) as a result of any legislation, regulation, ruling, order, release, court decision or judgment or action by the U.S. Department of the Treasury, the Internal Revenue Service or the Securities and Exchange Commission, either issued, effective, adopted or proposed, the offering or sale of the Bonds would be in violation of any provision of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, or the Trust Indenture Act of 1939, as amended (collectively, the "Securities Acts"), or such offering or sale would require registration of the Bonds under the Securities Acts. In addition, the Underwriter's obligation to purchase the Bonds pursuant to the Bond Purchase Agreement is subject to satisfaction of certain conditions set forth therein, including, but not limited to, delivery by the Issuer of certain certifications confirming its representations and warranties made in the Bond Purchase Agreement, and delivery by Financial Guaranty Insurance Company (the "Insurer") of a municipal bond insurance policy insuring payment of principal and interest on the Bonds when due.

The Purchaser acknowledges and agrees that it will not be able to withdraw its order as described herein, and will not otherwise be excused from performance of its obligations to take up and pay for the Bonds on the Delivery Date because of market or credit changes, including specifically, but not limited to (a) changes in the ratings anticipated to be assigned to the Bonds or in the credit associated with the Bonds generally, and (b) changes in the financial condition, operations, performance, properties or prospects of either the Insurer or the Issuer from the date hereof to the date of delivery of the Bonds. The Purchaser further acknowledges and agrees that it will remain obligated to purchase the Bonds in accordance with the terms hereof even if the Purchaser decides to sell such Bonds following the date hereof.

The Purchaser represents and warrants that, as of the date of this Delayed Delivery Contract, the Purchaser is not prohibited from purchasing the Bonds hereby agreed to be purchased by it under the laws of the jurisdiction to which the Purchaser is subject.

This Delayed Delivery Contract will inure to the benefit of and be binding upon the parties hereto and their respective successors, but will not be assignable by either party without the written consent of the other.

The Purchaser acknowledges that the Underwriter is entering into an agreement with the Issuer to purchase the Bonds in reliance in part on the performance by the Purchaser of its obligations hereunder.

This Delayed Delivery Contract may be executed by either of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

It is understood that the acceptance by the Underwriter of any Delayed Delivery Contract (including this one) is in the Underwriter's sole discretion and that, without limiting the foregoing, acceptances of such contracts need not be on a first-come, first-served basis. If this Delayed Delivery Contract is acceptable to the Underwriter, it is requested that the Underwriter sign the form of acceptance below and mail or deliver one of the counterparts hereof to the Purchaser at its address set forth below. This will become a binding contract between the Underwriter and the Purchaser when such counterpart is so mailed or delivered by the Underwriter. This Delayed Delivery Contract does not constitute a customer confirmation pursuant to Rule G-15 of the Municipal Securities Rulemaking Board.

The Issuer shall be deemed a third party beneficiary of this Delayed Delivery Contract.

This Delayed Delivery Contract shall be construed and administered under the laws of the State of Minnesota.

[PURCHASER]
[ADDRESS]

By ______________________________
Authorized Representative

Accepted ______________________________

DOUGHERTY & COMPANY LLC

By ______________________________
Authorized Representative

M1:913657.03