NEW ISSUE - Book-Entry Only | **RATINGS: Moody's Investors Service, Inc.: "A2"**
Standard & Poor's Ratings Group: "A+"
(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

$20,000,000
ConnectND PROJECT REVENUE BONDS, 2003 SERIES C
(the "Bonds")

DATED: Date of Delivery | **DUE:** December 1, as shown on the inside cover page

The $20,000,000 ConnectND Project Revenue Bonds, 2003 Series C (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. 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 optional and special optional redemption prior to maturity upon the occurrence of certain events as described under "THE BONDS - Redemption" herein.

The Bonds are being issued to finance the purchase or lease of computer hardware and software and for the costs of the implementation services for the enterprise resources planning system commonly known as the ConnectND project (the "Project") for the North Dakota Information Technology Department (the "Agency"), as described under "THE PROJECT" herein. The Industrial Commission of North Dakota, acting as the North Dakota Building Authority (the "Issuer"), will loan the proceeds of the Bonds to the Agency pursuant to the Loan Agreement and Acknowledgement of the Assignment of Loan Payments (the "Loan Agreement") under which the semiannual loan payments due under the Loan Agreement (the "Loan Payments") to be paid by the Agency will be sufficient in amount and payable at such times to pay principal of and interest on the Bonds when due.

The Bonds are issued under and are equally and ratably secured by a Trust Indenture and Assignment of Loan Payments (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 received pursuant to the Loan Agreement, which are produced from user charges assessed against the users of the Project ("User Charges") and other funds or amounts held by the Trustee as security for the Bonds.

The Loan Agreement specifically provides that nothing therein shall be construed to require the North Dakota Legislature to pay any Loan Payments thereunder and that the Agency shall not be obligated to pay such Loan Payments except to the extent User Charges and other legally available funds, if any, are sufficient to make Loan Payments. NEITHER THE OBLIGATION OF THE AGENCY TO PAY SUCH LOAN PAYMENT 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 AGENCY TO PAY ANY LOAN PAYMENTS EXCEPT TO THE EXTENT USER CHARGES AND OTHER LEGALLY AVAILABLE FUNDS, IF ANY, ARE SUFFICIENT. THE ISSUER AND THE AGENCY HAVE NO TAXING POWER. See "BONDOWNERS' RISKS" herein.

The Bonds are offered 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. Public Financial Management, Inc., Minneapolis, Minnesota, will serve as financial advisor for the Issuer. 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 September 24, 2003. For information with respect to the Underwriter, see "UNDERWRITING" herein.

U.S. Bancorp Piper Jaffray Inc.

September 11, 2003

NORTH DAKOTA BUILDING AUTHORITY
$20,000,000
ConnectND Project Revenue Bonds, 2003 Series C

MATURITY SCHEDULE

Maturity (December 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP
2005	$1,890,000	3.500%	1.800%	658905BK9
2006	1,960,000	3.500%	2.280%	658905BL7
2007	2,035,000	4.000%	2.730%	658905BM5
2008	2,115,000	3.500%	3.110%	658905BN3
2009	2,200,000	4.500%	3.490%	658905BP8
2010	2,295,000	4.000%	3.850%	658905BQ6
2011	2,395,000	4.375%	4.120%	658905BR4
2012	2,495,000	4.000%	4.310%	658905BS2
2013	2,615,000	5.250%	4.430%*	658905BT0

* Yield to optional redemption date of December 1, 2011.

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 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.

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

STATE OF NORTH DAKOTA

ELECTED OFFICIALS

Governor	John Hoeven
Lieutenant Governor	Jack Dalrymple
Secretary of State	Alvin A. Jaeger
Attorney General	Wayne Stenehjem
Public Service Commissioner	Tony Clark
Public Service Commissioner	Kevin Cramer
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
Executive Director and Secretary
Industrial Commission of North Dakota

Pam Sharp
Director
Office of Management and Budget

BOND COUNSEL
Cook Wegner & Wike PLLP
Bismarck, North Dakota

FINANCIAL ADVISOR TO THE INDUSTRIAL COMMISSION
Public Financial Management, 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 Industrial Commission of North Dakota, acting as the North Dakota Building Authority, (the "Issuer") $20,000,000 ConnectND Project Revenue Bonds, 2003 Series C (the "Bonds"), and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto.

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

Dated Date: Date of Delivery.

Purpose: The Bonds are being issued to finance the purchase or lease of computer hardware and software and for the costs of the implementation services for the enterprise resources planning system commonly known as the ConnectND project (the "Project") for the North Dakota Information Technology Department (the "Agency"), as provided in House Bill No. 1505 enacted by the Fifty-Eighth Legislative Assembly. Bond proceeds will also be used to provide funds for deposit into the Reserve Account or to purchase a surety bond for such Reserve Account, to capitalize interest on the Bonds, to pay costs of issuance and to repay interim borrowing, if any.

Security: The Bonds are issued pursuant to a Trust Indenture and Assignment of Loan Payments (the "Indenture") dated as of September 11, 2003 between the Issuer and the Bank of North Dakota, as Trustee, pursuant to which the Issuer will pledge to the Trustee all Loan Payments payable under the Loan Agreement and Acknowledgement of the Assignment of Loan Payments (the "Loan Agreement") dated as of September 24, 2003 for the payment of the principal of and interest on the Bonds. The Bonds are limited obligations of the Issuer payable solely from revenues received pursuant to the Loan Agreement produced from user charges assessed against the users of the Project ("User Charges") 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: Bonds maturing on or before December 1, 2011 are not subject to optional redemption prior to maturity except under special circumstances as described herein under "THE BONDS--Redemption Provisions." Bonds maturing on or after December 1, 2012 are subject to redemption at the option of the Issuer in whole or in part on December 1, 2011 and on any business day thereafter at a price of par plus accrued interest.

Special Optional Redemption: In the event the Project system becomes inoperable in whole or in part or the Agency for whatever reason can no longer assess and collect the User Charges necessary to pay the Debt Service on the Bonds, the Bonds will be subject to redemption prior to stated maturity, in whole or in part on any business day, upon 30 days notice at the option of the Issuer from any funds available for such purpose. The Bonds will be redeemed at a price equal to 100% of the principal amount of such Bonds to be redeemed plus accrued interest thereon to the Redemption Date, provided that the redemption price of any Bond with an original issue price in excess of its stated maturity shall be increased by the amount of unamortized premium, determined on a constant yield basis over the original term to maturity of such Bond.

Denominations:	$5,000 or integral multiples thereof.
Record Date:	The 15th day of the month preceding the payment date.
Principal Payments:	Due annually on December 1, 2005 through 2013.
Interest Payments:	Semiannually on June 1 and December 1 of each year, commencing December 1, 2003. Interest on the Bonds will be capitalized through June 1, 2005.
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:* Public Financial Management, 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, as authorized by House Bill No. 1505 enacted by the Fifty-Eighth Legislative Assembly and an authorizing resolution of the Issuer adopted on July 22, 2003 (the "General Authorization Resolution").
Continuing Disclosure:	The Issuer has agreed with the Bondholders to provide ongoing disclosure of certain information. See "CONTINUING DISCLOSURE" herein.
Conditions Affecting Issuance of Bonds:	The Bonds are offered when, as and if issued, subject to the approving legal opinion of Cook Wegner & Wike PLLP, Bismarck, North Dakota.
Delivery:	On or about September 24, 2003.
Book-Entry Only:	The Bonds will be issued as book-entry-only securities through The Depository Trust Company.
Selected Definitions:	"Agency" — The North Dakota Information Technology Department. "Indenture" — The Trust Indenture and Assignment of Loan Payments dated as of September 11, 2003 between the Issuer and the Bank of North Dakota, as trustee.

"Loan Agreement"	The Loan Agreement and Acknowledgement of the Assignment of Loan Payments dated as of September 24, 2003 between the Issuer and the Agency.
"Loan Payment"	Semiannual loan payments due under the Loan Agreement.
"Project"	The purchase or lease of computer hardware and software and the costs of the implementation services for the enterprise resources planning system commonly known as the ConnectND project.
"Trustee"	Bank of North Dakota.
"User Charges"	The charges assessed by the Agency against the users of the Project for the purpose of paying debt service on the Bonds.

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

Questions regarding the Bonds or the Official Statement can be directed to, and additional copies of the Official Statement, the Issuer's audited financial reports and the Indenture, Loan Agreement and General Authorization Resolution may be obtained from, Public Financial Management, Inc., 650 Third Avenue South, Suite 1800, Minneapolis, Minnesota 55402 (612) 338-3535, the Issuer's financial advisor, or Karlene Fine, Executive Director and Secretary, Industrial Commission of North Dakota, State Capitol, 600 East Boulevard, Bismarck, North Dakota 58505 (701) 328-3722.

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<u>OFFICIAL STATEMENT</u>

NORTH DAKOTA BUILDING AUTHORITY

$20,000,000

ConnectND PROJECT REVENUE BONDS, 2003 SERIES C

This Official Statement, including the cover page and Appendices hereto (the "Official Statement"), is furnished to prospective purchasers in connection with the sale and delivery by the Industrial Commission of North Dakota, acting as the North Dakota Building Authority, (the "Issuer") of $20,000,000 aggregate principal amount of ConnectND Project Revenue Bonds, 2003 Series C (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 E.

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 House Bill No. 1505 enacted by the Fifty-Eighth Legislative Assembly and an authorizing resolution of the Issuer adopted on July 22, 2003 (the "General Authorization Resolution"). Proceeds of the Bonds will be used to (i) finance the Project for the North Dakota Information Technology Department (the "Agency"), as provided in House Bill No. 1505; (ii) provide moneys which, with the investment earnings thereon, will capitalize interest on the Bonds; (iii) pay costs of issuance related to the Bonds including fees related to a letter of credit obtained for deposit into the Reserve Account; and (iv) to repay interim borrowing, if any.

With respect to the Bonds, the Issuer will loan monies to the Agency for the Project pursuant to a Loan Agreement and Acknowledgement of the Assignment of Loan Payments (the "Loan Agreement") dated as of September 24, 2003. The Bonds are issued under and are equally and ratably secured by a Trust Indenture and Assignment of Loan Payments (the "Indenture) dated as of September 11, 2003, by and between the Issuer and the Bank of North Dakota, as trustee (the "Trustee"). Pursuant to the Indenture, the Issuer has pledged and assigned to the Trustee Loan Payments payable under the Loan Agreement as security for the payment of the principal of and interest on the Bonds.

Under its Loan Agreement, the Agency has agreed to make semiannual loan payments ("Loan Payments"). The Loan Payments payable under the Loan Agreement will be sufficient to pay the principal of and interest on the Bonds coming due in each fiscal year, but only if and to the extent User Charges and other legally available funds, if any, are sufficient to pay debt service on the Bonds.

The Bonds are limited obligations of the Issuer payable solely from the revenues received pursuant to the Loan Agreement produced from User Charges, other funds or amounts held by the Trustee as security for the Bonds under the Indenture and/or any other funds available and authorized by law. The Loan Agreement specifically provides that the Agency shall not be obligated to pay such Loan Payment except to the extent User Charges and other legally available funds, if any, are sufficient to make Loan Payments. NEITHER THE OBLIGATION OF THE AGENCY TO PAY SUCH LOAN PAYMENT 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 AGENCY TO PAY ANY LOAN PAYMENTS EXCEPT AS USER CHARGES AND OTHER LEGALLY AVAILABLE FUNDS, IF ANY, ARE SUFFICIENT. THE ISSUER AND THE AGENCY HAVE NO TAXING POWER. For certain economic and financial information with respect to the State, see Appendix E and Appendix F hereto. For information with respect to North Dakota Information Technology Department, see Appendix B and Appendix C.

Capitalized terms used herein have the same meaning as ascribed to them in the Loan Agreement and the Indenture. See "Defined Terms" in Appendix A 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 Loan Payments due under the Loan Agreement, payable from User Charges as required by House Bill No. 1505, other funds or amounts held by the Trustee as security for the Bonds under the Indenture and other legally available funds, if any. See "SECURITY FOR THE BONDS – User Charges" herein. The Agency's obligation under the Loan Agreement 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 and the Agency have no taxing power.

Although the Agency agrees under the Loan Agreement to assess and collect User Charges in amounts sufficient to pay Debt Service on the Bonds from state agencies and the North Dakota University System ("NDUS"), there is no assurance that the User Charges actually collected will be sufficient for such purpose. Most of the state agencies are funded through legislative appropriations which are made biennially, and may have no source of revenue other than such legislative appropriations. NDUS expects to collect its share of costs of the Project from student fees or tuition. 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 Agency for the Project, (b) the economic and demographic conditions within the State, (c) the ability of the Agency to assess and collect User Charges in amounts sufficient to pay Debt Service and (d) the ability of NDUS to collect fees or other revenues in amounts sufficient to pay its share of the Debt Service.

The obligation of the Agency under the Loan Agreement will be satisfied solely from funds of the Agency or for the benefit of the Agency, including User Charges, or other legally available funds, if any.

No Security Interest in Physical Assets

The Bonds are not secured by any security interest in or lien on the physical assets comprising the Project. Accordingly, upon the occurrence of an event of default under the Loan Agreement or the Indenture resulting in nonpayment of principal and interest on the Bonds, the remedies available to the Trustee are limited. If the Agency does not make Loan Payments in amounts sufficient to pay principal and interest on the Bonds when due, there is no other source of funds or collateral available for such purpose (except to the limited extent of amounts on deposit or available to be drawn in the Reserve Account).

Original Issue Premium

Certain scheduled maturities of the Bonds are being sold to the public at an amount in excess of the stated redemption price at maturity. Such excess of the purchase price of a Bond over its stated redemption price at maturity constitutes premium on such Bond. A purchaser of a Bond must amortize any premium over such Bond's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Bonds.

Bond Ratings

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

THE AGENCY

The North Dakota Information Technology Department is an agency of the State established and existing under Chapter 54-59 of the North Dakota Century Code (the "Agency Act"), with responsibility for all wide area network services planning, selection and implementation for all state agencies, including institutions under the control of the Board of Higher Education. Under the Agency Act and House Bill No. 1505, the Agency is responsible for acquiring and implementing the Project, and is specifically authorized to assess and collect the User Charges from users of the Project in amounts sufficient to pay Debt Service on the Bonds.

THE PROJECT

The Project is the implementation of *PeopleSoft*'s Enterprise Resource Planning (ERP) System that will replace the State's current administrative computer systems. The ERP System is a comprehensive financial, human and student resource management software system integrating the State's universities and state agencies into a single, seamless administrative network. The Project will enable students, faculty and administrators to access information and services in real time over the Internet. The ERP System also has the capacity to serve K-12 schools, city and county governments in the future. *PeopleSoft* is the software vendor for the Project with *Maximus* as the implementation services partner.

The Legislature, during its Fifty-Seventh Legislative Assembly (2001), approved the expenditure of $7,500,000 for the development and implementation of the Project. The Legislature in its Fifty-Eighth Legislative Assembly (2003) authorized the continuance and completion of the Project during the 2003-2005 biennium, declaring the Project to be in the public interest of North Dakota and authorized the bond financed portion of the Project at a maximum amount of $20,000,000 through the passage of House Bill 1505.

The implementation of the Project is being done in a five-phase process: Initiation, Design, Development, Migration and Post Production. Currently, the Initiation and Design phases have been completed; the Development phase is almost completed and the Migration phase has begun. The total cost of the Project is currently estimated to be approximately $35,100,000 with the implementation to be completed by the third quarter of 2004. In addition to the 2001-2003 appropriations provided by the Legislature, the Agency and NDUS have provided funds from their respective 2001-2003 biennial budgets and expect to supply additional moneys from their respective 2003-2005 biennial budgets and other legally available funds, if any.

Total Project Costs

	Anticipated to be Paid from Bond Proceeds	Anticipated to be Paid from Cash	Total
PeopleSoft Software	$ 4,746,053	$ 150,000	$ 4,896,053
Interest on Note	117,967	--	117,967
PeopleSoft Maintenance	581,861	1,007,873	1,589,734
Maximus Implementation	10,411,760	6,453,754	16,865,514
Training Costs	--	1,829,080	1,829,080
Staff/Programming	1,397,359	4,472,673	5,870,032
Application Housing Costs	1,245,000	1,320,000	2,565,000
Project Study Costs	--	225,000	225,000
Other Misc. Costs	400,000	741,620	1,141,620
Total	$18,900,000	$16,200,000	$35,100,000

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	$20,000,000.00
Reoffering Premium	555,434.10
Total Sources	$20,555,434.10
Uses of Funds:	
Deposit to the Project Account	$11,918,126.54
Repayment of Interim Borrowing	7,005,605.30
Upfront Fee for the Reserve Fund Letter of Credit	2,791.67
Capitalized Interest to June 1, 2005[1]	1,402,410.59
Underwriter's Discount	102,000.00
Costs of Issuance	124,500.00
Total Uses	$20,555,434.10

[1] Includes the annual costs of the Reserve Fund Letter of Credit through June 1, 2005.

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THE BONDS

General Provisions

The Bonds will be issued in the aggregate principal amount of $20,000,000, will be dated the date of delivery, 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 "Interest Payment Dates"), and mature on the dates, all as set forth on the inside cover page of this Official Statement. The Bonds are issuable only in fully registered form without coupons in the denomination of $5,000 or any integral multiple thereof.

The principal of the Bonds is payable at the principal trust office of the Trustee, as paying agent, in Bismarck, North Dakota, or at any paying agent appointed by the Issuer as provided in the Indenture, upon presentation and surrender thereof. Interest on the Bonds will be paid to the person who is the registered owner thereof as of the close of business on the 15th day of the month next preceding such Interest 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 Interest 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 Interest 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 information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

1. The Depository Trust Company ("DTC"), New York, NY 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) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity specified on the cover page hereof in the aggregate principal amount of such maturity, and will be deposited with DTC.

2. DTC, the world's largest depository, 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 and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both

U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com.**

3. Purchases of Bonds 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. Beneficial Owners are, however, 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 interest in the Bonds are to be accomplished by entries made on the books of Direct and Indirect 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 discounted.

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

5. 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.

6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal of, redemption premium, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or Trustee, on payable date in accordance with their respective holding shown on DTC's records. 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, Trustee, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Trustee, disbursement of such payments to Direct Participants will be responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be responsibility of Direct and Indirect Participants.

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

10. 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 NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE RESOLUTION; (III) THE SELECTION BY DTC OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF BONDS; OR (VI) ANY OTHER MATTER.

Redemption Provisions

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

Special Optional Redemption Upon the Occurrence of Certain Events. In the event the Project system becomes inoperable in whole or in part or the Agency for whatever reason can no longer assess and collect the User Charges necessary to pay the Debt Service on the Bonds, the Bonds will be subject to redemption prior to stated maturity, in whole or in part on any business day, upon 30 days notice at the option of the Issuer from any funds available for such purpose. The Bonds will be redeemed at a price equal to 100% of the principal amount of such Bonds to be redeemed plus accrued interest thereon to the Redemption Date, provided that the redemption price of any Bond with an original issue price in excess of its stated maturity shall be increased by the amount of unamortized premium, determined on a constant yield basis over the original term to maturity of such Bond.

Selection of Bonds for Redemption. Outstanding Bonds subject to redemption shall, unless otherwise directed by the Issuer, be redeemed pro rata from each maturity of the 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 of not less than $5,000.

Notice of Redemption. Notice of redemption shall be given by the Trustee by in accordance with the requirements of the Depository Trust Company, so long as the Bonds are held in book-entry form with Cede & Co. as the nominee registered owner.

Payment of the Bonds

The Loan Agreement requires semiannual Loan Payments to be paid by the Agency to the Issuer which represent the total amount of principal of and interest on the Bonds, which Loan Payments have been assigned to the Trustee pursuant to the Indenture. See "SECURITY FOR THE BONDS--The Loan Agreement and the Indenture" herein. The amount of the Loan Payments payable under the Loan Agreement is designed to be sufficient to pay the principal of and interest on the Bonds when due.

The following table shows the scheduled Loan Payments payable under the Loan Agreement for the entire term of the Loan Agreement which are equal to the payments of principal of and interest on the Bonds:

Scheduled Loan Payments

Fiscal Year Ending June 30	Principal Component	Interest Component	Letter of Credit	Total Loan Payments
2004	$ --	$ 564,562	$ 15,000	$ 579,562
2005	--	822,844	15,000	837,844
2006	1,890,000	789,769	15,000	2,694,769
2007	1,960,000	722,394	15,000	2,697,394
2008	2,035,000	647,394	15,000	2,697,394
2009	2,115,000	569,681	15,000	2,669,681
2010	2,200,000	483,169	15,000	2,698,169
2011	2,295,000	387,769	15,000	2,697,769
2012	2,395,000	289,478	15,000	2,699,478
2013	2,495,000	187,187	15,000	2,697,187
2014	2,615,000	68,644	--	2,683,644
Total	$20,000,000	$5,532,891	$150,000	$25,682,891

SECURITY FOR THE BONDS

The Loan Agreement and the Indenture

The Bonds are payable from Loan Payments due under the Loan Agreement, payable from User Charges and other legally available funds, if any, as required by House Bill No. 1505, and certain other revenues as provided in the Indenture. Neither the Loan Agreement 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 obligations arising pursuant to the Loan Agreement, 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 Loan Agreement, or the Bonds in violation of any constitutional or statutory debt limit. The Issuer and the Agency have no taxing power.

The Issuer, as lender under the Loan Agreement and pursuant to the Indenture, will assign to the Trustee all Loan Payments payable under the Loan Agreement for the benefit of the Owners of the Bonds.

The Agency is required under the Loan Agreement to pay semiannually to the Issuer for payment to the Trustee Loan Payments in an amount sufficient to pay the principal of and interest on the Bonds.

The Agency has covenanted in the Loan Agreement to assess User Charges in amounts sufficient to meet the Debt Service on the Bonds. See "THE LOAN AGREEMENT – Representations – Assessment, Collection and Pledge of User Charges" in Appendix A hereto.

In the event the Agency does not have funds sufficient to pay the Debt Service on the Bonds and fails to make its Loan Payment under the Loan Agreement, an "Event of Default" will occur under the Indenture. See "BONDOWNERS' RISKS" herein. Should such a shortfall occur, the Bonds would be paid pro rata as to interest and principal as described under "THE INDENTURE – Events of Default; Remedies – Application of Moneys" in Appendix A hereto.

User Charges

Pursuant to House Bill No. 1505, the Agency is directed to collect charges from users of the Project in amounts sufficient to pay Debt Service on the Bonds, with 71% of the Debt Service being the responsibility of NDUS and the remaining 29% of Debt Service being the responsibility of state agencies.

The Agency and NDUS entered into a Memorandum of Understanding dated August 18, 2003 pursuant to which NDUS agrees to impose student fees or otherwise generate revenues or other legally available funds, if any, in an amount sufficient to pay its share of the Project costs, including Debt Service. The Agency and the Issuer agree that, with regard to that Memorandum of Understanding, they will request the Legislature include in the executive budget of the State a sufficient amount for payment of NDUS's User Charges if NDUS has not imposed student fees or otherwise generated revenues or other legally available funds sufficient to pay its share of the Project Costs. The agreement of NDUS to pay from legally available funds shall remain in full force and effect as long as the Bonds are outstanding and the payments are authorized by the Legislature, whether or not the ConnectND system is operational. Although the Agency is not entering into agreements with any of the other state agencies, pursuant to the Agency Act, the Agency must approve the information technology plan of each state agency and each institution of higher education under NDUS, and each state agency and institution must submit its biennial budget request based on its information technology plan. Pursuant to the Loan Agreement, the Agency agrees that it will not approve any state agency's information technology plan unless it includes that state agency's share of the costs of the Project, including Debt Service, nor will it approve any abandonment or replacement of the ConnectND system while the Bonds are outstanding, if such abandonment or replacement would adversely affect the ability of the Agency to assess and collect User Charges. The Agency and the Issuer further covenant and agree that each will request that the Legislature include in the executive budget of the State a sufficient amount for payment of User Charges if any state agency or institution has failed to request such an appropriation in its biennial budget request described above.

Maintenance of the Project

The Agency has agreed in the Loan Agreement, at its own expense, to maintain, manage and operate the Project and all improvements thereon in good repair, physical condition, working order and condition and in a state of good operating efficiency. The Agency will provide or cause to be provided all maintenance and other services. As provided in the Loan Agreement, 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 Project during the term of the Loan Agreement. The Agency has further agreed to assess additional charges against the users of the Project in amounts sufficient to pay ongoing operating and maintenance costs of the Project including amounts payable to Maximus and operating costs incurred by the Agency.

Reserve Account

A Reserve Account is established by the Indenture for the Bonds and will be funded through the provision of a letter of credit from the Bank of North Dakota at the time of original issuance of the Bonds, in an amount equal to the Reserve Account Requirement. Prior to the closing of the Bonds, the Bank of North Dakota will issue an irrevocable letter of credit ("Letter of Credit") to the Issuer for deposit in the Reserve Account. The Bank of North Dakota is an instrumentality of the State and has an outstanding rating of "AA-" from Standard & Poor's Ratings Group.

Amounts in the Reserve Account are to be used for the payment of principal of and interest on the Bonds to the extent amounts in the Bond Account under the Indenture are insufficient therefor and for certain other purposes as specified in the Indenture. See "THE INDENTURE – Accounts; Disposition of Pledged Revenues – Reserve Account" in Appendix A hereto.

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 tax imposed on certain financial institutions 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 opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of delivery of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

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.

Although Bond Counsel is of the opinion that 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 tax imposed on certain financial institutions by North Dakota Century Code, Chapter 57-35.3), the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a beneficial owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service ("IRS"), including but not limited to regulation, ruling, or selection of the Bonds for audit examination, or the course or result of any IRS examination of the Bonds, or obligations which present similar tax issues, will not affect the market price for the Bonds.

The opinion of Bond Counsel is based on current legal authority and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Issuer, including beneficial owners, will have little if any right to participate in the examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions, with which the Issuer legitimately disagrees, may not be practical. If such a situation arises, the Issuer or the beneficial owners may incur significant expense, loss of market value to the beneficial owners or both.

The Bonds have not been designated as "qualified tax-exempt obligations" for financial institutions pursuant to Section 265(b)(3) of the Code.

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 Loan Payments 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 Loan Agreement 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 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. Certain legal matters will be passed upon for the Issuer by the Attorney General and for the Agency by the Counsel to the Agency.

CONTINUING DISCLOSURE

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

FUTURE FINANCING

The Issuer does not intend to issue any additional debt within the next six months.

RATINGS

Moody's Investors Service, Inc. ("Moody's) and Standard & Poor's Ratings Group ("S&P") have assigned the Bonds the ratings of "A2" 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

U.S. Bancorp Piper Jaffray Inc., as underwriter (the "Underwriter") has agreed to purchase all of the Bonds from the Issuer at an aggregate price of $20,453,434.10 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

Public Financial Management, 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 Public Financial Management, 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_____________________________________
Authorized Officer
North Dakota Building Authority

APPENDIX A

The Indenture and a Form of the Loan Agreement

$20,000,000
NORTH DAKOTA BUILDING AUTHORITY
CONNECTND PROJECT REVENUE BONDS
2003 SERIES C

TRUST INDENTURE

AND

ASSIGNMENT OF LOAN PAYMENTS

between

INDUSTRIAL COMMISSION OF NORTH DAKOTA
acting as the North Dakota Building Authority

and

BANK OF NORTH DAKOTA
as Trustee

Dated as of September 11, 2003

Cook Wegner & Wike PLLP
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Bismarck, ND 58503
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TRUST INDENTURE

PREAMBLE

THIS TRUST INDENTURE AND ASSIGNMENT OF LOAN PAYMENTS dated as of the date set out on the cover page hereof by and between the State of North Dakota, acting by and through the INDUSTRIAL COMMISSION OF NORTH DAKOTA, acting as the NORTH DAKOTA BUILDING AUTHORITY, a governmental instrumentality created by the laws of the State of North Dakota, and the BANK OF NORTH DAKOTA, a bank organized by and existing pursuant to the laws of the State of North Dakota and having its main office and place of business in the City of Bismarck, North Dakota.

WITNESSETH

WHEREAS, the Issuer (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 Issuer is authorized, under the Act, which is defined to include House Bill No. 1505, (HB 1505), attached hereto as Attachment 1, adopted by the Fifty-Eighth Legislative Assembly of North Dakota in Special Session, to issue and sell its bonds and to lend the proceeds from the sale thereof to the Agency to provide money for a portion of the cost of the acquisition and implementation of the "ConnectND" project referenced in HB 1505, for the purposes set out in Section 2.02 hereof, and is authorized to grant a lien on and a pledge of Loan Payments to be paid by the Agency pursuant to the Loan Agreement to the Issuer for transfer to the Trustee to secure the payment of Debt Service on bonds and to enter into this Indenture with the Trustee for the benefit and security of the Bondholder; and

WHEREAS, the Issuer has deemed it advisable to pledge such loan payments 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 the Bonds; and

WHEREAS, as permitted by the Act, at such time as the proceeds from the sale of the Bonds become available the Issuer, will enter into a Loan Agreement with the Agency with respect to the Project that provides for, among other items, Loan Payments payable in amounts and at times which shall be adequate to pay the Debt Service on the Bonds; and

WHEREAS, the Loan Agreement also provides for the disbursement of the proceeds of the Project Account to or upon presentment of vouchers from the Agency to pay Costs of the Project as provided in this Indenture; and

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

WHEREAS, the execution and delivery of this Indenture has been duly authorized by the Issuer, 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 Issuer, in order to secure the payment of the Debt Service on 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 purchaser thereof, and for other good and valuable consideration, the receipt whereof is hereby acknowledged, has executed and delivered this Indenture, and by these presents does hereby pledge a security interest in and a lien upon and set over, unto the Trustee and to its successor or successors the Loan Payments and all the (i) moneys, securities and investments in the Bond Account, the Project Account, the Reserve Account and the Administration Account 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.

IN TRUST NEVERTHELESS, upon the terms and trust herein set forth, for the equal and proportionate benefit, security and protection of the Holder 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 Issuer, its successors or assigns, shall pay or cause to be paid the Debt Service of the Bonds at the times and in the manner mentioned in the Bonds, 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 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 pledge of Loan Payments hereby granted shall cease, determine and be void; otherwise, this Indenture is to be and shall remain in full force and effect.

NOW, THEREFORE, it is mutually covenanted and agreed for the equal and proportionate benefit of the Bondholder 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 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 Issuer 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 the 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 Issuer or the Agency) upon the certificate or opinion of or representations by an officer or officers of the Issuer 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 Issuer to be issued as a single series of Bonds and to be known and designated as "North Dakota Building Authority ConnectND Project Revenue Bonds, 2003 Series C". The aggregate principal amount of Bonds that may be authenticated and delivered under this Indenture is limited to and shall not exceed $20,000,000.

The Bonds shall be dated September 24, 2003, and shall mature on December 1 in each of the years and in the principal amounts, either as serial bond maturities or as Term Bond sinking installments, and shall bear interest at the rates per annum and be payable as set forth in Exhibits C and D 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 and, subject to the provisions of this Indenture, shall be in substantially the form referenced in Section 2.04 hereof.

The Bonds 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 Issuer has obtained an Issuer Blanket Letter of Representations from DTC and acknowledgment stating that DTC and its participants agree that the State and the Issuer 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 Issuer be liable for the failure of any participant to perform any obligation the participant may incur to a beneficial owner of any Bond.

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 Debt Service on the Bonds shall be payable by wire transfer to the Owner.

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.

Section 2.02. Purposes of Issuance of Bonds. The Bonds are being issued (i) for the purposes set out in HB 1505, (ii) for the capitalization of interest, (iii) to either deposit an amount in the Reserve Account or provide a Credit Facility in lieu thereof, (iv) to pay Costs of Issuance and (v) to repay any Project related interim borrowings of the Agency or interim borrowings of the Issuer incurred for the purpose of repayment of any Project related interim borrowings of the Agency.

Section 2.03. Deposit of Bond Proceeds. The $20,000,000 principal amount of the Bonds, less an Underwriters Discount of $102,000.00 plus a net premium of $555,434.10 and accrued interest of $-0- being the $20,453,434.10 derived from the sale of the Bonds, shall be deposited with the Trustee as follows:

(a)	To the Bond Account:		
	(i)	Capitalized Interest	$1,402,410.59
	(ii)	Accrued Interest, if any	$ -0-
(b)	To the Reserve Account		$ -0-
(c)	To the Administration Account		$127,291.67
(d)	To the Project Account:		
	(i)	Bond Anticipation Note(s) Redemption	$7,005,605.30
	(ii)	Costs of the Project	$11,918,126.54

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 Issuer 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 Issuer 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 Issuer, 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 Issuer may deliver Bonds executed by the Issuer to the Trustee for authentication; and upon Issuer 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.

ARTICLE III
REDEMPTION; PURCHASE OF BONDS

Section 3.01. Optional Redemption of Bonds. Bonds maturing on and after December 1, 2012, may be redeemed from moneys deposited to the credit of the Bond Account at the option of the Issuer, in whole or in part, on any Business Day and subject to compliance with the requirements of Section 3.03 hereof, by direction of the Issuer, on or after December 1, 2011, at a Redemption Price equal to 100% of the principal amount thereof plus accrued interest thereon to the Redemption Date.

The election of the Issuer to redeem any Bonds shall be evidenced by an Issuer Certificate. The Issuer shall, at least 45 days before the redemption of any Bonds pursuant to this Section 3.01 (unless a shorter notice shall be satisfactory to the Trustee), deliver to the Trustee such Issuer Certificate, which shall state the Redemption Date, principal amount and Stated Maturities of Bonds (or portions thereof) to be redeemed.

Section 3.02. Sinking Installment Redemption of Term Bonds and Special Optional Redemption.

(a) Sinking Installment Redemption of Term Bonds. Any Term Bond or Bonds in principal amount set out in Exhibit D hereto is or are subject to sinking installment 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 December 1 of the years and in the principal amounts set out in Exhibit D attached hereto.

(b) Special Optional Redemption. Section 5.4 of the Loan Agreement sets forth conditions under which the Issuer has discretionary authority to cause the Bonds to be called in whole or in part at par plus any accrued interest and any unamortized premium as set out in the Official Statement at any time upon notice as herein set out.

Section 3.03. Selection of Bonds for Redemption. The Outstanding Bonds subject to redemption shall, unless otherwise directed by the Issuer, be redeemed pro rata from each maturity of the 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 Issuer, 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 in accordance with the requirements of The Depository Trust Company, so long as the bonds are held in book entry form with Cede & Co. as the nominee registered owner.

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 Issuer 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.

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

Section 3.05. Purchase of Bonds. The Issuer may, at any time, authorize and direct the Trustee to purchase Bonds in the open market from available moneys in the Bond Account, 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 Issuer 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 Issuer 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 Issuer 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
PROJECT ACCOUNT

Section 4.01. Establishment of Project Account. The Issuer shall establish or cause to be established a Project Account with the Trustee and shall deposit with the Trustee to the credit of the Project Account the Bond proceeds described in Section 2.03 hereof.

The moneys in the Project Account shall be held in trust by the Trustee and applied to the payment of the Costs of the Project in accordance with and subject to the provisions of this Article, and pending such application shall be subject to a lien and charge in favor of the Owners of the Bonds issued and Outstanding under this Indenture and shall be held for the further security of such Owners until paid out as herein provided.

Section 4.02. Costs of the Project Defined. For the purposes of this Article, the Costs of the Project shall include the items listed in the definition of such term in Article I of the Loan Agreement.

Section 4.03. Payments from Project Account. Each of the payments to be made by the Trustee for the Costs of the Project shall be made upon request of the Agency to the Trustee in a form acceptable to the Trustee. Moneys in the Project Account shall be subject to withdrawal from time to time only for the purpose of paying amounts due to contractors or others for the Costs of the Project properly incurred, or the reimbursement to the Agency for payments made for the Costs of the Project properly incurred, or for redemption of any outstanding evidences of indebtedness issued to fund any Issuer or the Agency's costs incurred in anticipation of the acquisition, installation and implementation of the Project paid in anticipation of the issuance of the Bonds, or for the refunding of any Project related interim borrowing of the Issuer issued for the purpose of payment of the Agency's Project related interim borrowing and expenditures. Any Balance remaining in the Project Account following completion of the Project shall be applied in accordance with Section 4.05 hereof.

Section 4.04. Deposit and Investment of Project Account Moneys. The Trustee shall invest the moneys on deposit in the Project Account in Permitted Investments. The Trustee may, from time to time, cause any such obligations to be sold or otherwise be converted into cash, whereupon the proceeds derived from such sale or conversion shall be deposited into the Project Account. Any interest or profit derived from investments shall be credited to the Bond Account unless an Authorized Officer of the Commission directs such interest or profit to be deposited in the Project Account, however, such deposits to the Project Account and balances initially deposited therein shall not exceed the amount authorized to be expended for any project by the Legislative Assembly of the State. The Trustee may make any and all investments permitted under this Section through its own investment department. The Issuer covenants that no portion of the Project Account representing proceeds of the Bonds shall be directed or permitted to be invested or used in such manner that any of the Bonds would be "arbitrage bonds" under Section 148 of the Internal Revenue Code or regulations promulgated thereunder, and such Accounts shall be invested by the Trustee pursuant to the requirements of the Tax Certificate.

Section 4.05. Application of Balance in Project Account. As soon as practicable, and in any event, not more than 60 days after the Project has been completed, as evidenced by a Certificate of Completion signed by the Agency's Representative pursuant to Section 3.1 (b) of the Loan Agreement, any Balance remaining in the Project Account (except for amounts retained by the Trustee at the Agency's direction for any Costs of the Project not then due and payable or the liability for which is being contested in good faith by the Agency) shall be, without further authorization, first transferred to the Rebate Account to the extent of Excess Earnings remaining in the Project Account and then transferred to the corresponding Account within the Bond Account and applied by the Trustee solely as follows, (i) to purchase Outstanding Bonds at a price not to exceed the optional Redemption Price of such Bonds, or (ii) to redeem Bonds on the first date on which redemption can be made, or (iii) to pay Debt Service on the Bonds.

ARTICLE V
ACCOUNTS; DISPOSITION OF PLEDGED REVENUE

Section 5.01. Bond Account. The Issuer 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 Account to be designated the Bond Account 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 Account (i) the amount of Bond proceeds representing any accrued interest paid on the Bonds on the date of purchase by the Original Purchaser, (ii) Loan Payments received by the Trustee pursuant to the Loan Agreement, (iii) any Balance remaining in the Administration Account 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 Account hereunder, (vi) money transferred pursuant to Sections 3.01 and 3.02 hereof for redemption of the Bonds, , and (vii) any other moneys required by the terms of this Indenture to be deposited in the Bond Account or paid to the Trustee under the Loan Agreement or this Indenture for credit to the Bond Account including capitalized interest.

Any Balances in the Bond Account shall be used for the payment of Debt Service on the Bonds and to pay the Debt Service 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 Account. The Issuer covenants that it will establish and maintain, so long as any of the Bonds are Outstanding, with the Trustee an Account to be designated the Reserve Account, to be initially funded by a deposit of bond proceeds or cash or a Credit Facility as provided in Section 14.13 hereof. Unless a Credit Facility is provided, the Trustee shall, upon receipt from Bond proceeds, credit to the Reserve Account the amounts designated in Section 2.03 hereof.

Any interest or profit derived from investments shall be credited to the Rebate Account or the Bond Account at the direction of the Issuer.

The Reserve Account 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 Account at any time when the Balance in the Bond Account is insufficient to meet the requirements specified herein for payment of the Debt Service on the Bonds; provided, however, that on the Stated Maturity or any Redemption Date of the Bonds, the moneys in the Reserve Account 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 Account below an amount equal to the Reserve Account 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 Account 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 Account and the Reserve Account 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 Issuer, may make a pro rata reduction in the Reserve Account Requirement on deposit in the Reserve Account to conform with the ratio of the principal amount of Bonds outstanding to the original principal amount of the Bonds, provided that the Issuer 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 Accounts. Moneys on deposit to the credit of the Accounts 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 Account, 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 Account. Any interest accruing or any profit realized from such investment shall be credited to the specific Account as specified elsewhere in this Indenture. Investment income credited to the Bond Account shall be credited against the amount of Loan Payments required to be deposited in the Bond Account under Section 5.1 of the Loan Agreement 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 Account. The Issuer shall direct the Trustee to, or in the absence of direction the Trustee shall, invest and reinvest the moneys in any Account or any combination of Accounts 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 Account. Neither the Trustee nor the Issuer 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 Account to any other Account, 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 Account 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 Issuer, or to the order of the Issuer, the Balances in all Accounts if, and to the extent that, such Balances are in excess of amounts needed to pay Debt Service 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 Accounts payable to the Issuer pursuant to this Section consist of Permitted Investments which are payable solely to the Trustee and cannot be effectively transferred to the Issuer, the Trustee shall continue to hold such Permitted Investments under this Indenture on behalf of the Issuer until such time as such securities can be transferred to the Issuer 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 Account. The Issuer covenants that it will establish and maintain, so long as any of the Bonds are Outstanding, with the Trustee an Account to be designated the Administration Account. The Trustee shall, upon delivery of the Bonds to the Original Purchaser thereof and from Bond proceeds, credit to the Administration Account the amount specified in Section 2.03 hereof. The Trustee shall also credit to the Administration Account all amounts received pursuant to Section 5.3 (a), (b) and (c) of the Loan Agreement.

Amounts in the Administration Account shall, upon receipt by the Trustee of Issuer Certificates directing the payment to designated payees in designated amounts for stated services, or in the case of reimbursement of the Issuer for its expenses, to the Issuer, 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 Account or other source of the Issuer, 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 Account for such purposes shall be made by check or draft, but only in accordance with such Issuer Certificates.

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

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

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

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

Section 5.08. Rebate Account. The Issuer covenants that it will establish and maintain, so long as any Bonds are Outstanding, with the Trustee a separate Account to be designated the Rebate Account. The Trustee shall credit to the Rebate Account any Excess Earnings.

(a) The Issuer 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 Account 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 Issuer, 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 Issuer or the Trustee shall be borne or reimbursed by the Agency and paid as additional charges.

(b) No determination of Excess Earnings shall be made with respect to the Bond Account as long as the Bond Account 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 Account.

(c) The Trustee, acting on behalf of the Issuer, 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 Account 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 Accounts in the following order of priority:

(1) The Administration Account
(2) The Reserve Account
(3) The Bond Account

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 Account to the Bond Account, which amount shall be a credit against the next payment. Notwithstanding any provision of this Section, if the Issuer 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 Issuer 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.

ARTICLE VI
PARTICULAR COVENANTS OF THE ISSUER

The Issuer 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 pledged Loan Payments, the Debt Service on every Bond issued hereunder on the dates, at the places and in the manner prescribed in the Bonds; and will cause any pledged Loan Payments to be deposited with the Trustee prior to the due date of each installment of Debt Service and prior to the Maturity of any Bond in amounts sufficient to pay such Debt Service due on the Bond; provided, however, that the Debt Service 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 Issuer levy any taxes or appropriate any funds for the payment of Debt Service on the Bonds, such payment to be made solely and only out of the revenues and income to be produced and received from the Loan Payments 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. Concerning the Loan Agreement. It will not modify or amend or consent to modification or amendment of the provisions of the Loan Agreement 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 Issuer 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 Loan Agreement, if such action shall, in its discretion, be deemed to be in the best interest of the Issuer or the Bondholders. The Issuer shall do or cause to be done all things on its part under the Loan Agreement so that the obligations of the Agency thereunder shall not be impaired or excused.

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 Debt Service 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 (loan repayment) or any other provision of the Loan Agreement; 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 Issuer 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 Issuer, 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 Issuer 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 Issuer 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 Issuer or the Agency shall diligently proceed to remedy the Default and in accordance with any directions or limitations of time made by the Trustee.

An Event of Default described in paragraph (a) or (b) 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 Issuer 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 Issuer 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 Debt Service 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 Debt Service on the Bonds at the date fixed for the payment thereof, pursuant to Section 7.04 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 Issuer under the Loan Agreement 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 Issuer under the Loan Agreement, 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. Application of Moneys. In the event that at any time the moneys held by the Trustee shall be insufficient for the payment of the Debt Service then due on the Bonds, such moneys (other than moneys held for the payment or redemption of particular Bonds) and all revenues of the Issuer 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 any 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 Debt Service 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 Accounts, 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 Accounts shall be paid to the Agency, or to the Issuer as their interests may appear.

Section 7.05. 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 7.06. 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 7.07. 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 herein above 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 Debt Service on any Bond at and after the Maturity thereof or the obligations of the Issuer to pay the Debt Service 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 7.08. 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 Issuer, 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 7.09. 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 7.10. 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 Issuer, 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 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 Loan Agreement, except Default in the deposits or payments specified in the Loan Agreement, unless the Trustee shall be specifically notified in writing of such Default by the Agency, by the Issuer 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 Loan Payments 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 of Counsel furnished to the Trustee conforming to the requirements of this Indenture; but in the case of any such Certificate or Opinion of Counsel 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 of Counsel, 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 Issuer or the Agency shall be sufficiently evidenced by an instrument signed by an Authorized Officer or an Agency Representative, as the case may be (unless otherwise in this Indenture specifically prescribed), and any resolution of the Issuer may be evidenced to the Trustee by a Certified Resolution;

(c) the Trustee may consult with Counsel (who may be Counsel for the Issuer) 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 Issuer and such Certificate of the Issuer 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 Project, or collecting any insurance moneys, or for the validity of the execution by the Issuer or the Agency (as the case may be) of this Indenture, the Loan Agreement, the Bond Resolution or of any supplemental instrument, or for the value of any of the Issuer's interest in the Project, or otherwise as to the maintenance of the Project; 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 Issuer or the Agency except as herein set forth, but the Trustee may require of the Issuer 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 Project. 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.

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 Issuer 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 Issuer 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 Project and Records of Issuer. 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 Project, including all books, papers, and contracts of the Issuer and the Agency relating solely thereto and to take such memoranda from and in regard thereto as may be desired.

Section 8.10. Trustee to Retain Financial Records. The Trustee shall retain all current financial statements furnished by the Issuer or the Agency in accordance with this Indenture.

Section 8.11. 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 Issuer 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 Issuer 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 Issuer 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 8.12. 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 Account, 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 8.13. 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, discretion, 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 8.14. 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 Issuer, 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 8.15. Removal of Trustee. The Issuer may remove the Trustee at any time for any breach of any of the Trustee's duties or obligations as set forth herein. Notwithstanding the foregoing, the Trustee may not be removed unless and until a successor trustee has been appointed pursuant to Section 8.16 hereof.

Section 8.16. 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 Issuer, by an Issuer 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 Issuer. 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 8.14 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 Issuer 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 8.17. Concerning Any Successor Trustee. Every successor trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor, and to the Issuer, 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 Issuer, 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 Issuer 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 Issuer.

Section 8.18. 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 8.19. Successor Trustee as Custodian of Accounts. 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 Accounts, and the successor trustee shall be and become such custodian.

Section 8.20. 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 8.20.

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 Issuer's approval of such appointment, provided that the Issuer's approval shall not be unreasonably withheld.

The Issuer 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 8.20. Upon the request of the Trustee, the Issuer 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 8.21. 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 8.21, 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 8.22. Statement by Trustee of Accounts and Other Matters. Not more than ninety (90) days after the close of each Fiscal Year, or more frequently if requested by the Issuer, the Trustee shall furnish the Issuer 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 Account, (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 Account 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 Account 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 Issuer may reasonably request.

Section 8.23. 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 8.24. 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 Debt Service on the Bonds. Anything in this paragraph to the contrary notwithstanding, the Issuer 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 Issuer 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 8.25. 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 Issuer. Any successor paying agent shall be appointed by the Issuer 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 8.26. Issuer Administration. The Issuer 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 charges payable by the Agency under Section 5.3 of the Loan Agreement.

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 Issuer, 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 Issuer 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 Debt Service on the Bonds at the time and in the manner stipulated therein and herein, or

(b) provide for the payment of Debt Service 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 Debt Service 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 Debt Service 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 Issuer Resolution under its official seal and expressed to be irrevocable, authorizing the Trustee to give such notice for and on behalf of the Issuer, 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 Debt Service 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 Issuer, then and in that case, all the Trust Estate shall revert to the Issuer 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 Issuer and of a Certificate of the Issuer 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 Issuer 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 amount of Debt Service 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 Issuer, and if the Issuer or any successor to the obligations of the Issuer 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 Issuer, 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. Partial Refunding - Allocation of Accounts. Notwithstanding any other provision of this Indenture, in the event the Issuer 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 Issuer, the Trustee shall transfer such portions of such Accounts and any accounts or subaccounts created by this Indenture, including but not limited to any moneys on deposit in any Reserve Account 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 Issuer 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 Issuer, 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 add to the covenants and agreements of the Issuer in this Indenture, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Issuer or to or upon any successor;

(b) To evidence the succession or successive successions of any other department, agency, body or corporation to the Issuer and the assumption by such successor of the covenants, agreements and obligations of the Issuer 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, Registrar or Paying Agent hereunder;

(c) 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 Issuer 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;

(d) 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

(e) 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 Issuer 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 Issuer 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 Issuer 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 Issuer and the Trustee of such indenture or indentures supplemental hereto as shall be deemed necessary or desirable by the Issuer 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 Loan Agreement or (f) a reduction in the aggregate principal amount of the Bonds required to waive an Event of Default.

Whenever the Issuer 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 Issuer 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 Issuer 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 Issuer, 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 Loan Agreement or this Indenture, so long as the Loan Agreement and Indenture are in effect and the Agency is not in Default under any terms or conditions of the Loan Agreement, shall not become effective unless and until the Agency shall consent to the execution and delivery of such supplemental indenture. The Issuer 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 LOAN AGREEMENT

Section 12.01. Amendments to Loan Agreement Not Requiring Consent of Bondholders. The Issuer, the Agency, and the Trustee may without the consent of or notice to the Bondholders consent to any amendment, change or modification of the Loan Agreement as may be deemed necessary or desirable (i) by the provisions of the Loan Agreement 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.

Section 12.02. Amendments to Loan Agreement Requiring Consent of Bondholders. Except for the amendments, changes or modifications as provided in Section 12.01 hereof, neither the Issuer nor the Trustee shall consent to any other amendment, change or modification of the Loan Agreement, 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 Issuer or the Agency from executing the same or from taking any action pursuant to the provisions thereof.

Section 12.03. No Amendment May Reduce Loan Payments. Under no circumstances shall any amendment to the Loan Agreement reduce the Loan Payments payable under the Loan Agreement to an amount which together with the credits against Loan Payments provided for in Section 5.1 of the Loan Agreement is less than the amount necessary to pay Debt Service 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 Issuer Bind Successors and Assigns. All the covenants, stipulations, promises and agreements in this Indenture contained, by or in behalf of the Issuer, 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 Debt Service 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 Issuer, 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, Issuer, 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 Loan Agreement, 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 Issuer:	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 PO Box 5509 Bismarck, ND 58506-5509 Attn: Trust Department

To the Agency: Information Technology Department
State Capitol, 1st Floor Judicial Wing
600 East Boulevard Avenue
Bismarck, ND 58505-0100

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 when the Debt Service on the Bonds shall be due on a Saturday, Sunday or other day which is not a Business Day, then payment of such Debt Service 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 Issuer 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 Loan Agreement, 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 Account - Credit Facility. The Issuer may elect while any of the Bonds are outstanding to substitute or replace all or part of the amounts held pursuant to any Reserve Account Requirement with a comparable Credit Facility rated "A2" or better by Moody's or "A+" by S & P providing security for the payment of Debt Service on the Bonds from the Reserve Account, 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 Account balance, (ii) replenishable in the event the facility is drawn upon, and (iii) of a term equal to the longest maturity of the Bonds.

IN WITNESS WHEREOF, the parties hereto have caused this TRUST INDENTURE AND ASSIGNMENT OF LOAN PAYMENTS 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 as of the date and year first above written.

INDUSTRIAL COMMISSION OF NORTH
DAKOTA, acting 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______________________________

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 Loan Agreement, but not defined herein shall have the same meaning herein as defined in the Loan Agreement. 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:

"**Account**" means any of the Accounts and their sub-accounts established by this Indenture.

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

"**Act**" means NDCC Chapter 54-17.2, as amended by the Legislative Assembly of the State and HB 1505 adopted by the fifty-eighth Legislative Assembly of the State.

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

"**Administrative Expenses**" means the Issuer's expenses of carrying out and administering its powers, duties and functions under the Loan Agreement 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 Issuer, the Commission or the State with respect to any other bonds, notes or indebtedness of the Issuer, the Commission or the State.

"**Agency**" means the North Dakota Information Technology Department.

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

"**Authority or Issuer**" means the Industrial Commission of North Dakota acting as the North Dakota Building Authority created under and pursuant to the provisions of the Act or any person succeeding to its rights or duties under this Indenture. "**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 Issuer in the Bond Resolution.

"**Balance**" when used with reference to any Account, means the aggregate sum of all assets deposited in and standing to the credit of such Account, 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 Account shall not include amounts standing to the credit thereof which are being held therein for: (a) the payment of past due and unpaid Debt Service of Bonds and (b) the payment of Debt Service 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.

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

"**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 Issuer including the NDBA Fee in carrying out and administering its powers, duties and functions under this Indenture and the Loan Agreement.

"**Bond Resolution**" means the General Authorization Resolution of the Authority adopted by the Authority on July 22, 2003, 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 December 1 and ending on November 30 of the next succeeding calendar year, or such other dates as designated by the Issuer.

"**Bonds**" means the "North Dakota Building Authority, ConnectND Project Revenue Bonds, 2003 Series C" 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 Account**" means the Building Authority Account 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 Loan Agreement 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.

"**Completion Date**" means the date certified as provided in Section 3.1 (b) of the Loan Agreement.

"**Costs of the Project**" means the aggregate of all Costs of the Project as defined in the Loan Agreement and set out in Exhibit B thereof.

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

"Credit Facility" means a surety bond/agreement, letter of credit either standby or direct pay or any other financial arrangement acceptable to the Trustee meeting the rating requirements set out in Section 14.13 hereon or that will not adversely impact the rating on the Bonds.

"**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 at maturity, including any sinking installment redemptions of any Term Bonds, premium, if any, and interest when due on the Bonds.

"**Default**" means default by the Issuer 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 (b) 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.

"**Excess Earnings**" means (a) investment earnings on obligations purchased with amounts deposited in any Account created pursuant to this Indenture (other than the Bond Account and Rebate Account) 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.

"**Indenture**" means this Trust Indenture and Assignment of Loan Payments, constituting a trust agreement between the Issuer 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 Issuer 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 Issuer 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 Issuer 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 Issuer and a bank, trust company, national banking association, insurance company or other financial institution, providing for the investment of moneys in any of the Accounts.

"**Issuer**" **or** "**Authority**" means the Industrial Commission of North Dakota acting as the North Dakota Building Authority created under and pursuant to the provisions of the Act or any person succeeding to its rights or duties under this Indenture.

"**Loan Agreement**" means the Loan Agreement and Acknowledgment of the Assignment of Loan Payments, dated as of September 24, 2003, between the Issuer and the North Dakota Information Technology Department

"**Loan Payments**" means the payments to be paid pursuant to Section 5.1 of the Loan Agreement.

"**Loan Term**" means the duration of the repayment period set out in the Loan Agreement as specified under Article V thereof to the date of termination including early termination provided for therein.

"**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 Issuer.

"**NDBA Fee**" means the administration fee payable to the Issuer, as described in Section 8.26 hereof.

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

"**Opinion of Counsel**" means a written opinion of Counsel appointed by the Agency or Issuer 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 B 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; and

(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.

"**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 Investments**" means,

(A) For all purposes, including defeasance investments in refunding escrow accounts, except the Debt Service Reserve Account which may only be invested in investments that maintain a fixed principal value:

(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 Accounting 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 Issuer; or

(3) U.S. dollar denominated deposit accounts, federal Accounts 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 Account 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 Account (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 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 and interest 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 and interest 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 Issuer (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.

(10) Any investment that will not have an adverse effect on any rating on the Bonds.

(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 Issuer 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 Issuer.

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

"**Project**" means the ConnectND system described in Exhibit A to the Loan Agreement between the Issuer and the Agency, which is to be acquired, installed and implemented in part with the proceeds from the sale of the Bonds.

"**Project Account**" means the Project Account created in Section 4.01 of this Indenture for the Project.

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

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

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

"**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.

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

"**Reserve Account 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. Once the initial deposit is made, investments of such deposit need not be marked to market.

"**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 Issuer.

"**Serial Bonds**" means any Bonds designated as such in Exhibit C hereto payable in annual principal maturities as provided in Section 2.01 hereof.

"**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 Issuer dated as of the date of delivery of the Bonds to the Original Purchaser regarding compliance with the requirements of the Internal Revenue Code.

"**Term Bonds**" means any Bonds designated as such in Exhibit D hereto and payable through sinking installment redemption in amounts set out in Section 2.01 hereof and redeemed as provided in Section 3.02(a) hereof.

"**Trust Estate**" means the current and future deposits in and earnings from the Accounts.

"**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 any original issue discount, plus any original issue premium plus any accrued interest, less any Bond insurance premium.

ATTACHMENT 1

HOUSE BILL 1505

See http://www.state.nd.us/lr/assembly/58-2003/special-session/bill_text/DBOM0500.pdf

NORTH DAKOTA BUILDING AUTHORITY
CONNECTND PROJECT REVENUE BONDS
2003 SERIES C

Book Entry Bond

Principal Amount: ___________________________ Dollars ($___________.00)

Registered Holder: Cede & Co.

Dated Date	Maturity Date	Interest Rate	CUSIP
September 24, 2003	December 1, 20__	_____%	

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

THE STATE OF NORTH DAKOTA (the "**State**"), acting through the Industrial Commission of North Dakota (the "**Commission**") as the North Dakota Building Authority (the "**Issuer**"), acknowledges itself indebted and for value received hereby promises to pay to the Registered Holder on the Record Date (the 15th 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 Loan Payments, dated as of the date of the sale of the 2003 Series C 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 C Bonds**") issued by the Issuer in the initial aggregate principal amount of $20,000,000 under and pursuant to Chapter 54-17.2 of the North Dakota Century Code (the "**Act**") and the Indenture as authorized by the General Authorization Resolution duly adopted by the Issuer on July 22, 2003. (Capitalized terms used herein which are not specifically defined herein shall have the same meanings given to such terms in the Indenture.) A certified copy of the Indenture is on file in the office of the Trustee, and in the office of the Commission in Bismarck, North Dakota.

The 2003 Series C Bonds:

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

(ii) are subject to optional and special 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 Issuer and DTC; and

(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.

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 Issuer 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.

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 Issuer pursuant to the Loan Agreement, as provided in the Indenture, and as provided in NDCC ch. 54-17.2 and in 2003 House Bill No. 1505 adopted by the North Dakota Fifty-eighth legislative assembly. The issuance of the Bonds will not directly or indirectly or contingently obligate the Issuer or the State to levy or pledge any form of taxation whatever or to make any appropriation for their payment.

IN WITNESS WHEREOF, the Issuer has caused the 2003 Series C 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
____________________________	____________________________
Agriculture Commissioner	Executive Director of the Commission Authorized Officer

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This bond is one of the 2003 Series C Bonds described in the within mentioned Indenture authorizing the issuance of the 2003 Series C Bonds of the Authority.

BANK OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA, AS TRUSTEE

By ____________________________
Authorized Signature

EXHIBIT B

$20,000,000
NORTH DAKOTA BUILDING AUTHORITY
CONNECTND PROJECT REVENUE BONDS
2003 SERIES C

ORIGINAL PURCHASER

U.S. Bancorp Piper Jaffray Inc.

EXHIBIT C

2003 Series C
Serial Bond Principal Maturity and Interest Rate Schedule

Maturity (December 1)	Principal Amount	Interest Rate
2005	$1,890,000	3.500%
2006	1,960,000	3.500%
2007	2,035,000	4.000%
2008	2,115,000	3.500%
2009	2,200,000	4.500%
2010	2,295,000	4.000%
2011	2,395,000	4.375%
2012	2,495,000	4.000%
2013	2,615,000	5.250%

LOAN AGREEMENT
and
ACKNOWLEDGEMENT OF THE
ASSIGNMENT OF LOAN PAYMENTS

dated as of September 24, 2003

between

INDUSTRIAL COMMISSION OF NORTH DAKOTA
acting as the
NORTH DAKOTA BUILDING AUTHORITY

and

NORTH DAKOTA INFORMATION TECHNOLOGY DEPARTMENT

$20,000,000
NORTH DAKOTA BUILDING AUTHORITY
CONNECTND PROJECT REVENUE BONDS - 2003 SERIES C

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

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RECITALS

THIS LOAN AGREEMENT dated as of September 24, 2003, between the NORTH DAKOTA BUILDING AUTHORITY, an agency of the State of North Dakota (the "**State**") and a governmental instrumentality of the State of North Dakota (the "**Issuer**"), and the NORTH DAKOTA INFORMATION TECHNOLOGY DEPARTMENT, an agency of the State of North Dakota (the "**Agency**").

Chapter 54-17.2 of the North Dakota Century Code, as amended, and House Bill 1505 enacted by Fifty-Eighth Legislative Assembly (together the "**Act**"), empowers the Issuer to issue its bonds and to loan the proceeds thereof for the purposes set out in House Bill 1505 ("**HB 1505**").

The Issuer proposes to issue its ConnectND Project Revenue Bonds, 2003 Series C, in the original principal amount of $20,000,000 pursuant to the Indenture (as defined herein) in order to provide funds which will be loaned to the Agency to pay a portion of the Costs of the Project (as defined herein) of the ConnectND system described in HB 1505 (the "**Project**"). (See Exhibit A for the Project description.) The Agency desires to use the proceeds of the Bonds (as defined herein) to pay a portion of the Costs of the Project, all on the terms and conditions set forth in this Loan Agreement.

Accordingly, the Issuer and the Agency hereby agree as follows:

ARTICLE I
DEFINITIONS

For all purposes of this Loan Agreement, unless the context clearly requires otherwise, all terms defined in Article I of the Indenture (such defined terms hereto attached as Appendix A) have the same meanings in this Loan Agreement. Definitions used herein include:

"Agency Act" means that term as defined in Section 2.2 (a) hereof.

"Agency Representative" means any individual appointed by the Agency pursuant to Section 3.2 hereof.

"Costs of the Project" means the aggregate cost of the purchase or lease of computer hardware and software and for the cost of the implementation services for the enterprise resource planning system (commonly known as the ConnectND project as set out in HB 1505) as set out in Exhibit B hereto.

"ERP Contract Documentation" means the Software License and Implementation Master Agreement and the Software License and Services Agreement, entered into between the Agency and PeopleSoft USA, Inc., each dated as of April 17, 2002, together with all related amendments, assignments, exhibits and attachments.

"**HB 1505"** means the bill passed by the Fifty-Eighth Legislative Assembly of the State attached to the Indenture as Attachment 1.

"Indenture" means the Trust Indenture and Assignment of Loan Payments relating to the Bonds, dated as of the date of the Bond Purchase Agreement, between the Issuer and the Bank of North Dakota, as Trustee, as such Trust Indenture and Assignment of Loan Payments may be amended or supplemented from time to time in accordance with its terms.

"Project" means that term as defined in the third paragraph of the Recitals hereto.

"User Charges" means the charges assessed by the Agency against the users of the Project for the purpose of paying Debt Service on the Bonds.

ARTICLE II
REPRESENTATIONS

Section 2.1. Representations of Issuer. The Issuer represents as follows:

(a) The Issuer (1) is an agency duly organized and existing under the laws of the State, (2) has full power and authority to enter into the transactions contemplated by this Loan Agreement and by the Indenture and to carry out its obligations under this Loan Agreement and the Indenture, including the issuance of the Bonds, and (3) by the Bond Resolution dated July 22, 2003 has duly authorized the execution and delivery of this Loan Agreement, the Bonds and the Indenture.

(b) Under existing statutes and decisions, no taxes on income or profits are imposed on the Issuer. The Issuer will not knowingly take or omit to take any action reasonably within its control which action or omission would impair the exclusion of interest paid on the Bonds from the federal gross income of the Owners of the Bonds.

(c) Neither the execution and delivery by the Issuer of this Loan Agreement nor the consummation by the Issuer of the transactions contemplated by this Loan Agreement conflicts with, will result in a breach of or default under or will (except with respect to the lien of the Indenture) result in the imposition of any lien on any property of the Issuer pursuant to the terms, conditions or provisions of any statute, order, rule, regulation, agreement or instrument to which the Issuer is a party or by which it is bound.

(d) This Loan Agreement and the Indenture have been duly authorized, executed and delivered by the Issuer and each constitutes a legal, valid and binding obligation of the Issuer enforceable against the Issuer in accordance with its terms subject, as to the enforcement of remedies, to any applicable bankruptcy, reorganization, insolvency or other similar laws affecting creditors' rights generally.

(e) There is no litigation or proceeding pending, or to the knowledge of the Issuer after due inquiry threatened, against the Issuer, or affecting it, which could adversely affect the validity of this Loan Agreement, the Indenture or the Bonds or the ability of the Issuer to comply with its obligations under this Loan Agreement, the Indenture or the Bonds.

(f) The Issuer is not in default under any of the provisions of the laws of the State, which would affect its existence or its powers referred to in the preceding subsection (a).

(g) The Issuer hereby finds and determines that, based on representations of the Agency, all requirements of the Act have been complied with and that the financing of a portion of the Costs of the Project through the issuance of the Bonds will further the public purposes of the Act.

(h) No member, director, officer or official of the Issuer has any interest (financial, employment or other) prohibited by law in the Agency, or the transactions contemplated by this Loan Agreement.

(i) The Issuer will apply, or cause to be applied, the proceeds from the sale of the Bonds as specified in the Indenture and this Loan Agreement.

Section 2.2. Representations of Agency. The Agency represents as follows:

(a) The Agency (1) is an agency of the State established by Chapter 54-59 of the North Dakota Century Code (the "**Agency Act**"), (2) is duly authorized to exercise the authority and to perform the functions set out in the Agency Act, (3) is not in violation of any provision of the Agency Act, (4) has full power to acquire, own and lease properties in the name of the State and provide the services contemplated by HB 1505, (5) has full legal right, power and authority to enter into this Loan Agreement and the ERP Contract Documentation and to assess, collect and pledge the User Charges and to consummate all transactions contemplated by this Loan Agreement and the ERP Documentation, and (6) by proper action has duly authorized the execution and delivery of this Loan Agreement and shall acknowledge and perform any obligations imposed on the Agency by the Indenture.

(b) Neither the execution and delivery by the Agency of this Loan Agreement and the ERP Contract Documentation nor the consummation by the Agency of the transactions contemplated by this Loan Agreement conflicts with or will result in a breach of or default under the Agency Act, constitutional provision or any statute, order, rule, regulation, agreement or instrument to which the Agency is a party or by which it is bound.

(c) This Loan Agreement and the ERP Contract Documentation have been duly authorized, executed and delivered by the Agency and constitutes the legal, valid and binding obligations of the Agency in accordance with their terms.

(d) There is no litigation or proceeding pending, or to the knowledge of the Agency after due inquiry threatened, against the Agency, or affecting it, which could adversely affect the validity of this Loan Agreement and the ERP Contract Documentation or the ability of the Agency to comply with its obligations under this Loan Agreement and the ERP Contract Documentation.

(e) The information, contained in the various certificates and other documents relating to the Project and to the use of proceeds of the Bonds, provided by the Agency to the Issuer and to Bond Counsel for the Bonds is true and correct in all material respects.

Section 2.3. Special Representations of the Agency Relating to the Tax-Exempt Status of the Bonds. The Agency acknowledges that the covenants and specific representations relating to the federal tax status of interest on the Bonds are contained in the Tax Certificate. The Agency will comply with the terms of the Tax Certificate and warrants that all representations and warranties made by it in the Tax Certificate are true including the fact that the useful life of the Project exceeds the final maturity of the Bonds. The Agency will use its best efforts to collect User Charges, to the extent lawful and practicable, only from non-general fund sources.

Section 2.4. Assessment, Collection and Pledge of User Charges. Pursuant to the provisions of the Act and the Agency Act, the Agency will assess and use its best efforts to collect User Charges from users of the Project at such times as are required for the timely payment of Debt Service on the Bonds so long as any Bonds remain unpaid in accordance with the following provisions of H.B. 1505 ("…twenty-nine percent of the debt service being the responsibility of the state agencies and seventy-one percent of the debt service being the responsibility of higher education."). Further the Agency pledges and grants a security interest in the funds assessed and collected from such users for the payment of Debt Service on the Bonds that are deposited in the Agency's Operating Account established by North Dakota Century Code Section 54-59-14 or any successor account which may be established by law.

In addition to the assessment of User Charges, the Agency shall assess charges which shall include amounts due pursuant to the ERP Contract Documentation and any operation and maintenance costs incurred by the Agency properly assessable against those subject to User Charges to the extent lawful and practicable.

Section 2.5. Covenant to Request Appropriation. The Agency agrees that it will not approve any state agency's information technology plan pursuant to authority granted to it under Section 54-59-11 of the Agency Act, unless such plan includes that agency's share of costs of the Project, including debt service, nor will it approve any abandonment or replacement of the ConnectND system by any state agency while the Bonds are outstanding, if such abandonment or replacement would adversely affect the ability of the Agency to assess and collect User Charges. The Agency and the Issuer further covenant and agree that each will request that the Legislature include in the executive budget of the State a sufficient amount for payment of User Charges if any state agency or institution has failed to request such an appropriation in its biennial budget request.

The Agency and the Issuer agree that, with regard to that Memorandum of Understanding entered into as of August 18, 2003, between the Agency and the North Dakota Board of Higher Education (the Board) regarding the payment of its portion of User Charges as required by House Bill 1505 enacted by the Fifty-Eighth Legislative Assembly of the State, they will request the Legislature include in the executive budget of the State a sufficient amount for payment of the Board's User Charges if the Board has not imposed student fees or otherwise generated revenues or other legally available funds sufficient to pay the Board's share of the User Charges in its biennial budget request.

ARTICLE III
PROJECT ACQUISITION, INSTALLATION AND IMPLEMENTATION

Section 3.1. Acquisition, Installation and Implementation of Project.

(a) Money in the Project Account shall be applied by the Agency to the Costs of the Project, subject to the requirements of Section 4.03 of the Indenture.

(b) The completion of the acquisition, installation and implementation of that portion of the Project to be completed with proceeds of the Bonds shall be evidenced to the Issuer and the Trustee by a Certificate signed by an Agency Representative, and stating that, except for amounts not then due and payable, or the liability for the payment of which is being contested or disputed in good faith by the Agency, the acquisition, installation and implementation of such portion of the Project has been completed, the date thereof and all Costs of the Project thereof have been paid. Notwithstanding the foregoing, such Certificate shall state that it is given without prejudice to any rights against third parties that exist at the date of such Certificate or which may subsequently come into being.

(c) The Agency agrees to comply with and enforce the provisions of the ERP Contract Documentation to ensure that the Project is completed and operational as scheduled.

Section 3.2. Agency Representative. Prior to the initial sale of the Bonds, the Agency shall appoint an Agency Representative or Representatives for the purpose of acting on behalf of the Agency and taking all actions and making all certificates required to be taken and made by a Agency Representative under the provisions of this Loan Agreement and the Indenture, and shall appoint alternative Agency Representatives to take any such action or make any such certificate if the same is not taken or made by the Agency Representative. In the event any of such persons, or any successor appointed pursuant to the provisions of this Section, should resign or become unavailable or unable to take any action or make any certificate provided for in this Loan Agreement or the Indenture, another Agency Representative or alternate Agency Representative shall thereupon be appointed by the Agency. If the Agency fails to make such designation within 10 days following the date when the then incumbent resigns or becomes unavailable or unable to take any of the said actions, the chief executive officer of the Agency shall serve as the Agency Representative.

Whenever under the provisions of this Loan Agreement or the Indenture the approval of the Agency is required or the Issuer is required to take some action at the request of the Agency, such approval or such request shall be made by the Agency Representative or alternate Agency Representative unless otherwise specified in this Loan Agreement or the Indenture, and the Issuer or the Trustee shall be authorized to act on any such approval or request.

Section 3.3. Maintenance of Project. The Agency will at all times make or cause to be made such expenditures by means of renewals, replacements, repairs, maintenance, or otherwise as shall be necessary to maintain, preserve and keep the Project in good repair, physical condition, working order and condition and in a state of good operating efficiency, except that the Agency may abandon any portion of the Project if in its opinion the abandonment of such portion is desirable in the proper conduct of its business and in the operation of its properties or is otherwise in its best interests and will not adversely affect the ability of the Agency to assess and collect User Charges.

Section 3.4 No Substitution. The Agency agrees that it will not substitute a different system for the Project so long as any Bonds are outstanding, if such substitution would adversely affect the ability of the Agency to assess and collect User Charges.

ARTICLE IV
ISSUANCE OF BONDS; LOAN TO AGENCY

Section 4.1. Issuance of Bonds; Loan to Agency. In order to pay a portion of the Costs of the Project, the Issuer will issue, sell and deliver the Bonds to the initial purchasers thereof and cause the proceeds thereof to be disbursed or deposited with the Trustee as provided in Article II of the Indenture. Such disbursement shall constitute a loan to the Agency under this Loan Agreement. The Issuer authorizes the Trustee to disburse the proceeds of the Bonds so deposited with it into the various Accounts as set out in Section 2.03 of the Indenture and to make disbursements out of such Accounts as set out in Article III hereof. If the proceeds of the Bonds are not sufficient to pay the Costs of the Project, the Agency shall at its own expense and without any right of reimbursement in respect thereof pay all additional amounts necessary to pay such Costs of the Project from any legally available funds. The Agency hereby approves the Indenture and the issuance by the Issuer of the Bonds.

ARTICLE V
LOAN PAYMENTS

Section 5.1. Loan Payments. During the term of this Loan Agreement, and subject to any credits referred to in

Section 5.03 of the Indenture, the Agency agrees to pay and shall pay as Loan Payments, from User Charges and other legally available funds, for the use of the Project on or before the date which is five Business Days prior to December 1, 2005, and semiannually thereafter on a date which is five Business Days prior to each June 1 and December 1, in immediately available funds: (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 on 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.

The Loan Payments provided for in this Section 5.1 shall be paid directly to the Issuer at its office for payment to the Trustee. The Loan Payments shall then be paid to the Trustee for deposit in the Bond Account as provided in the Indenture.

All amounts payable under this Section by the Agency are assigned by the Issuer to the Trustee pursuant to the Indenture for the benefit of the Bondholders. The Agency consents to such assignment.

Section 5.2. Debt Service Payment Dates. Debt Service on the Bonds is payable in the amounts set out in Exhibit C hereto attached.

Section 5.3. Additional Payments. The Agency will also pay the following promptly after receipt of a bill therefor:

(a) Any Administrative Expenses as may from time to time be levied pursuant to Section 8.26 of the Indenture;

(b) Any Trustee's fees pursuant to Section 8.11 of the Indenture; and

(c) Any other charges required or authorized by the Indenture including but not limited to replenishment of any draws made on the Debt Service Reserve Account or any amounts necessary to reimburse any draws made on any Credit Facility or fees associated therewith.

Section 5.4. Prepayments. In the event the Project becomes inoperable in whole or in part or the Agency for whatever reason can no longer assess and collect the User Charges necessary to pay the Debt Service on the Bonds, the Issuer may, in its sole discretion, elect to cause the Bonds to be specially redeemed in whole or in part at par plus any accrued interest at any time upon notice as set out in the Indenture from any funds available for such purpose.

Section 5.5. Payments Assigned; Obligations of Agency Unconditional. It is understood and agreed that all right, title and interest of the Issuer to this Loan Agreement are assigned to the Trustee. The Agency assents to such assignment, and hereby agrees that the obligations of the Agency to make the payments required by Sections 5.1, 5.2 and 5.3 and to perform its other agreements contained in this Loan Agreement shall be absolute and unconditional. Until the entire Debt Service on the Bonds has been paid in full or provision for the payment of the Bonds has been made in accordance with the Indenture, the Agency (a) will not suspend or discontinue any payments provided for in Section 5.1, 5.2 or 5.3 hereof, (b) will perform all its other agreements in this Loan Agreement and (c) will not terminate this Loan Agreement for any cause including any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, frustration of purpose, any change in the laws of the United States or of the State or any political subdivision of either or any failure of the Issuer to perform any of its agreements, whether express or implied, or any duty, liability or obligation arising from or connected with this Loan Agreement.

ARTICLE VI
OTHER ISSUER AND AGENCY AGREEMENTS

Section 6.1. Maintenance of Existence. The Agency has no reason to believe that the State legislature will discontinue the Agency, however, the legislature has the power to alter the Agency Act. The Agency agrees to advise the State legislature of the obligations under this Loan Agreement in the event there is in the future any legislative proposal or amendment that would have a material adverse impact on any of the obligations of the Agency under this Loan Agreement.

Section 6.2. Financial Reports. So long as any of the Bonds issued in accordance with the Indenture shall remain Outstanding and unpaid, the Issuer and the Agency 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 Project. 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 Issuer shall cause:

(a) To be furnished to the Trustee, from time to time, such data regarding the income and expense relating to the Project as the Agency and the Trustee shall reasonably request.

(b) To be furnished on or before 120 days after the end of each Fiscal Year the Issuer'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 Issuer, 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 Accounts, to be filed promptly with the Trustee, and shall be available for inspection by any Bondholder.

Section 6.3. **Payment of Taxes**. The Agency is not subject to taxation by either the State or the Federal Government.

Section 6.4. **Tax Covenants**. The Agency has reviewed the recitals set out in the Issuer's Tax Certificate relating to the Agency and all information contained therein furnished by the Agency is an accurate recital of the facts set out therein to the best of the Agency's knowledge, information and belief of the Agency.

Section 6.5. **Continuing Disclosure**. The Agency hereby acknowledges the Issuer's continuing disclosure obligations under the Securities and Exchange Commission Rule 15c2-12 and agrees to provide on a continuing basis such information as may be required as and when required by the Issuer to the Issuer 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 Issuer on or before December 15 of each year during which Bonds are outstanding a written statement of any changes to that part of the Official Statement entitled "THE PROJECT" and any changes to the applicable Appendix of the Official Statement. The Agency further acknowledges its obligation to promptly advise the Issuer of any "Material Event" as that term is defined in the Issuer's Undertaking to Provide Continuing Disclosure with regard to the Bonds, a copy of which the Agency acknowledges receipt.

ARTICLE VII
NO RECOURSE TO ISSUER

Section 7.1. **No Recourse to Issuer**. Subject to the provisions of the Granting Clauses in the Indenture that pledge proceeds from the sale of the Bonds deposited in the Bond Account, Project Account, Reserve Account and Administration Account, the Issuer will not be obligated to pay the Bonds except from User Charges to be assessed, collected and paid by the Agency to the Issuer in accordance with the terms and provisions hereof and as set out in the Indenture or from other legally available funds. The issuance of the Bonds will not directly or indirectly or contingently obligate the Issuer or the State to levy or pledge any form of taxation whatever or to make any appropriation for their payment. Neither the Issuer nor any member, director, officer, employee or agent of the Issuer nor any person executing the Bonds shall be liable personally for the Bonds or be subject to any personal liability or accountability by reason of the issuance of the Bonds.

ARTICLE VIII
ASSIGNMENT

Section 8.1. **Assignment by Agency**. To the extent permitted by law, the Agency may assign or allow to be transferred its rights and obligations under this Loan Agreement to a successor agency with the prior written consent of the Trustee and the Issuer, but such assignment will not relieve the successor agency from liability for any obligations owed or incurred by the Agency under this Loan Agreement.

Section 8.2. **Assignment by Issuer**. The Issuer will assign its rights under and interest in this Loan Agreement to the Trustee pursuant to the Indenture as security for the payment of the Bonds. Otherwise, the Issuer will not sell, assign or otherwise dispose of its rights under or interest in this Loan Agreement nor create or permit to exist any lien, encumbrance or other security interest in or on such rights or interest.

ARTICLE IX
DEFAULTS AND REMEDIES

Section 9.1. Remedies on Default. Whenever any Event of Default under the Indenture has occurred and is continuing, the Trustee may take whatever action may appear necessary or desirable to cause to be collected the User Charges then due and to become due or to enforce performance of any agreement of the Agency in this Loan Agreement.

Any amounts collected pursuant to action taken under this Section (except for amounts payable directly to the Issuer or the Trustee pursuant to Section 5.3(a), (b) or (c) and 9.3) shall be applied in accordance with the Indenture.

If the Agency should default under any provision of this Loan Agreement, the Issuer and the Trustee may take whatever action may appear necessary or desirable to enforce performance of any agreement of the Agency hereunder.

Nothing in this Loan Agreement shall be construed to permit the Issuer, the Trustee, any Bondholder or any receiver in any proceeding brought under the Indenture to take possession of or exclude the Agency from possession of the Project by reason of the occurrence of an Event of Default.

Section 9.2. Delay Not Waiver; Remedies. A delay or omission by the Issuer or the Trustee in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

Section 9.3. Expenses. If the Agency should default under any provision of this Loan Agreement and the Issuer or the Trustee should incur expenses for the collection of the payments due under this Loan Agreement, the Agency will on demand pay to the Issuer or the Trustee such reasonable expenses so incurred.

ARTICLE X
MISCELLANEOUS

Section 10.1. Notices. All notices or other communications hereunder shall be sufficiently given and shall be deemed given when delivered or mailed as provided in the Indenture.

Section 10.2. Binding Effect. This Loan Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Agency and their respective successors and assigns, subject, however, to the limitations contained in Section 6.1.

Section 10.3. Severability. If any provision of this Loan Agreement shall be determined to be unenforceable at any time, that shall not affect any other provision of this Loan Agreement or the enforceability of that provision at any other time.

Section 10.4. Amendments. After the issuance of the Bonds, this Loan Agreement may not be effectively amended or terminated without the written consent of the Trustee and in accordance with the provisions of the Indenture.

Section 10.5. Right of Agency To Perform Issuer's Agreements. The Issuer irrevocably authorizes and empowers the Trustee to perform in the name and on behalf of the Issuer any agreement made by the Issuer in this Loan Agreement or in the Indenture which the Issuer fails to perform in a timely fashion if the continuance of such failure could result in an Event of Default. This Section will not require the Trustee to perform any agreement of the Issuer.

Section 10.6. Applicable Law. This Loan Agreement shall be governed by and construed in accordance with the laws of the State.

Section 10.7. Captions; References to Sections. The captions in this Loan Agreement are for convenience only and do not define or limit the scope or intent of any provisions or Sections of this Loan Agreement. References to Articles and Sections are to the Articles and Sections of this Loan Agreement, unless the context otherwise requires.

Section 10.8. Complete Agreement. This Loan Agreement represents the entire agreement between the Issuer and the Agency with respect to its subject matter.

Section 10.9. Termination. When no Bonds remain unpaid under the Indenture, the Agency and the Issuer shall not have any further obligations under this Loan Agreement; except the Agency's covenant in Section 6.5 (Disclosure).

Section 10.10. Counterparts. This Loan Agreement may be signed in several counterparts. Each will be an original, but all of them together constitute the same instrument.

NORTH DAKOTA BUILDING AUTHORITY

By: ______________________________

John Hoeven, Governor
Chairman

ATTEST:

By: ______________________________

Karlene Fine
Executive Director and Secretary

(SEAL)

INFORMATION TECHNOLOGY DEPARTMENT

By: ______________________________

Curtis L. Wolfe, Chief Information Officer

EXHIBIT A

PROJECT DESCRIPTION

The Project consists of the acquisition, installation and implementation of the ConnectND system to be owned and operated by the North Dakota Information Technology Department.

The Project is the implementation of *PeopleSoft's* Enterprise Resource Planning (ERP) System that will replace the State's current administrative computer systems. The ERP System is a comprehensive financial, human and student resource management system integrating the State's universities and State agencies into a single, seamless administrative network. The Project will enable students, faculty and administrators to access information and services in real time over the Internet. *PeopleSoft* is the software vendor for the Project with *Maximus* as the implementation services partner.

The implementation of the Project is being done in a five-phase process: Initiation, Design, Development, Migration and Post Production. The total cost of the Project is currently estimated to exceed $30,000,000 with the implementation to be completed by the third quarter of 2004.

EXHIBIT B

COSTS OF THE PROJECT

	ConnectND Costs	Estimated 2001-2003 Paid to Date	Estimated 2003-2005 Bond Proceeds	Other State Funds
PeopleSoft Software	$4,896,053	$150,000	$4,746,053	$-
Interest on Note	$117,967	$-	$117,967	$-
PeopleSoft Maintenance	$1,589,734	$-	$581,861	$1,007,873
Maximus Implementation	$16,865,514	$6,453,754	$10,411,760	$-
Training Costs	$1,829,080	$325,000	$-	$1,504,080
Staff/Programming	$5,870,032	$2,655,000	$1,397,359	$1,817,673
Application Hosting Costs	$2,565,000	$1,200,000	$1,245,000	$120,000
Project Study Costs	$225,000	$225,000	$-	$-
Other Misc. Costs	$1,141,620	$241,246	$400,000	$500,374
Estimated Total Costs	$35,100,000	$11,250,000	$18,900,000	$4,950,000

Revised 8/18/03

EXHIBIT C

2003 Series C
Serial Bond Principal Maturity and Interest Rate Schedule

Maturity (December 1)	Principal Amount	Interest Rate
2005	$1,890,000	3.500%
2006	1,960,000	3.500%
2007	2,035,000	4.000%
2008	2,115,000	3.500%
2009	2,200,000	4.500%
2010	2,295,000	4.000%
2011	2,395,000	4.375%
2012	2,495,000	4.000%
2013	2,615,000	5.250%

APPENDIX B

General Information Concerning the North Dakota Information Technology Department

GENERAL INFORMATION

Established by the Legislature as a department in 1999, the Information Technology Department's ("ITD") history dates from 1969 when it was first created as the Central Data Processing Division ("CDP") within the Office of Management and Budget. CDP set up an electronic data processing center used by all state agencies except the institutions of higher education, Job Service, and the office of the Adjutant General. The Higher Education Computer Network (HECN) was funded after a 1969-70 interim legislative study. In 1981 the Director of CDP was directed to supervise all executive branch agency data processing activities and to approve data processing equipment acquisitions.

The division was renamed the Information Services Division in 1989. Job Service and the Adjutant General were brought under the Division's jurisdiction in 1997. At this time, the Division was required to prepare guidelines for agency information technology plans, develop a statewide plan based on those plans, develop statewide information technology policies, standards, and guidelines, coordinate services with political subdivisions and systems and services with higher education, and report non-compliance to the Legislature.

Legislation adopted in 1999 authorized the Governor to appoint a Chief Information Officer ("CIO") to oversee ITD and all that it administers. ITD has broad responsibilities to all state agencies and the citizens of the state in building a secure statewide area network providing for the aggregation of data, voice, video, and multimedia into a backbone insuring functionality now and in the future. The CIO is a member of the Statewide Area Network Advisory Committee that advises ITD with respect to planning and implementation of the state's wide area network. The CIO is also an ex-officio member of the legislature's Information Technology Committee that reviews ITD and its business plan, and statewide technology standards, policies, plans and projects.

Currently ITD is responsible for all wide area network services planning, selection, and implementation for all state agencies, including institutions under the control of the Board of Higher Education, counties, cities, and school districts. ITD is also responsible for computer support services, software development, statewide communications services, standards for providing information to other state agencies and the public through the internet, technology planning, process redesign and quality assurance.

ITD is funded through a process of defining and assessing a fair and equitable billing structure for services that provides for payback of the initial investments and ongoing operations. This is accomplished by determining the actual cost of providing a specific service and establishing a unit rate for that service. ITD generates monthly billings at the beginning of each month for the services provided the previous month. Currently, the services are divided into three separate billings: Data Processing, Telecommunications, and Micrographics. Services provided by ITD to its users include systems analysts, programmer services, central computer, CPU access, network access, telephone service, long distance service and other services. Beginning with the 2005-2007 biennium, ITD will be assessing user charges on a monthly basis to all state agencies for 29% of the debt service on the 2003C ConnectND bonds and will be receiving from the North Dakota University System at a minimum each May and November funding to pay 71% of the debt service on the ConnectND bonds. These user charges shall be assessed as long as there are ConnectND bonds unpaid.

ITD exists for the sole purpose of leading state agencies in discovering, assessing and implementing information technologies. ITD is committed to better understand state agency needs and in assisting in the implementation of the proper technology solution to accomplish these needs. It is organized to provide a broad range of technologies including mainframe and desktop computing, local and wide area networks, voice and data technologies, web, client server and mainframe software development, video conferencing, and emerging technologies. This is accomplished by investing in the development of highly skilled employees along with contracting with outside vendors who maintain a level of expertise that is not available in-house or is limited due to the demands for a particular service.

There are five divisions within the organizational structure of ITD with over 200 employees. The five divisions are: Information Technology Planning; Administrative Services; Software Development Services; Computer Support Services; and Telecommunications Services.

Information Technology Planning is responsible for the creation of enterprise architecture, enterprise project management and information technology standards, policies and guidelines; plan approval; and compliance monitoring. This eight-person division prepares ITD's business plan that defines the services of ITD. The Division develops guidelines for plans regarding the use of the state's wide area network by state agencies, counties, cities and school districts. It guides all state agencies through the information technology planning process, prepares the statewide technology plan, provides critical information for the budget process and reports to the Legislative Council Information Technology Committee and the legislature.

Administrative Services has 23 employees that handle agency personnel and accounting support, security for the computers and networks, research and development, records management and disaster services. Internal accounting and administrative services are conducted here. Rate schedules and billings are prepared. Security administration for ITD maintained hosts and firewall security for the state backbone is maintained. Disaster recovery plans are developed. This division provides consulting services to state agencies on records management issues with regard to the creation, utilization, maintenance, retention and final disposition of state records. Also, research, marketing, and implementation assistance on new technologies is provided for ITD's customers by this division.

Software Development Services is in charge of the development and maintenance of computerized applications and related consulting services. With 109 employees, this is the largest division of ITD. This division supplements it's workforce with consultants to help keep up with the growing software development workload. Thirteen consultants are currently engaged in software development at ITD. Its responsibilities include applications design, development and support of mainframe computer programs along with new systems developed for client server and web technology. The web is changing the manner in which state government conducts business. Software Development Services is proactive in leading state government in this technology where it is feasible and cost effective.

Computer Support Services is responsible for the central computer and their operations, computer system technical services, desktop support, and electronic mail services. This 37-person division operates an ITD owned IBM9672 CMOS computer that is used by the majority of state agencies for performing centralized computing. Disk storage devices are attached to the central computer for storing databases and other files. The data is backed-up nightly and a copy is stored off-site for disaster recovery purposes. The computer room is environmentally controlled and connected to an uninterruptible power supply system in the case of a power outage. ITD contracts for a hot-site that allows the state's central computer systems to be operational within 48 hours if a disaster would destroy ITD's computer room. The central computer and attached hardware is updated as needed to accommodate responsive, expeditious and reliable customer service. The division monitors the usage and performance of this service closely, as the cost of providing this service ranks the highest in dollars spent. It has implemented the proper security necessary to protect the equipment and data residing on the processors.

Telecommunications Services takes care of telephone systems and services, video services, network infrastructure, and help desk support. Twenty-one people work here. Telecommunication Services designs and maintains the state's wide area network (WAN) consisting of routers, switches and high speed fiber for the transmission of data. This division supports the 80,000 node network up to the wall jack in an effort to provide a higher degree of control over the network infrastructure and ensuring compatibility amongst the various systems thereby providing agencies such services as electronic mail and internet access. As new technologies requiring additional bandwidth evolve, such as desktop video, this division develops network management processes thereby ensuring the reliability and effectiveness of this critical link connecting agencies and their systems.

The Information Technology Department received the following appropriation for the 2003-2005 biennium:

Salaries and Wages	$ 25,715,694
Operating Expenses	33,120,860
Capital Assets	5,323,000
Division of Independent Study	5,625,480
Educational Technology Council	793,818
EduTech	2,540,348
Wide Area Network	7,436,223
Enterprise Resource Planning System (ConnectND)	20,000,000
Geographic Information System	678,343
Prairie Public Broadcasting	1,337,138
Criminal Justice Information Sharing	4,741,200
Less budget adjustment	(1,000,000)
Total all funds	$106,312,104
Less estimated income	(98,117,301)
Total General Fund appropriation	$ 8,194,803

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APPENDIX C

Unaudited Financial Statements of the Information Technology Department

Appendix C: Information Technology Department Financial Statement

COMBINED STATEMENT OF NET ASSETS
JUNE 30, 2002 and 2001

ASSETS:	2002	2001
CASH DEPOSITS AT THE BANK OF ND	$2,127,934.13	$1,656,917.84
INTERGOVERNMENTAL RECEIVABLES	37,253.29	30,480.37
ACCOUNTS RECEIVABLE	16,677.16	45,892.88
DUE FROM OTHER FUNDS	2,669,862.53	2,948,077.38
PREPAID EXPENSES	305,775.10	611,550.19
CAPITAL ASSETS (NET OF DEPRECIATION)	3,959,500.90	4,659,707.37
TOTAL ASSETS	$9,117,003.11	$9,952,626.03
LIABILITIES:		
ACCRUED PAYROLL	$942,485.38	$819,120.75
ACCOUNTS PAYABLE	308,480.80	170,808.95
DUE TO OTHER FUNDS	6,621.69	5,870.64
NOTES PAYABLE	356,503.48	2,669,956.10
COMPENSATED ABSENCES PAYABLE	911,824.34	846,756.62
TOTAL LIABILITIES	$2,525,915.69	$4,512,513.06
NET ASSETS:		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	$3,921,513.48	$0.00
UNRESTRICTED ASSETS	2,669,573.94	5,440,112.97
TOTAL NET ASSETS	6,591,087.42	5,440,112.97
TOTAL LIABILITIES AND NET ASSETS	$9,117,003.11	$9,952,626.03

Appendix C: Information Technology Department Financial Statement

COMBINED STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2002 and 2001

OPERATING REVENUE:	**2002**	**2001**
CHARGES FOR SERVICES	$32,332,744.72	$30,793,503.86
OPERATING EXPENSES:		
SALARIES & BENEFITS	10,831,934.15	9,457,055.83
COMPENSATED ABSENCES	65,067.72	71,146.31
OPERATING	16,879,582.37	16,429,267.28
EXPENSED EQUIPMENT	923,777.20	169,309.08
AMORTIZATION	305,775.10	252,876.14
DEPRECIATION	2,582,501.33	3,124,295.49
TOTAL OPERATING EXPENSES	31,588,637.87	29,503,950.13
OPERATING INCOME (LOSS)	744,106.85	1,289,553.73
NON-OPERATING REVENUES and (EXPENSES):		
GAIN (LOSS) ON DISPOSAL OF EQUIPMENT	956.86	(27,602.17)
CUMULATIVE EFFECT OF CHANGE IN ACCTG PRINCIPLE	0.00	(1,506,866.89)
INTEREST EXPENSE	(44,364.26)	(180,693.16)
TOTAL NONOPERATING REVENUES (EXPENSES)	(43,407.40)	(1,715,162.22)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	700,699.45	(425,608.49)
TRANSFERS IN	450,275.00	0.00
CHANGE IN NET ASSETS	1,150,974.45	(425,608.49)
TOTAL NET ASSETS - JULY 1, 2001	5,440,112.97	5,865,721.46
TOTAL NET ASSETS - JULY 1, 2002	$6,591,087.42	$5,440,112.97

Financing Agreements: ITD entered into a financing agreement to fund the purchase of PeopleSoft software for ConnectND in May 2002, borrowing $4.9 million to support completion of the project. ITD made a payment of $150,000 in August 2002, and the balance will be paid in August 2003. Total interest paid will be $117,967.

APPENDIX D

Certain Information Related to the North Dakota University System

The North Dakota University System currently operates eleven campuses: Bismarck State College (BSC), Dickinson State University (DSU), Lake Region State College (LRSC), Mayville State University (MaSU), Minot State University (MiSU), Minot State University – Bottineau (MiSU-B), North Dakota State College of Science (NDSCS), North Dakota State University (NDSU), University of North Dakota (UND), Valley City State University (VCSU) and Williston State College (WSC).

FALL FTE STUDENT ENROLLMENT

Academic Year	BSC	DSU	LRSC	MaSU	MiSU	MiSU-B	NDSCS	NDSU	UND	VCSU	WSC	Total
2002-03	2,384	1,818	652	616	2,789	447	2,112	9,368	10,458	864	611	32,119
2001-02	2,320	1,637	624	620	2,739	389	2,106	9,056	9,906	841	579	30,817
2000-01	2,126	1,592	491	644	2,491	394	2,276	8,469	9,302	910	550	29,245
1999-00	2,181	1,535	474	651	2,588	467	2,139	8,253	8,911	896	615	28,710
1998-99	2,082	1,484	492	643	2,597	410	2,219	8,142	8,684	903	592	28,248
1997-98	2,001	1,470	439	635	2,727	389	2,271	8,079	8,725	879	663	28,278
1996-97	1,932	1,459	437	723	2,964	369	2,340	8,190	9,221	932	702	29,269
1995-96	1,795	1,373	479	739	3,134	337	2,259	8,196	9,390	929	714	29,345
1994-95	1,842	1,342	455	708	3,216	338	2,170	8,092	9,463	853	702	29,181
1993-94	1,965	1,383	442	676	3,417	359	2,014	7,917	9,742	902	738	29,555

The following tables reflect the tuition charges at the NDUS campuses, mandatory fees paid by all NDUS students, including student activity, student government, technology and ConnectND fees, and a total of such tuition and fees. At VCSU and MaSU, fees also reflect the laptop computer fee assessed to all students beginning in academic year 1996-97 at VCSU and 1997-98 at MaSU.

TUITION

Academic Year	BSC	DSU	LRSC	MaSU	MiSU	MiSU-B	NDSCS	NDSU	UND	VCSU	WSC
2003-04	$2,016	$2,554	$2,040	$2,576	$2,730	$2,042	$2,052	$3,374	$3,441	$2,652	$1,920
2002-03	1,784	2,202	1,782	2,202	2,384	1,782	1,782	2,904	2,954	2,202	1,811
2001-02	1,703	2,067	1,682	2,067	2,244	1,682	1,682	2,754	2,754	2,067	1,682
2000-01	1,649	1,982	1,632	1,982	2,144	1,632	1,632	2,604	2,604	1,982	1,632
1999-00	1,592	1,906	1,592	1,906	2,050	1,592	1,592	2,480	2,480	1,906	1,592
1998-99	1,552	1,832	1,552	1,832	1,960	1,552	1,552	2,362	2,362	1,832	1,552
1997-98	1,552	1,756	1,552	1,756	1,870	1,552	1,552	2,236	2,236	1,756	1,552
1996-97	1,552	1,680	1,552	1,680	1,780	1,552	1,552	2,110	2,110	1,680	1,552
1995-96	1,552	1,680	1,552	1,680	1,780	1,552	1,552	2,110	2,110	1,680	1,552
1994-95	1,552	1,680	1,552	1,680	1,780	1,552	1,552	2,110	2,110	1,680	1,552

Note: Tuition is for full-time undergraduate resident students.

FEES

Academic Year	BSC	DSU	LRSC	MaSU	MiSU	MiSU-B	NDSCS	NDSU	UND	VCSU	WSC
2003-04	$446	$585	$683	$1,405	$498	$512	$350	$591	$715	$1,374	$454
2002-03	435	596	694	1,331	461	513	338	602	708	1,386	392
2001-02	351	396	478	1,247	310	407	248	518	507	1,239	284
2000-01	321	396	446	1,200	281	326	218	406	484	1,191	284
1999-00	296	396	446	1,200	281	326	217	406	476	1,191	284
1998-99	281	364	382	1,200	281	316	209	368	468	1,191	254
1997-98	257	340	326	1,190	269	296	209	330	441	1,163	254
1996-97	257	290	326	336	264	253	203	300	418	1,163	254
1995-96	209	176	242	240	180	205	149	200	318	213	206
1994-95	168	176	218	240	180	190	149	200	318	209	206

COMBINED TUITION AND FEES

Academic Year	BSC	DSU	LRSC	MaSU	MiSU	MiSU-B	NDSCS	NDSU	UND	VCSU	WSC
2003-04	$2,462	$3,139	$2,723	$3,981	$3,228	$2,554	$2,402	$3,965	$4,156	$4,026	$2,374
2002-03	2,219	2,798	2,476	3,533	2,845	2,295	2,120	3,506	3,662	3,588	2,203
2001-02	2,054	2,463	2,160	3,314	2,554	2,089	1,930	3,272	3,261	3,306	1,966
2000-01	1,970	2,378	2,078	3,182	2,425	1,958	1,850	3,010	3,088	3,173	1,916
1999-00	1,888	2,302	2,038	3,106	2,330	1,918	1,809	2,886	2,956	3,097	1,876
1998-99	1,833	2,196	1,934	3,032	2,241	1,868	1,761	2,730	2,830	3,023	1,806
1997-98	1,809	2,096	1,878	2,946	2,139	1,848	1,761	2,566	2,677	2,919	1,806
1996-97	1,809	1,970	1,878	2,016	2,044	1,805	1,755	2,410	2,528	2,843	1,806
1995-96	1,761	1,856	1,794	1,920	1,960	1,757	1,701	2,310	2,428	1,893	1,758
1994-95	1,720	1,856	1,770	1,920	1,960	1,742	1,701	2,310	2,428	1,889	1,758

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APPENDIX E

General Information Regarding The State of North Dakota

THE INDUSTRIAL COMMISSION OF NORTH DAKOTA

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

The members of the Commission are the Governor, the Attorney General and the 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 Loan Agreement, 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 2002 is attached as Appendix F.

Budget Procedures

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

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

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

Non-Legislative Powers to Control Expenditures from Appropriations

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

1. The moneys and estimated revenues in a specific fund from which the appropriation is made are insufficient to meet all legislative appropriations from the fund.

2. The payment or the obligation incurred is not authorized by law.

3. The expenditure or obligation is contrary to legislative intent as recorded in any reliable legislative records, including:

   a. Statements of legislative intent expressed in enacted appropriation measures or other measures enacted by the Legislative Assembly; and

   b. Statements of purpose of amendment explaining amendments to enacted appropriation measures, as recorded in the journals of the Legislative Assembly.

4. Circumstances or availability of facts not previously known or foreseen by the Legislative Assembly which make possible the accomplishment of the purpose of the appropriation at a lesser amount than that appropriated.

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

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

Financial Controls

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

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

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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				
	1998	1999	2000	2001	2002
Revenues					
Taxes	$ 705,385,031	$ 684,654,913	$ 734,974,065	$ 755,449,647	$ 773,815,240
Licenses & Permits	9,130,177	8,657,036	11,317,453	11,260,815	11,327,505
Intergovernmental	244,980	314,659	164,095	381,322	--
Sales and Services	1,603,631	1,606,971	1,408,547	1,891,369	1,358,059
Royalties and Rents	5,481,495	3,222,016	4,451,445	6,705,433	3,797,829
Fines and Forfeits	2,538,787	2,234,407	1,664,005	2,294,372	2,296,396
Interest and Investment Income	6,456,854	7,060,830	7,511,546	9,264,494	3,431,724
Miscellaneous	306,138	53,764	1,664,074	61,592	363,255
TOTAL REVENUES	$ 731,147,093	$ 707,804,596	$ 763,155,230	$ 787,309,404	$ 766,390,008
Expenditures					
General Government	$ 48,943,272	$ 63,584,503	$ 51,857,281	$ 62,140,718	$ 63,145,955
Education	269,078,165	270,305,831	288,446,110	284,909,751	287,577,112
Health and Human Services	167,143,804	183,052,329	166,163,619	185,861,396	196,337,923
Regulatory	5,509,119	5,399,367	5,909,924	6,250,073	7,569,309
Public Safety and Corrections	27,972,292	31,695,743	44,230,789	40,616,062	60,631,989
Agriculture and Commerce	5,107,912	5,801,158	5,399,415	5,576,666	10,312,451
Natural Resources	11,242,861	12,973,132	12,507,337	13,851,581	13,069,208
Highways	--	140,500	263,872	--	--
Capital Outlay	--	--	--	--	58,354
TOTAL EXPENDITURES	$ 534,997,425	$ 572,952,563	$ 574,778,347	$ 599,206,247	$ 639,037,118
Other Financing Sources (Uses)					
Operating Transfers In	$ 37,442,899	$ 11,695,796	$ 33,460,525	$ 31,402,315	$ 42,294,412
Operating Transfers Out	(204,932,308)	(200,007,664)	(194,061,401)	(231,297,905)	(213,412,321)
Operating Transfers to Component Units	(1,204,936)	(1,204,936)	(375,000)	(375,000)	--
Other	76,759	7,448	5,606	11,273	204,715
Total Other Financing Sources (Uses)	$(168,617,586)	$(189,509,356	$(160,970,270)	$(200,259,317)	$(170,913,194)
Revenues and Other Sources Over Expenditures and Other Uses	27,532,082	(54,657,323)	27,406,613	(12,156,160)	(43,560,304)
Beginning Cash Balance	115,021,689	142,553,771	87,896,448	118,632,571[(1)]	159,048,414[(2)]
Other Transfers in (Out)	--	--	--	--	--
FUND BALANCE – END OF YEAR	$142,553,771	$ 87,896,448	$ 115,303,061	$ 106,476,411	$ 115,488,110

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

(2) Pursuant to GASB 34, the beginning fund balance was increased by $50,422,000 to reflect a change in the revenue recognition policy. The policy was changed to classify all revenues as available if they are collected within one year of the fiscal year. Previously the period of availability extended to thirty days after fiscal year end. The beginning fund balance was also restated by $2,150,043 to properly reflect unemployment insurance fees collected to pay unemployment claims.

Source: Office of Management and Budget Comprehensive Annual Financial Reports.

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 1998 through Fiscal Year 2003 (dollars in millions).

Quarter	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003
First	$66.7	$94.3	$45.4	$50.8	$24.8	$38.6
Second	26.6	63.3	21.1	10.1	13.6	50.8
Third	23.6	60.3	15.2	32.4	16.9	74.6
Fourth	76.5	66.0	43.0	74.0	2.7	34.7

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
Transfer from Other Funds	0	0	0	0
Disbursements	(3,883,879,882)	(4,244,012,868)	(4,770,191,532)	(5,438,453,710)
Transfer to Other Funds	0	0	0	0
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.

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2003-2005 General Fund Appropriations

Purpose		Appropriation
General Government		$ 151,008,049
Education:		991,170,010
Public Institutions and Other	$629,628,592	
Higher Education	361,541,418	
Health and Human Services		430,097,751
Regulatory		21,593,990
Public Safety		110,488,151
Agricultural, Economic Development, Extension and Research:		74,569,964
Extension and Research	50,766,966	
Other Agricultural and Economic Development	23,829,998	
Natural Resources		24,706,246
TOTAL		$1,803,661,161

Source: Office of Management and Budget.

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Sources of General Fund Revenues

Actual collections for the General Fund portion of State revenues for the 1997-99 and 1999-01 biennia, the State's revised forecasted revenue projections for the 2001-03 biennium and the State's Legislative forecast for the 2003-05 biennium are shown below.

Revenue Source	1997-1999 Actual Collections	1999-2001 Actual Collections	2001-2003 Actual Collections	2003-2005 Legislative Forecast
Sales and Use Tax	$ 569,501,827	$ 613,066,466	$ 640,618,363	$ 674,764,000
Motor Vehicle	94,863,089	109,115,230	119,592,232	126,784,840
Individual Income Tax	358,287,825	409,331,437	396,153,000	435,255,000
Corporate Income Tax	123,420,219	99,134,855	88,417,166	91,450,000
Business Privilege Tax	6,494,162	5,464,955	6,257,389	5,200,000
Cigarette and Tobacco Tax	44,091,170	41,706,350	39,313,360	36,709,000
Oil and Gas Production Tax	26,973,613	38,433,365	39,159,000	42,348,719
Oil Extraction Tax	16,703,114	23,566,635	22,841,000	28,651,281
Coal Severance Tax	22,596,137	22,173,854	0	0
Coal Conversion Tax	23,786,790	25,672,170	46,878,511	47,221,000
Insurance Premium Tax	33,133,216	39,113,433	48,990,027	55,869,000
Wholesale Liquor Tax	11,140,328	10,321,999	11,155,834	11,634,000
Gaming Tax	22,801,868	27,437,507	27,612,652	23,145,000
Lottery	0	0	0	1,431,000
Departmental Collections	32,997,069	40,816,171	57,506,019	54,410,473
Interest Income	19,013,889	20,832,123	8,509,483	12,629,000
Mineral Leasing Fees	7,257,989	9,531,698	6,440,513	4,215,000
Bank of North Dakota Transfers	29,600,000	50,000,000	78,699,787	60,000,000
State Mill Transfers	3,000,000	3,000,000	6,000,000	5,000,000
Student Loan Trust Fund Transfers	0	0	9,000,000	26,258,969
Gas Tax Administration	1,128,872	1,380,608	1,363,392	1,396,200
Other Transfers (1)	36,713,873	5,159,194	15,370,513	64,091,408
Total	$1,483,505,050	$1,595,258,050	$1,669,878,241	$1,808,463,890

(1) 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 for the 2001-03 biennium include $3,545,102 from the Land and Minerals Trust Fund, $9,733,820 from the Water Development Trust Fund, $2,004,257 from the Developmental Disability Loan Sale, and $87,334 from miscellaneous transfers. Other transfers estimated for the 2003-05 biennium include $2,000,000 from the Land and Minerals Trust Fund, $11,910,000 from the Permanent Oil Tax Trust Fund, $2,800,000 from the Insurance Department's fidelity Bonding Fund, $10,070,373 from the Water Development Trust Fund, $1,400,000 from the Information Technology Department transfer of accumulated savings, and $35,911,035 from the Health Care Trust Fund.

Source: Office of Management and Budget.

Sources of Total State Appropriations

A comparison of the sources for the total appropriations made for the 1997-99, 1999-01, 2001-03 and 2003-05 biennia is presented below:

	1997-1999 Legislative Appropriation	1999-2001 Legislative Appropriation	2001-2003 Legislative Appropriation[1]	2003-2005 Legislative Appropriation
General Fund	$1,489,240,087	$1,594,038,538	$1,746,983,713	$1,803,661,161
Special Funds	2,485,367,317	3,215,299,301	3,025,896,983	3,255,778,235
Total	$3,974,607,404	$4,809,337,839	$4,772,880,696	$5,059,439,396

[1] Using the allotment process, the General Fund 2001-2003 appropriation was reduced by $18,316,037.

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 2003 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. Additionally, the Bonds are not subject to such statutory limitations.

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 as the North Dakota Building Authority previously issued and has outstanding as of July 1, 2003, Lease Revenue Bonds as follows:

1998 Series A:	
4.40% to 5.125% Serial Bonds, due December 1, 2003-2013	$ 4,345,000
5.125% Term Bonds, due December 1, 2018	2,910,000
1998 Series B:	
4.50% to 5.00% Serial Bonds, due December 1, 2003-2010	9,090,000
1998 Series C:	
3.85% to 4.35% Serial Bonds, due December 1, 2003-2009	2,300,000
2000 Series A:	
5.125% to 5.60% Serial Bonds, due December 1, 2003-2019	4,145,000
2001 Series A:	
4.00% to 5.125% Serial Bonds, due December 1, 2003-2018 and 2022	10,250,000
5.125% Term Bonds, 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, 2003-2016	15,480,000
2003 Series A:	
5.25% Serial Bonds, due June 1, 2004-2010	15,145,000
2003 Series B:	
2.00% to 3.70% Serial Bonds, due December 1, 2005-2015	6,895,000
4.00% Term Bond, due December 1, 2018	2,425,000
4.25% Term Bond, due December 1, 2020	1,790,000
5.00% Term Bond, due December 1, 2022	1,970,000
Total Outstanding (Excluding the Bonds)	**$101,240,000**

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 Dakota 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.

The 2003A Bonds were issued to current refund the callable maturities of the then outstanding 1993 Series A Bonds totaling $17,295,000. The 1993A Bonds were called on June 1, 2003 at a price of 101% of par.

The 2003B Bonds were issued to finance the acquisition, improving, equipping or construction of certain facilities for the North Dakota State Board of Higher Education, the North Dakota Department of Corrections and Rehabilitation, and the North Dakota State Department of Health.

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

Revenue Debt

The State and certain State-created entities have the authority to incur debt supported by revenues derived from the assets of the various programs financed by such indebtedness. Only the Municipal Bond Bank Bonds listed below include a moral obligation provision. Such outstanding debt as of June 1, 2003 is shown below:

	Outstanding
State of North Dakota Student Loan Revenue Bonds	$126,650,000
North Dakota Municipal Bond Bank Bonds(1)	133,605,000
North Dakota Housing Revenue Bonds, including accreted value	625,718,000
Board of Higher Education(2)	62,301,000
North Dakota State Water Commission(3)	43,970,998
Lignite Bonds (3)	3,755,000
Total	$995,999,998

(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, 2002.

(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 2001 from the marketing of crops and livestock in the State totaled over $2.98 billion, as compared to $2.69 billion in 2000. 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 21.4% of the total cash receipts in 2001. Cattle and calves ranked third, with 13.4% of the total and government payments ranked first with 24.1% of the total.

Agricultural exports totaled $1.20 billion in 2001 with wheat and wheat products accounting for 51.5% of the total. Soybeans and products were the second most exported commodities in the State, followed by feeds grains and products.

Below is a table which lists 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.

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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.

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North Dakota 2001 Cash Receipts From Crops and Livestock ($000)

	Receipts	Rank Among All States
Crops	$2,258,615	14th
Livestock	719,933	37th
Total Crops & Livestock	$2,978,548	28th
Government Payments	944,591	N/A
TOTAL	$3,923,139	
Five Leading Commodities[1]:		
Wheat	$839,582	
Cattle/Calves	524,924	
Soybeans	283,873	
Corn	163,119	
Sugarbeets	162,162	

(1) Receipts data in dollars are for 2001, 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	$24,724
1999	16,928
1998	24,706
1997	2,843
1996	34,289

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 as reported by the United States Census Bureau is 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%

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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.

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Annual Average
Unemployment Rates

	1998	1999	2000	2001	2002
United States	4.5%	4.2%	4.0%	4.8%	5.8%
North Dakota	3.2%	3.4%	3.0%	2.8%	4.0%
Bismarck MSA	3.0%	3.0%	2.5%	2.5%	3.6%
Fargo MSA	1.7%	2.0%	2.0%	1.9%	2.5%
Grand Forks MSA	2.7%	3.0%	3.4%	3.4%	4.2%

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]	1998[1]	1999[1]	2000[1]	2001[1]	2002[2]	2002 Rank
United States	$9,940	$18,667	$23,255	$26,893	$27,880	$29,760	$30,413	$30,941	--
North Dakota	7,641	15,320	18,899	22,716	23,046	24,990	25,798	26,982	37th
Other Northern Plains States									
Minnesota	9,982	18,784	24,295	29,092	30,194	32,231	33,059	34,071	8th
Iowa	9,346	16,683	20,985	24,555	24,989	26,540	27,225	28,280	32nd
South Dakota	7,701	15,628	19,588	23,453	24,576	25,815	26,566	26,894	38th
Montana	8,728	14,743	18,592	21,225	21,621	22,961	24,044	25,020	46th

(1) Revised
(2) Preliminary

Source: Department of Commerce, Bureau of Economic Analysis.

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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 fiscal years 1998-2002.

Sales Category	1998	1999	2000	2001	2002
Mining, Construction, & Manufacturing	$ 547,830,200	$ 719,239,494	$ 692,292,638	$ 532,281,142	$ 540,338,418
Transportation, Communication, & Public Utilities(1)	530,697,438	498,876,964	520,249,975	659,367,459	599,641,011
Wholesale & Retail Trade	4,759,734,012	4,694,052,502	4,959,046,582	5,012,155,708	5,243,133,516
Services	655,596,265	659,377,754	683,652,769	685,894,218	708,635,488
Other	42,366,524	53,571,680	46,123,347	46,209,173	60,128,993
Total	$6,536,224,439	$6,476,111,865	$6,901,365,311	$6,935,907,700	$7,151,877,426

(1) Includes Gas and Sanitary Services.

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

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APPENDIX F

Audited General Purpose Financial Statements
of the State of North Dakota
For the Fiscal Year Ended June 30, 2002

Statement of Net Assets
June 30, 2002

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and Cash Equivalents	$ 8,935,871	$ 673,933,940	$ 682,869,811	$ 16,803,612
Investments	620,241,292	1,399,172,797	2,019,414,089	265,639,669
Accounts Receivable - Net	17,347,679	61,770,476	79,118,155	394,906
Taxes Receivable - Net	173,215,575	-	173,215,575	-
Interest Receivable - Net	6,681,838	34,824,033	41,505,871	3,025,702
Intergovernmental Receivable - Net	130,206,818	31,639,944	161,846,762	-
Internal Receivable	408,660,500	-	81,344,949	-
Due from Fiduciary Funds	-	39,493	39,493	-
Due from Primary Government	-	-	-	124,014
Prepaid Items	3,576,801	1,325,698	4,902,499	-
Inventory	12,043,359	17,300,572	29,343,931	47,531
Unamortized Bond Financing Costs	280,000	10,600,086	10,880,086	1,599,373
Loans and Notes Receivable - Net	107,932,130	2,005,205,587	2,113,137,717	8,254,470
Other Assets	-	7,142,306	7,142,306	31,545
Capital Assets:				
Land and Construction in Progress	151,181,632	34,085,327	185,266,959	1,157,462
Infrastructure - Net	752,549,220	75,994,449	828,543,669	506,979
Buildings and Equipment - Net	279,829,911	450,130,622	729,960,533	11,263,823
Total Assets	2,672,682,626	4,803,165,330	7,148,532,405	308,849,086

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES				
Accounts Payable	124,689,946	24,355,015	149,044,961	1,249,967
Accrued Payroll	27,075,781	7,170,229	34,246,010	-
Securities Lending Collateral	35,656,075	117,510,114	153,166,189	-
Interest Payable	6,710,659	23,361,392	30,072,051	2,005,861
Intergovernmental Payable	29,047,251	1,591,045	30,638,296	-
Tax Refunds Payable	36,463,383	-	36,463,383	
Contracts Payable	6,416,689	-	6,416,689	-
Internal Payable	-	327,315,551	-	-
Due to Primary Government	-	-	-	7,692
Federal Funds Purchased	-	292,323,000	292,323,000	
Reverse Repurchase Agreements	-	23,390,000	23,390,000	-
Claimant Liability	3,333,000	-	3,333,000	1,125,000
Other Deposits	-	507,173,623	507,173,623	-
Amounts Held in Custody for Others	-	7,718,284	7,718,284	-
Deferred Revenue	9,002,247	54,897,342	63,899,589	518,271
Other Liabilities	267,000	8,607,644	8,874,644	-
Long-Term Liabilities				
Due within one year	10,844,517	205,624,367	216,468,884	8,831,128
Due in more than one year	164,369,126	1,743,250,411	1,907,619,537	154,626,978
Total Liabilities	453,875,674	3,344,288,017	3,470,848,140	168,364,897
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	1,066,084,756	459,592,422	1,525,677,178	3,127,093
Restricted for:				
General Government	7,692,738	-	7,692,738	-
Education	11,862,440	-	11,862,440	-
Health and Human Services	48,991,787	-	48,991,787	-
Regulatory Purposes	11,011,444	-	11,011,444	-
Agriculture and Commerce	8,227,829	-	8,227,829	-
Cultural and Natural Resources	63,516,082	-	63,516,082	-
Transporation	88,211,949	-	88,211,949	-
Capital Projects	11,765,168	10,067,463	21,832,631	-
Debt Service	15,270,064	85,304,790	100,574,854	38,737,000
Loan Purposes	-	44,443,500	44,443,500	73,527,000
Pledged Assets	-	92,861,570	92,861,570	-
Unemployment Compensation	-	48,126,922	48,126,922	-
Permanent and Endowment Funds - Expendable	15,981,565	12,125,737	28,107,302	-
Permanent and Endowment Funds - Nonexpendable	551,413,037	8,839,888	560,252,925	-
Other	-	8,687,000	8,687,000	3,345,605
Unrestricted	318,778,093	688,828,021	1,007,606,114	21,747,491
Total Net Assets	$ 2,218,806,952	$ 1,458,877,313	$ 3,677,684,265	$ 140,484,189

STATE OF NORTH DAKOTA

Statement of Activities
For the Fiscal Year Ended June 30, 2002

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental Activities:				
General Government	$ 74,719,520	$ 20,113,433	$ 2,319,049	$ -
Education	418,598,694	2,890,417	98,200,490	20,000
Health and Human Services	730,285,413	19,868,736	514,492,530	45,415
Regulatory	15,105,644	14,309,927	2,408,552	-
Public Safety and Corrections	129,220,216	2,626,650	71,795,347	-
Agriculture and Commerce	51,344,782	17,223,430	19,435,444	-
Natural Resources	44,326,140	14,728,718	9,490,449	6,777,496
Transportation	320,773,349	60,347,992	120,672,848	96,169,993
Intergovernmental - Revenue Sharing	142,778,046	-	-	-
Interest on Long Term Debt	8,335,096	-	-	-
Total Governmental Activities	1,935,486,900	152,109,303	838,814,709	103,012,904
Business-Type Activities:				
Bank of North Dakota	90,103,458	123,315,000	-	-
Housing Finance	59,502,532	51,350,000	15,384,000	-
Loan Programs	13,768,752	10,724,770	6,672,186	-
Mill and Elevator	79,009,119	80,960,600	13,979	-
State Fair	4,078,523	2,884,451	337,232	-
Unemployment Compensation	50,485,399	48,361,519	17,340,236	-
University System	587,778,460	229,915,020	149,019,569	6,483,747
Workers Compensation	78,051,165	94,167,427	(8,614,191)	-
Other	11,589,458	7,817,585	(75,188)	-
Total Business-Type Activities	974,366,866	649,496,372	180,077,823	6,483,747
Total Primary Government	$ 2,909,853,766	$ 801,605,675	$ 1,018,892,532	$ 109,496,651
Component Units:	$ 24,303,198	$ 11,377,955	$ 34,857,822	$ -

General Revenues:
Taxes:
Individual and Corporate Income Taxes
Sales and Use Taxes
Oil, Gas and Coal Taxes
Business and Other Taxes
Unrestricted Investment Earnings
Tobacco Settlement
Miscellaneous
Payment from State of North Dakota
Contributions to Permanent Fund Principal
Transfers
Total General Revenues and Transfers
Change in Net Assets
Net Assets, Beginning of Year, as Restated
Net Assets, Ending

Net (Expense) Revenue and Change in Net Assets

Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
$ (52,287,038)		$ (52,287,038)	
(317,487,787)		(317,487,787)	
(195,878,732)		(195,878,732)	
1,612,835		1,612,835	
(54,798,219)		(54,798,219)	
(14,685,908)		(14,685,908)	
(13,329,477)		(13,329,477)	
(43,582,516)		(43,582,516)	
(142,778,046)		(142,778,046)	
(8,335,096)		(8,335,096)	
(841,549,984)		(841,549,984)	
	$ 33,211,542	33,211,542	
	7,231,468	7,231,468	
	3,628,204	3,628,204	
	1,965,460	1,965,460	
	(856,840)	(856,840)	
	15,216,356	15,216,356	
	(202,360,124)	(202,360,124)	
	7,502,071	7,502,071	
	(3,847,061)	(3,847,061)	
-	(138,308,924)	(138,308,924)	
(841,549,984)	(138,308,924)	(979,858,908)	
			$ 21,932,579
233,288,277	-	233,288,277	-
567,901,369	-	567,901,369	-
90,976,331	-	90,976,331	-
59,284,332	-	59,284,332	-
5,213,490	-	5,213,490	-
14,729,391	-	14,729,391	-
6,858,007	-	6,858,007	-
-	-	-	1,175,000
13,665,257	-	13,665,257	-
(170,233,044)	188,309,895	18,076,851	-
821,683,410	188,309,895	1,009,993,305	1,175,000
(19,866,574)	50,000,971	30,134,397	23,107,579
2,238,673,526	1,408,876,342	3,647,549,868	117,376,610
$ 2,218,806,952	$ 1,458,877,313	$ 3,677,684,265	$ 140,484,189

STATE OF NORTH DAKOTA

Balance Sheet
Governmental Funds
June 30, 2002

	General	Federal	School Permanent Trust Fund	Other Governmental Funds	Total
ASSETS					
Cash Deposits at the Bank of ND	$ 33,853,613	$ 40,664,924	$ 2,057,823	$ 264,245,743	$ 340,822,103
Cash and Cash Equivalents	1,522,722	565,436	-	6,832,134	8,920,292
Investments at the Bank of ND	-	-	-	60,940,020	60,940,020
Investments	-	-	546,843,069	70,107,371	616,950,440
Accounts Receivable - Net	396,349	4,599,371	-	12,302,971	17,298,691
Taxes Receivable - Net	127,930,291	-	174,926	45,110,358	173,215,575
Interest Receivable - Net	15,018	24	5,353,283	1,263,723	6,632,048
Intergovernmental Receivable - Net	-	127,124,377	-	2,972,874	130,097,251
Due from Other Funds	34,495,118	5,675,418	6,170,573	28,413,109	74,754,218
Prepaid Items	-	-	-	943,786	943,786
Inventory	686,231	3,259,423	-	5,185,360	9,131,014
Loans and Notes Receivable - Net	84,691	-	46,317,869	61,529,570	107,932,130
Total Assets	$ 198,984,033	$ 181,888,973	$ 606,917,543	$ 559,847,019	$ 1,547,637,568
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	$ 22,938,127	$ 81,912,409	$ 196,545	$ 18,765,529	$ 123,812,610
Accrued Payroll	10,848,378	9,700,541	-	5,426,777	25,975,696
Securities Lending Collateral	-	-	35,149,796	4,818,670	39,968,466
Interest Payable	88,135	-	-	31,220	119,355
Intergovernmental Payable	41,295	6,944,668	-	22,061,288	29,047,251
Tax Refunds Payable	35,820,823	-	-	642,560	36,463,383
Contracts Payable	11,165	5,197,447	-	1,208,077	6,416,689
Due to Other Funds	11,327,093	42,020,624	92,106	21,268,386	74,708,209
Claims/Judgments Payable	-	-	3,333,000	-	3,333,000
Deferred Revenue	2,420,907	10,911,096	-	10,099,491	23,431,494
Other Liabilities	-	-	-	267,000	267,000
Total Liabilities	83,495,923	156,686,785	38,771,447	84,588,998	363,543,153
Fund Balances:					
Reserved for:					
Inventory	686,231	177,370	-	5,185,360	6,048,961
Long - Term Receivables	84,691	-	-	61,529,570	61,614,261
Debt Service	-	-	-	17,159,371	17,159,371
Capital Projects	-	-	-	11,765,168	11,765,168
Prepaid Expenditures	-	-	-	943,786	943,786
Undistributed Revenue	-	-	5,353,283	-	5,353,283
Permanent Trust Fund	-	-	562,792,813	-	562,792,813
Legal Requirements	-	-	-	10,763,063	10,763,063
Unreserved:					
Designated for:					
Fund Activities	-	-	-	4,545,166	4,545,166
Patients Welfare	-	-	-	460,463	460,463
Unreserved, Reported in :					
General Fund	114,717,188	-	-	-	114,717,188
Special Revenue Funds	-	25,024,818	-	362,906,074	387,930,892
Total Fund Balances	115,488,110	25,202,188	568,146,096	475,258,021	1,184,094,415
Total Liabilities and Fund Balances	$ 198,984,033	$ 181,888,973	$ 606,917,543	$ 559,847,019	$ 1,547,637,568

STATE OF NORTH DAKOTA

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

June 30, 2002

Total Fund Balances-Governmental Funds		$ 1,184,094,415
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is $3,372,859,301 and the accumulated depreciation is $2,237,922,763.		1,134,936,538
Some of the state's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		17,285,548
Prepaid items are paid from current available financial resources in the funds, but are capitalized in the statement of net assets.		2,324,103
Internal service funds are used to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets..		52,478,213
Bonds issued by the State have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the statement of net assets.		280,000
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Those liabilities consist of:		
Bonds Payable	(140,161,180)	
Notes Payable	(150,151)	
Accrued Interest on Long-Term Liabilities	(1,889,358)	
Compensated Absences	(26,188,108)	
Intergovernmental Payable	(590,809)	
Capital Leases	(1,395,662)	
Claims and Judgments	(2,216,597)	
Total Long-Term Liabilities		(172,591,865)
Net Assets of Governmental Activities		$ 2,218,806,952

STATE OF NORTH DAKOTA

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2002

	General	Federal	School Permanent Trust Fund	Other Governmental Funds	Total
REVENUES					
Individual and Corporate Income Taxes	$ 225,484,517	$ -	$ -	$ 9,327,938	$ 234,812,455
Sales and Use Taxes	421,869,390	-	-	145,595,669	567,465,059
Oil, Gas, and Coal Taxes	53,826,559	-	1,696,709	35,453,063	90,976,331
Business Taxes	42,634,774	-	-	16,649,558	59,284,332
Licenses, Permits and Fees	11,327,505	-	-	78,970,199	90,297,704
Intergovernmental	-	917,579,621	-	1,352,377	918,931,998
Sales and Services	1,358,059	3,895,716	-	34,043,276	39,297,051
Royalties and Rents	3,797,829	207	12,084,257	2,035,594	17,917,887
Fines and Forfeits	2,296,396	-	1,613,937	6,981,758	10,892,091
Interest and Investment Income	3,431,724	67,837	(5,778,277)	6,568,115	4,289,399
Tobacco Settlement		-	12,051,320	14,729,391	26,780,711
Commodity Assessments	-	-	-	9,443,805	9,443,805
Miscellaneous	363,255	11,581	-	2,716,689	3,091,525
Total Revenues	766,390,008	921,554,962	21,667,946	363,867,432	2,073,480,348
EXPENDITURES					
Current:					
General Government	63,145,955	805,264	-	6,297,143	70,248,362
Education	287,577,112	86,220,618	2,559,118	37,059,624	413,416,472
Health and Human Services	196,337,923	486,994,260	-	45,178,718	728,510,901
Regulatory	7,569,309	2,289,132	-	4,803,591	14,662,032
Public Safety and Corrections	60,631,989	70,273,843	-	4,685,184	135,591,016
Agriculture and Commerce	10,312,451	18,512,440	-	22,438,139	51,263,030
Natural Resources	13,069,208	14,444,948	-	19,444,668	46,958,824
Transportation	334,817	214,527,008	-	109,959,559	324,821,384
Intergovernmental - Revenue Sharing	-	-	-	142,778,046	142,778,046
Capital Outlay	58,354	102,061	-	8,987,009	9,147,424
Debt Service:					
Principal	-	-	-	6,374,010	6,374,010
Interest and Other Charges	-	-	-	7,327,477	7,327,477
Total Expenditures	639,037,118	894,169,574	2,559,118	415,333,168	1,951,098,978
Revenues over (under) Expenditures	127,352,890	27,385,388	19,108,828	(51,465,736)	122,381,370
OTHER FINANCING SOURCES (USES)					
Proceeds from Bonds and Notes	-	-	-	11,368,445	11,368,445
Proceeds from Capital Leases	58,354	102,061	-	-	160,415
Proceeds from Sale of Capital Assets	146,361	-	-	293,035	439,396
Other	-	-	-	3,813	3,813
Transfers In	42,294,412	408,419	-	89,380,264	132,083,095
Transfers Out	(213,412,321)	(34,828,640)	(31,516,262)	(23,159,192)	(302,916,415)
Total Other Financing Sources (Uses)	(170,913,194)	(34,318,160)	(31,516,262)	77,886,365	(158,861,251)
Net Change in Fund Balances	(43,560,304)	(6,932,772)	(12,407,434)	26,420,629	(36,479,881)
Fund Balances - Beginning of Year, as Adjusted	159,048,414	32,134,960	580,553,530	448,837,392	1,220,574,296
Fund Balances - End of Year	$ 115,488,110	$ 25,202,188	$ 568,146,096	$ 475,258,021	$ 1,184,094,415

STATE OF NORTH DAKOTA

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2002

Net Change in Fund Balances-Total Governmental Funds		$ (36,479,881)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital Outlay	150,352,628	
Depreciation Expense	(136,249,472)	
Excess of capital outlay over depreciation expense		14,103,156
In the statement of activities, only the *gain(loss)* on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the assets sold.		(924,737)
Donations of capital assets increase net assets in the statement of activities but do not appear in the governmental funds because they are not financial resources.		152,915
Some of the assets acquired this year were financed through capital leases. The amount financed is reported in the governmental funds as a source of financing. However, capital leases are reported as long-term liabilities in the statement of net assets.		(160,415)
Based on receipt dates, some revenues are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased/decreased by this amount this year.		3,888,011
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of internal service funds is reported with governmental activities		3,932,526
Prepaid items are paid from current available financial resources in the funds, but are capitalized in the statement of net assets.		1,170,283
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		(11,368,445)
Bonds issued by the State have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the statement of net assets.		280,000
Repayment of long-term debt is reported as an expenditure in governmental funds but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:		
Bond principal retirement	6,374,010	
Note payments	168,919	
Capital lease payments	2,240,670	
Total long-term debt repayment		8,783,599
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. These activities consist of:		
Net increase/decrease in accrued interest	(974,650)	
Net increase/decrease in compensated absences	(1,412,104)	
Net increase/decrease in intergovernmental payable	(264,601)	
Net increase/decrease in claims and judgments	(592,231)	
Total additional expenditures		(3,243,586)
Change in Net Assets of Governmental Activities		$ (19,866,574)

STATE OF NORTH DAKOTA

Statement of Net Assets
Proprietary Funds
June 30, 2002

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Bank of North Dakota	Housing Finance	University System	Workers Compensation	Other Enterprise Funds	Total	Internal Service Funds
ASSETS							
Current Assets:							
Cash Deposits at the Bank of ND		$ 930,000	$ 55,274,443	$ 749,739	$ 17,181,848	$ 74,136,030	$ 6,285,213
Cash and Cash Equivalents		26,000	858,575	-	39,421,265	40,305,840	15,579
Investments at the Bank of ND		-	14,709,566	30,666,499	38,315,882	83,691,947	-
Investments		14,037,000	-	983,897,936	18,087,126	1,016,022,062	3,290,852
Accounts Receivable - Net		459,000	13,703,753	19,939,239	27,668,484	61,770,476	48,988
Interest Receivable - Net		319,000	152,582	8,084,740	1,409,711	9,966,033	49,790
Intergovernmental Receivable - Net		383,000	28,557,277	-	2,699,667	31,639,944	109,567
Due from Other Funds		30,000	12,023,103	23,268	1,220,469	13,296,840	4,882,322
Due from Fiduciary Funds		-	-	-	39,493	39,493	-
Prepaid Items		16,000	-	324,772	984,926	1,325,698	308,912
Inventory		-	6,649,214	-	10,651,358	17,300,572	125,728
Loans and Notes Receivable - Net		900,000	5,465,301	-	2,104,684	8,469,985	-
Other Current Assets		-	1,121,776	-	-	1,121,776	-
Restricted Cash at the Bank of ND		6,967,000	-	-	32,427,000	39,394,000	-
Restricted Cash and Cash Equivalents		130,660,000	-	-	-	130,660,000	-
Restricted Investments at the Bank Of ND		-	-	-	94,392,000	94,392,000	-
Restricted Interest Receivable - Net		3,450,000	-	-	983,000	4,433,000	-
Restricted Loans Receivable - Net		10,904,000	-	-	16,595,000	27,499,000	-
Total Current Assets		169,081,000	138,515,590	1,043,686,193	304,181,913	1,655,464,696	15,116,951
Noncurrent Assets:							
Restricted Cash at the Bank of ND		-	-	-	2,353,000	2,353,000	-
Restricted Cash and Cash Equivalents		-	4,568,607	-	18,493	4,587,100	-
Investments at the Bank of ND		-	59,905,035	-	-	59,905,035	-
Investments		-	13,481,088	-	-	13,481,088	-
Restricted Investments at the Bank Of ND		-	-	-	27,426,827	27,426,827	-
Restricted Investments		17,722,000	15,826,444	-	6,498,203	40,046,647	-
Loans and Notes Receivable - Net		-	35,821,513	-	28,436,089	64,257,602	-
Restricted Loans Receivable - Net		612,146,000	-	-	65,813,000	677,959,000	-
Unamortized Bond Issuance Costs		8,281,000	1,140,086	-	1,179,000	10,600,086	-
Other Noncurrent Assets		-	6,550	-	868,980	875,530	-
Capital Assets:							
Land and Construction in Progress		-	28,714,236	4,148,158	550,933	33,413,327	-
Infrastructure - Net		-	74,390,350	-	1,604,099	75,994,449	-
Buildings and Equipment -Net		86,000	400,026,774	773,813	45,945,035	446,831,622	48,624,225
Total Noncurrent Assets		638,235,000	633,880,683	4,921,971	180,693,659	1,457,731,313	48,624,225
Bank Related Assets:							
Cash and Cash Equivalents	$ 498,381,000					498,381,000	
Investments	329,623,000					329,623,000	
Interest Receivable - Net	20,425,000					20,425,000	
Due from Other Funds	22,882,000					22,882,000	
Loans and Notes Receivable - Net	1,227,020,000					1,227,020,000	
Other Assets	5,145,000					5,145,000	
Capital Assets:							
Land and Construction in Progress	672,000					672,000	
Buildings and Equipment - Net	3,299,000					3,299,000	
Total Bank Related Assets	2,107,447,000				-	2,107,447,000	
Total Assets	2,107,447,000	807,316,000	772,396,273	1,048,608,164	484,875,572	5,220,643,009	63,741,176

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Bank of North Dakota	Housing Finance	University System	Workers Compensation	Other Enterprise Funds	Total	Internal Service Funds
LIABILITIES							
Current Liabilities:							
Accounts Payable		502,000	15,058,218	3,949,284	4,845,513	24,355,015	868,734
Accrued Payroll		-	7,008,071	-	162,158	7,170,229	1,108,687
Securities Lending Collateral		-	-	115,393,911	2,116,203	117,510,114	386,924
Interest Payable		19,481,000	1,117,690	-	922,242	21,520,932	2,631
Intergovernmental Payable		2,869,000	-	-	9,829,904	12,698,904	-
Due to Other Funds		1,981,000	12,092,615	46,076	20,466,585	34,586,276	3,206,720
Other Deposits		-	5,822,996	-	-	5,822,996	-
Amounts Held in Custody for Others		6,967,000	-	-	751,284	7,718,284	-
Claims/Judgments Payable		-	-	75,000,000	5,939,681	80,939,681	850,528
Compensated Absences Payable		82,000	903,759	52,510	29,983	1,068,252	55,097
Notes Payable		-	408,852	-	-	408,852	348,653
Capital Leases Payable		-	5,834,984	25,447	37,366	5,897,797	7,294
Bonds Payable		10,605,000	4,907,298	-	64,039,461	79,551,759	-
Deferred Revenue		77,000	12,158,173	41,861,328	894,723	54,991,224	69,684
Other Current Liabilities		-	153,477	-	413,452	566,929	-
Total Current Liabilities		42,564,000	65,466,133	236,328,556	110,448,555	454,807,244	6,904,952
Noncurrent Liabilities:							
Intergovernmental Payable		3,143,000	-	-	8,906,870	12,049,870	-
Claims/Judgments Payable		-	-	425,800,000	1,255,874	427,055,874	2,178,273
Compensated Absences Payable		54,000	14,805,751	472,585	751,454	16,083,790	1,063,440
Notes Payable		-	3,898,056	-	-	3,898,056	7,851
Capital Leases Payable		-	24,346,532	33,929	63,087	24,443,548	-
Bonds Payable		700,737,000	57,393,498	-	127,561,148	885,691,646	-
Other Noncurrent Liabilities		-	1,740,479	-	143,636	1,884,115	-
Total Noncurrent Liabilities		703,934,000	102,184,316	426,306,514	138,682,069	1,371,106,899	3,249,564
Bank Related Liabilities:							
Interest Payable	1,341,000					1,341,000	
Due to Other Funds	3,643,000					3,643,000	
Federal Funds Purchased	292,323,000					292,323,000	
Reverse Repurchase Agreements	23,390,000					23,390,000	
Deposits Held for Other Funds	752,993,000					752,993,000	
Other Deposits	455,608,000					455,608,000	
Other Liabilities	8,109,000					8,109,000	
Long Term Liabilities:							
Due within one year	26,488,000					26,488,000	
Due in more than one year	373,065,000					373,065,000	
Total Bank Related Liabilities	1,936,960,000					1,936,960,000	
Total Liabilities	1,936,960,000	746,498,000	167,650,449	662,635,070	249,130,624	3,762,874,143	10,154,516
NET ASSETS							
Invested in Capital Assets, Net of Related Debt	3,971,000	86,000	410,257,506	4,852,435	40,425,481	459,592,422	48,578,943
Restricted for:							
Capital Projects	-	-	10,049,019	-	18,444	10,067,463	-
Debt Service	-	27,441,000	10,448,844	-	47,414,946	85,304,790	-
Loan Purposes	-	-	44,443,500	-	-	44,443,500	-
Pledged Assets	92,046,000	-	-	-	815,570	92,861,570	-
Unemployment Compensation	-	-	-	-	48,126,922	48,126,922	-
Endowment Funds-Nonexpendable	-	-	12,125,737	-	-	12,125,737	-
Endowment Funds-Expendable	-	-	8,839,888	-	-	8,839,888	-
Other	-	8,687,000	-	-	-	8,687,000	-
Unrestricted	74,470,000	24,604,000	108,581,330	381,120,659	98,943,585	687,719,574	5,007,717
Total Net Assets	$ 170,487,000	$ 60,818,000	$ 604,745,824	$ 385,973,094	$ 235,744,948	$ 1,457,768,866	$ 53,586,660

Reconciliation of the Proprietary Funds Statement of Net Assets to the Statement of Net Assets

June 30, 2002

Total Net Assets - Enterprise Funds	$ 1,457,768,866
Amounts reported for business-type activities in the statement of net assets are different because:	
Prior year net assets restatement and reduction of current year expenses based on the allocation of internal service fund's net income	1,108,447
Net Assets of Business-Type Activities	$ 1,458,877,313

The Accompanying Notes are an Integral Part of the Financial Statements

STATE OF NORTH DAKOTA

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2002

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Bank of North Dakota	Housing Finance	University System	Workers Compensation	Other Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES							
Sales and Services	$ 8,644,000	$ 1,584,000	$ 64,216,072	$ 92,562,230	$ 142,625,051	$ 309,631,353	$ 56,361,773
Auxiliary Sales Pledged for Bonds	-	-	52,612,292	-	-	52,612,292	-
Tuition and Fees	-	-	105,568,946	-	-	105,568,946	-
Grants and Contributions	-	-	126,735,701	-	15,202,279	141,937,980	-
Royalties and Rents	-	-	-	-	7,820	7,820	-
Fines and Forfeits	-	-	-	1,605,197	-	1,605,197	-
Interest and Investment Income	114,671,000	49,766,000	-	-	8,053,975	172,490,975	-
Miscellaneous	-	-	842,469	-	62,079	904,548	197,118
Total Operating Revenues	123,315,000	51,350,000	349,975,480	94,167,427	165,951,204	784,759,111	56,558,891
OPERATING EXPENSES							
Cost of Sales and Services	-	-	35,436,825	-	76,986,989	112,423,814	1,202,504
Salaries and Benefits	7,179,000	-	347,630,078	-	4,020,116	358,829,194	13,779,074
Operating	9,227,000	5,093,000	142,975,820	11,663,862	13,060,359	182,020,041	26,848,116
Claims	-	-	-	59,676,037	55,992,675	115,668,712	2,014,530
Refunds	-	-	-	-	504	504	-
Scholarships and Fellowships	-	-	23,484,682	-	-	23,484,682	-
Interest	72,840,000	41,392,000	-	-	5,501,770	119,733,770	-
Depreciation	831,000	52,000	32,377,317	270,519	2,317,192	35,848,028	8,172,396
Miscellaneous	-	-	-	-	4,094	4,094	-
Total Operating Expenses	90,077,000	46,537,000	581,904,722	71,610,418	157,883,699	948,012,839	52,016,620
Operating Income (Loss)	33,238,000	4,813,000	(231,929,242)	22,557,009	8,067,505	(163,253,728)	4,542,271
NONOPERATING REVENUES (EXPENSES)							
Grants and Contracts	-	-	4,176,277	-	283,843	4,460,120	-
Gifts	-	-	13,601,789	-	-	13,601,789	-
Interest and Investment Income	-	15,384,000	4,505,802	(8,614,191)	8,799,786	20,075,397	(34,146)
Interest Expense	-	(12,963,000)	(3,490,222)	(6,451,741)	(586,364)	(23,491,327)	(68,719)
Loss on Sale of Capital Assets	-	(2,000)	(2,941,423)	-	(263,654)	(3,207,077)	(534,128)
Other	-	-	6,675,241	-	(228,068)	6,447,173	2,108
Total Nonoperating Revenues (Expenses)	-	2,419,000	22,527,464	(15,065,932)	8,005,543	17,886,075	(634,885)
Income (Loss) Before Contributions and Transfers	33,238,000	7,232,000	(209,401,778)	7,491,077	16,073,048	(145,367,653)	3,907,386
Capital Grants and Contributions	-	-	6,483,747	-	-	6,483,747	-
Transfers In	12,000	-	213,864,972	-	4,592,500	218,469,472	600,275
Transfer Out	(15,541,000)	(24,000)	(4,276,675)	(150,000)	(10,167,902)	(30,159,577)	-
Change in Net Assets	17,709,000	7,208,000	6,670,266	7,341,077	10,497,646	49,425,989	4,507,661
Total Net Assets - Beginning of Year, as Adjusted	152,778,000	53,610,000	598,075,558	378,632,017	225,247,302	1,408,342,877	49,078,999
Total Net Assets - End of Year	$ 170,487,000	$ 60,818,000	$ 604,745,824	$ 385,973,094	$ 235,744,948	$ 1,457,768,866	$ 53,586,660

Reconciliation of Statement of Revenues, Expenses and Changes in Fund Net Assets of Proprietary Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2002

Net Change in Net Assets-Total Enterprise Funds	$ 49,425,989
Amounts reported for business-type activities in the statement of activities are different because	
Expenses were reduced based on the allocation of internal service fund's net incom	574,982
Change in Net Assets of Business-Type Activities	$ 50,000,971

Continued On Next Page

Statement Of Cash Flows
Proprietary Funds
For The Fiscal Year Ended June 30, 2002

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Bank Of North Dakota	Housing Finance	University System	Workers Compensation	Other Enterprise Funds	Total	Internal Service Funds
Cash Flows From Operating Activities:							
Receipts From Customers and Users	$ 9,997,000	$ 129,396,000	$ 116,746,731	$ 103,560,693	$ 285,702,295	$ 645,402,719	$ 56,919,309
Receipts From Tuition and Fees	-	-	101,972,524	-	-	101,972,524	-
Interest Income on Loans	-	-	-	-	621,222	621,222	-
Receipts From Loan Principal Repayments	-	-	7,974,332	-	12,470,057	20,444,389	-
Receipts From Federal And Local Agencies	-	-	6,074,895	-	-	6,074,895	25
Receipts From Other Funds	-	-	-	-	455	455	94,327
Receipts From Grants and Contracts	-	-	123,187,823	-	-	123,187,823	-
Reed Act Distribution	-	-	-	-	15,267,835	15,267,835	-
Receipts From Others	-	-	3,008,569	-	59,512	3,068,081	76,848
Payments For Loan Funds	-	-	(8,174,177)	-	(10,302,155)	(18,476,332)	-
Payments To Other Funds	-	-	-	-	(5,782)	(5,782)	-
Payments For Scholarships and Fellowships	-	-	(23,180,782)	-	-	(23,180,782)	-
Payments To Suppliers	(4,612,000)	(103,654,000)	(178,125,747)	(89,547,660)	(284,834,791)	(660,774,198)	(29,642,751)
Payments To Employees	(7,157,000)	(1,622,000)	(344,903,107)	(7,528,644)	(8,973,008)	(370,183,759)	(12,763,239)
Payments To Others	-	(2,877,000)	-	(6,947,558)	(4,598)	(9,829,156)	(394,052)
Net Cash Provided By (Used For) Operating Activities	(1,772,000)	21,243,000	(195,418,939)	(463,169)	10,001,042	(166,410,066)	14,290,467
Cash Flows From Noncapital Financing Activities:							
Proceeds From Bonds	-	77,056,000	-	-	-	77,056,000	-
Proceeds From Sale Of Notes And Other Borrowings	151,141,000	-	-	-	-	151,141,000	1,000,000
Principal Payments - Bonds	-	-	-	-	(27,082,000)	(27,082,000)	-
Principal Payments - Notes And Other Borrowings	(6,027,000)	(207,465,000)	-	-	-	(213,492,000)	(2,313,453)
Interest Payments - Bonds	-	(46,450,000)	-	-	(5,430,000)	(51,880,000)	-
Interest Payments - Notes And Other Borrowings	(19,479,000)	-	-	-	(279,770)	(19,758,770)	(45,350)
Payment Of Bond Issue Costs	-	(921,000)	-	-	-	(921,000)	-
Operating Transfers In	-	-	-	-	4,892,500	4,892,500	600,275
Operating Transfers Out	(50,036,000)	(24,000)	-	(150,000)	(1,167,902)	(51,377,902)	-
Net Increase In Non-Interest Bearing Deposits	62,884,000	-	-	-	-	62,884,000	-
Net Increase (Decrease) In Interest Bearing Deposits	10,469,000	-	-	-	-	10,469,000	-
Payments Of Interest On Deposits	(45,673,000)	-	-	-	-	(45,673,000)	-
Interest Paid On Federal Funds And Reverse Repurchase Agreements	(10,396,000)	-	-	-	-	(10,396,000)	-
Net Increase In Federal Funds And Reverse Repurchase Agreements	100,641,000	-	-	-	-	100,641,000	-
Proceeds From Due From Primary Government	483,000	-	2,500,000	-	75,000	3,058,000	-
Collection Of Due To Primary Government	(483,000)	-	-	-	(797,474)	(1,280,474)	-
Grants Received	-	-	12,277,790	-	283,843	12,561,633	-
State Appropriations	-	-	214,619,560	-	-	214,619,560	-
Agency Fund Cash Increase	-	-	3,306,547	-	-	3,306,547	-
Cash Received On Deposits	-	-	91,353	-	-	91,353	-
Cash Paid On Deposits	-	-	(1,936,417)	-	-	(1,936,417)	-
Other	-	-	2,118,213	-	-	2,118,213	-
Net Cash Provided By (Used For) Noncapital Financing Activities	193,524,000	(177,804,000)	232,977,046	(150,000)	(29,505,803)	219,041,243	(758,528)
Cash Flows From Capital And Related Financing Activities:							
Acquisition And Construction Of Capital Assets	(1,158,000)	(12,000)	(42,008,364)	(2,991,034)	(2,714,141)	(48,883,539)	(13,051,352)
Proceeds From Sale Of Capital Assets	-	4,000	56,451	-	14,867	75,318	1,945,422
Proceeds From Sale Of Notes And Other Borrowings	-	-	19,991,081	-	20,900,000	40,891,081	-
Principal Payments - Bonds	-	-	-	-	(195,000)	(195,000)	-
Principal Payments - Notes And Other Borrowings	-	-	(15,509,175)	-	(22,208,426)	(37,717,601)	-
Interest Payments - Bonds	-	-	-	-	(133,335)	(133,335)	-
Interest Payments - Notes And Other Borrowings	-	-	(3,249,608)	-	(319,947)	(3,569,555)	-
Capital Appropriations	-	-	6,783,968	-	-	6,783,968	-
Payment On Capital Leases	-	-	-	-	(43,590)	(43,590)	(35,364)
Interest Payments - Capital Leases	-	-	-	-	-	-	(1,598)
Other	-	-	-	-	(137,484)	(137,484)	-
Payment Of Bond Discounts	-	-	(170,218)	-	-	(170,218)	-
Operating Transfers In From Other Funds	-	-	1,466,206	-	-	1,466,206	-
Operating Transfers (Out) To Other Funds	-	-	(4,276,675)	-	-	(4,276,675)	-
Capital Grants and Gifts Received	-	-	5,214,392	-	-	5,214,392	-
Insurance Proceeds	-	-	4,828,667	-	-	4,828,667	-
Net Cash Used For Capital And Related Financing Activities	(1,158,000)	(8,000)	(26,873,275)	(2,991,034)	(4,837,056)	(35,867,365)	(11,142,892)

STATE OF NORTH DAKOTA

Statement Of Cash Flows
Proprietary Funds (Continued)
For The Fiscal Year Ended June 30, 2002

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Bank Of North Dakota	Housing Finance	University System	Workers Compensation	Other Enterprise Funds	Total	Internal Service Funds
Cash Flows From Investing Activities:							
Proceeds From Sale And Maturities Of Investment Securities	529,408,000	6,976,000	54,829,544	19,000,000	309,115,722	919,329,266	41,502
Purchase Of Investment Securities	(667,258,000)	-	(48,703,082)	(15,500,000)	(329,437,614)	(1,060,898,696)	-
Interest And Dividends On Investments	27,453,000	2,423,000	5,573,444	-	11,313,610	46,763,054	125,956
Net Increase In Loans	(117,338,000)	-	-	-	-	(117,338,000)	-
Disbursements For Loans And Loan Purchases	-	-	-	-	(815,000)	(815,000)	-
Receipt Of Loan Principal Repayments	-	-	-	-	1,303,104	1,303,104	-
Loan Income Received	91,417,000	-	-	-	901,240	92,318,240	-
Other	-	-	-	-	2,537	2,537	-
Net Cash Provided By (Used For) Investing Activities	(136,318,000)	9,399,000	11,699,906	3,500,000	(7,616,401)	(119,335,495)	167,458
Net Change In Cash:							
Net Increase (Decrease) In Cash And Cash Equivalents	54,276,000	(147,170,000)	22,384,738	(104,203)	(31,958,218)	(102,571,683)	2,556,505
Cash And Cash Equivalents At June 30, 2001	444,105,000	285,753,000	38,266,887	853,942	123,359,824	892,338,653	3,744,287
Cash And Cash Equivalents At June 30, 2002	$ 498,381,000	$ 138,583,000	$ 60,651,625	$ 749,739	$ 91,401,606	$ 789,766,970	$ 6,300,792
Reconciliation:							
Current:							
Cash Deposits At The Bank Of North Dakota	$ -	$ 930,000	$ 55,274,443	$ 749,739	$ 17,181,848	$ 74,136,030	$ 6,285,213
Cash And Cash Equivalents	498,381,000	26,000	858,575	-	39,421,265	538,686,840	15,579
Restricted Cash Deposits At The Bank Of North Dakota	-	6,967,000	-	-	32,427,000	39,394,000	-
Restricted Cash And Cash Equivalents	-	130,660,000	-	-	-	130,660,000	-
Noncurrent:							
Restricted Cash Deposits At The Bank Of North Dakota	-	-	-	-	2,353,000	2,353,000	-
Restricted Cash And Cash Equivalents	-	-	4,568,607	-	18,493	4,587,100	-
Cash And Cash Equivalents	$ 498,381,000	$ 138,583,000	$ 60,701,625	$ 749,739	$ 91,401,606	$ 789,816,970	$ 6,300,792
Reconciliation Of Operating Income (Loss) To Net Cash Provided (Used For) Operating Activities:							
Operating Income (Loss)	$ 33,238,000	$ 4,813,000	$ (231,929,242)	$ 22,557,009	$ 8,067,505	$ (163,253,728)	$ 4,542,271
Adjustments To Reconcile Operating Income To Net Cash Provided By Operating Activities:							
Depreciation	831,000	52,000	32,377,317	270,519	2,317,192	35,848,028	8,172,396
Amortization\Accretion	-	870,000	25,929	-	1,351,000	2,246,929	305,775
Reclassification Of Interest Revenue\Expense	(41,401,000)	409,000	-	-	(3,735,853)	(44,727,853)	-
Net Depreciation In Fair Value Of Investments	(430,000)	(547,000)	-	-	(166,000)	(1,143,000)	-
Interest Received On Program Loans	-	41,144,000	-	-	5,341,000	46,485,000	-
Disbursements For Loans And Loan Purchases	-	(98,733,000)	-	-	(23,614,000)	(122,347,000)	-
Receipt Of Loan Principal Repayments	-	75,721,000	-	-	19,091,000	94,812,000	-
Provision For Losses	2,700,000	-	1,030,830	-	84,400	3,815,230	-
Premiums Collected	-	-	-	-	103,244,660	103,244,660	-
Premiums Paid	-	-	-	-	(103,244,660)	(103,244,660)	-
Other	1,000	(2,383,000)	555,570	-	-	(1,826,430)	-
Change In Assets And Liabilities:							
(Increase) Decrease In Accounts Receivable	-	(129,000)	(3,099,739)	4,071,070	(1,675,270)	(832,939)	193,220
Increase In Interest Receivable	-	-	-	-	61,495	61,495	-
(Increase) Decrease In Due From	(19,000)	13,000	-	-	(13,501)	(19,501)	298,465
Increase In Due From Fiduciary Funds	-	-	-	-	(14,234)	(14,234)	-
(Increase) Decrease In Intergovernmental Receivable	-	(140,000)	-	-	1,040,801	900,801	(11,415)
Decrease In Notes Receivable	-	-	-	-	255,214	255,214	-
(Increase) Decrease In Prepaid Items	-	-	-	145,812	(29,269)	116,543	6,728
Increase In Inventories	-	-	(171,285)	-	(90,264)	(261,549)	(14,768)
Increase (Decrease) In Other Assets	1,230,000	-	1,275,019	-	-	2,505,019	(624,937)
Increase (Decrease) In Accounts Payable	-	(799,000)	140,336	(9,821,973)	617,405	(9,863,232)	88,166
Increase (Decrease) In Claims\Judgements Payable	-	-	-	(14,200,000)	533,459	(13,666,541)	935,801
Increase (Decrease) In Intergovernmental Payable	-	(108,000)	-	-	(434,222)	(542,222)	14,788
Increase In Accrued Payroll	-	-	-	-	287,049	287,049	134,657
Increase In Compensated Absences Payable	-	-	803,192	68,929	65,429	937,550	97,113
Increase (Decrease) In Amounts Held For Others	-	1,078,000	-	-	(10,058)	1,067,942	-
Increase (Decrease) In Other Deposits	-	-	(66,999)	-	-	(66,999)	-
Increase (Decrease) In Due To Other Funds	(57,000)	(6,000)	-	1,903	159,083	97,986	100,747
Increase (Decrease) In Deferred Revenue	-	(12,000)	4,260,945	(3,625,974)	470,174	1,093,145	51,460
Increase (Decrease) In Other Liabilities	2,135,000	-	(620,812)	69,536	41,507	1,625,231	-
Total Adjustments	(35,010,000)	16,430,000	36,510,303	(23,020,178)	1,933,537	(3,156,338)	9,748,196
Net Cash Provided By (Used For) Operating Activities	$ (1,772,000)	$ 21,243,000	$ (195,418,939)	$ (463,169)	$ 10,001,042	$ (166,410,066)	$ 14,290,467
Noncash Transactions:							
Net Decrease In Fair Value Of Investments	$ -	$ -	$ -	$ (48,135,159)	$ (1,075,159)	$ (49,210,318)	$ (185,588)
Change In Securities Lending Collateral	-	-	-	(45,812,802)	(1,253,121)	(47,065,923)	(169,361)
Acquisition Of Equipment Under Capital Lease	-	-	11,850,139	82,340	-	11,932,479	-
Interest On Investments	-	-	-	33,069,227	-	33,069,227	-
Amortization Of Bond Discount	-	-	-	-	5,539	5,539	-
Like Kind Exchange Of Capital Asset	-	-	4,000,000	-	-	4,000,000	-
Total Noncash Transactions	$ -	$ -	$ 15,850,139	$ (60,796,394)	$ (2,322,741)	$ (47,268,996)	$ (354,949)

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2002

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private Purpose Trust Funds	Agency Funds
ASSETS				
Cash Deposits at the Bank of ND	$ 8,594,959	$ 56,566	$ 91,745	$ 7,786,599
Cash and Cash Equivalents	-	-	266,605	1,959,213
Receivables:				
Contributions Receivable	9,121,741	-	-	-
Interest Receivable - Net	7,832,399	26,328	46	-
Accounts Receivable-Net	350,470	-	84,305	6,121,278
Taxes Receivable-Net	-	-	-	10,211,316
Due from Other Funds	104,590	-	-	247
			-	
Total Receivables	17,409,200	26,328	84,351	16,332,841
Investments, at Fair Value:				
Investments at the Bank of ND	28,475,229	507,439	18,208	7,971,940
Equity Pool	1,327,111,682	15,632,535	1,345,399	-
Fixed Income	67,133,019	-	807,407	2,359,523
Fixed Income Pool	628,526,286	15,059,367	-	-
Cash and Cash Pool	33,433,624	249,942	276,108	-
Guaranteed Investment Contract	4,280,410	-	-	-
Real Estate Pool	161,853,493	1,231,376	-	-
Private Equity	72,072,337	466,777	-	-
Annuties	250,723	-	-	
Mutual Funds	8,395,972	-	-	-
Total Investments	2,331,532,775	33,147,436	2,447,122	10,331,463
Invested Securities Lending Collateral	137,685,969	2,579,413	-	-
Capital Assets (Net of Depreciation)	47,928	-	-	-
Other Assets	-	-	-	136,467
Total Assets	2,495,270,831	35,809,743	2,889,823	$ 36,546,583
LIABILITIES				
Accrued Payroll	55,960	-	-	-
Accounts Payable	2,133,757	71,733	413,570	191,893
Intergovernmental Payable	-	-	-	21,097,519
Securities Lending Collateral	137,685,969	2,579,413	-	-
Amounts Held in Custody for Others	-	-	-	15,257,170
Compensated Absences Payable	59,319	-	-	-
Capital Leases Payable	42,190	-	-	-
Due to Other Funds	156,887	-	-	1
Total Liabilities	140,134,082	2,651,146	413,570	$ 36,546,583
NET ASSETS				
Net Assets Held in Trust for:				
Pension Benefits	2,354,333,332	-	-	
Other Employee Benefits	803,417	-	-	
External Investment Pool Participants	-	33,158,597	-	
Other Purposes	-	-	2,476,253	
Total Net Assets Held in Trust	$ 2,355,136,749	$ 33,158,597	$ 2,476,253	

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2002

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private Purpose Trust Funds
ADDITIONS			
Contributions:			
Employer	$ 51,373,424	$ -	$ -
Employee	53,767,156	-	-
From Participants	-	-	2,305,617
Transfers from Other Funds	239,939	-	-
Transfers from Other Plans	138,275	-	-
Donations	-	-	7,050
Total Contributions	105,518,794	-	2,312,667
Investment Income:			
Net Increase (Decrease) in Fair Value of Investments	(261,649,761)	(3,416,883)	17,860
Interest and Dividends	71,070,114	1,250,759	9,377
Less Investment Expense	8,343,898	119,521	-
Net Investment Income	(198,923,545)	(2,285,645)	27,237
Securities Lending Activity:			
Securities Lending Income	3,617,432	75,743	-
Less Securities Lending Expense	3,144,937	67,441	-
Net Securities Lending Income	472,495	8,302	-
Repurchase Service Credit	1,135,635	-	-
Miscellaneous Income	431,533	-	-
Total Additions	(91,365,088)	(2,277,343)	2,339,904
DEDUCTIONS			
Benefits Paid to Participants	116,911,651	-	5,438
Refunds	5,999,269	-	1,537
Prefunded Credit Applied	3,759,567	-	-
Transfers to Other Plans	626,362	-	-
Administrative Expenses	2,580,242	-	-
Total Deductions	129,877,091	-	6,975
Change in Net Assets Held in Trust for:			
Pension Benefits	(221,325,566)	-	-
Other Employee Benefits	83,387	-	-
External Investment Pool Participants	-	(2,277,343)	-
Other Purposes	-	-	2,332,929
Net Assets--Beginning of Year	2,576,378,928	35,435,940	143,324
Net Assets--End of Year	$ 2,355,136,749	$ 33,158,597	$ 2,476,253

Combining Statement of Net Assets
Component Units - Proprietary Funds
June 30, 2002

	CHAND	Municipal Bond Bank	Non-Major	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 302,589	$ 1,677,000	$ 11,505,146	$ 13,484,735
Investments	-	-	2,935,504	2,935,504
Accounts Receivable - Net	37,973	-	356,933	394,906
Interest Receivable - Net	-	-	155,702	155,702
Due from Primary Government	-	-	124,014	124,014
Inventories	-	-	47,531	47,531
Loans and Notes Receivable - Net	-	-	2,287,188	2,287,188
Other Current Assets	-	-	31,545	31,545
Restricted Cash and Cash Equivalents	-	3,011,000	307,877	3,318,877
Restricted Investments	-	12,038,000	-	12,038,000
Restricted Interest Receivable-Net	-	2,870,000	-	2,870,000
Total Current Assets	340,562	19,596,000	17,751,440	37,688,002
Noncurrent Assets:				
Investments		-	2,237,165	2,237,165
Restricted Investments	-	248,429,000	-	248,429,000
Loans and Notes Receivable - Net	-	-	5,967,282	5,967,282
Unamortized Bond Issuance Costs	-	1,372,000	227,373	1,599,373
Capital Assets:				
Land and Construction in Progress	-	-	1,157,462	1,157,462
Infrastructure - Net	-	-	506,979	506,979
Buildings and Equipment -Net	-	-	11,263,823	11,263,823
Total Noncurrent Assets	-	249,801,000	21,360,084	271,161,084
Total Assets	340,562	269,397,000	39,111,524	308,849,086
LIABILITIES				
Current Liabilities:				
Accounts Payable	104,188	6,000	1,139,779	1,249,967
Interest Payable		1,919,000	86,861	2,005,861
Due to Primary Government	-	-	7,692	7,692
Claims/Judgments Payable	1,125,000	-	-	1,125,000
Compensated Absences Payable	-	-	119,935	119,935
Notes Payable			1,425,193	1,425,193
Bonds Payable	-	7,040,000	195,000	7,235,000
Deferred Revenue	117,308	-	400,963	518,271
Other Current Liabilities	-	-	51,000	51,000
Total Current Liabilities	1,346,496	8,965,000	3,426,423	13,737,919
Noncurrent Liabilities:				
Intergovernmental Payable	-	822,000	-	822,000
Notes Payable	-	8,485,000	1,458,763	9,943,763
Bonds Payable	-	137,190,000	6,305,000	143,495,000
Other Noncurrent Liabilities	-	-	366,215	366,215
Total Noncurrent Liabilities	-	146,497,000	8,129,978	154,626,978
Total Liabilities	1,346,496	155,462,000	11,556,401	168,364,897
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	-	-	3,127,093	3,127,093
Restricted for:				
Debt Service	-	38,737,000	-	38,737,000
Loan Purposes	-	73,527,000	-	73,527,000
Other	-	-	3,345,605	3,345,605
Unrestricted	(1,005,934)	1,671,000	21,082,425	21,747,491
Total Net Assets	$ (1,005,934)	$ 113,935,000	$ 27,555,123	$ 140,484,189

STATE OF NORTH DAKOTA

Combining Statement of Activities
Component Units-Proprietary Funds
For the Fiscal Year Ended June 30, 2002

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue
CHAND	$ 6,233,268	$ 3,581,799	$ 37,162	$ (2,614,307)
Municipal Bond Bank	10,278,000	561,000	31,006,000	21,289,000
Nonmajor Component Units	7,791,930	7,235,156	3,814,660	3,257,886
Total Component Units	$ 24,303,198	$ 11,377,955	$ 34,857,822	21,932,579

General Revenues:	
Payment from State of North Dakota	1,175,000
Total General Revenues	1,175,000
Change in Net Assets	23,107,579
Net Assets, Beginning of Year	117,376,610
Net Assets, Ending	$ 140,484,189

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NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2002

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 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, 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 UNITS

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.

- Building Authority (Debt Service Fund and Capital Projects Fund) - 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, 2002, and their report dated August 16, 2002, has been previously issued under a separate cover.

- The North Dakota University System Foundation is considered a blended component unit. Although it is a legally separate non-profit 501(c)(3) organization from the North Dakota University System, the North Dakota University System Foundation is reported as if it were part of the primary government because its sole purpose is to support the North Dakota University System. The members of the State Board of Higher Education serve as the Board of Trustees for the North Dakota University System Foundation. The financial information of the Foundation is on the Higher Education computer network and, as such, is subject to audit by the North Dakota State Auditor's Office.

- The NDSU Research Foundation is considered a blended component unit. Although it is a legally separate, not-for-profit 501(c)(3) organization from the North Dakota University System, the NDSU Research Foundation is reported as if it were part of the primary government because its sole purpose is to provide support to NDSU in its missions by enabling NDSU faculty to enhance their involvement in research, technology transfer, and business endeavors. Through linkages with public and private businesses and industries, the Foundation facilitates the commercialization of research technologies developed by NDSU faculty and staff. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2002, and their report dated August 2, 2002, has been previously issued under a separate cover.

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 government-wide 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, 2001, and their report dated February 15, 2002, 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, 2001, and their report dated February 7, 2002, 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. A board of directors consisting of eight members, all of whom are appointed by the governor, manages the corporation. 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, 2002, and their report dated August 21, 2002, has been previously issued under a separate cover.

- The NDSU Research and Technology Park, Inc., is a nonprofit organization developed to promote an economic environment dedicated to applied research and technology discovery for the benefit of NDSU, its faculty and staff, students, and the citizens of North Dakota. Its facilities are located on the campus of NDSU in Fargo, North Dakota. The organization was established in 1999 and is exempt from federal and state income taxes as it is organized under Section 501(c)(3) of the Internal Revenue Code. The majority of the Park's board of directors (six of nine) consists of people who work in private industry. Vacancies are filled by a majority vote of the board. Officers of NDSU fill three of the nine positions on the Park's board. The president of NDSU serves as president of the board of directors. The status of the Park as a discretely presented component unit is primarily due to the control by the NDSU president over the final building plans for any new building at the Park. This control is based on feedback from the Legislative Budget Section and is required by the land lease between the State Board of Higher Education and the Park, as well as NDUS policy. The Park was audited by other independent auditors for the fiscal year ended June 30, 2002, and their report dated July 25, 2002, has been previously issued under separate cover.

- The UND Aerospace Foundation is a North Dakota nonprofit organization organized in 1985 to encourage and develop the University of North Dakota's John D. Odegard School of Aerospace Sciences. The Foundation's principal activities consist of developing and conducting training programs, research and development, and consulting services related to the aerospace industry. The Foundation is managed by a board of directors consisting of five to seven members, including two or more persons who are active in the aerospace industry and/or graduates of UND with an interest in the aerospace industry, elected by the board; a senior manager of the Foundation, elected by the board; the dean of the Odegard School of Aerospace Sciences; and the president of the University. The Foundation benefits the University, financially and otherwise, through its promotion of the Odegard School and its programs and in the sharing of resources. The Foundation is reported as a discretely presented component unit as UND has voting members on the board of directors and because of the extent of the financial relationship between the entities. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2002, and their report dated August 23, 2002, has been previously issued under separate cover.

- The UND Center for Innovation Foundation is a North Dakota nonprofit organization organized in 1991 to engage in all types of activities relating directly or indirectly to supplying educational data and services to entrepreneurs, manufacturers, and emerging industries and to encourage and develop the Center for Innovation as it relates to the overall objectives of UND. The Foundation is managed by a board of directors of at least five voting members elected by the board and four ex-officio non-voting members: UND's president, vice president for Finance and Operations, dean of the College of Business and Public Administration, and the director of the Center for Innovation. The Foundation benefits the University, financially and otherwise, through its promotion of the College of Business and Public Administration and its Center for Innovation. Previously the Foundation was reported as a blended component unit, as the University held the majority of voting members on the board of directors. Recent changes in the board have removed the need for blended component reporting. The foundation is reported as a discretely presented component unit in this reporting period as the

Foundation implements changes in governance while it continues to enhance the University. The financial information of the foundation is on the Higher Education computer network and as such is subject to audit by the North Dakota State Auditor's Office.

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 Ave., 10^{th} Floor
Bismarck, ND 58505-0310

North Dakota University System Foundation
600 E. Boulevard Ave., Dept. 215
Bismarck, ND 58505-0230

North Dakota State University Research Foundation
P.O. Box 5014
Fargo, ND 58105-5014

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

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

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

North Dakota State University Research and Technology Park, Inc.
P.O. Box 5014
Fargo, ND 58105-5014

University of North Dakota Aerospace Foundation
P.O. Box 9023
Grand Forks, ND 58202-9023

University of North Dakota Center for Innovation Foundation
P.O. Box 8372
Grand Forks, ND 58202-8372

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities.

Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. Net assets restricted by enabling legislation are subject to change by a majority vote of the Legislative Assembly.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue.

FUND FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide statements are reported using the economic resources management focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

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's enterprise funds, 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.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liablities of the current period.

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. All revenues are determined to be available if collected within one year of fiscal year end. 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 a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments, are recorded only when payment is due and payable.

FINANCIAL STATEMENT PRESENTATION

The State reports the following major governmental funds:

The 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. Included are transactions for services such as education, general government, health services, legal and judiciary, natural resources, public safety, regulatory services, agriculture and commerce, and social services.

The Federal Fund accounts for all the financial resources from the federal government.

The School Permanent Trust Fund accounts for moneys belonging to common schools and other public institutions derived from the sale of, or leasing of lands owned by the State.

The State reports the following major enterprise funds:

The Bank of North Dakota Fund finances economic development throughout the state, participates in loans with North Dakota financial institutions and holds interest-bearing deposit accounts for state and political subdivisions of North Dakota.

The Housing Finance Agency Fund is authorized to issue bonds to make loans to mortgage lenders for qualified residential mortgage loans and to make mortgage and construction loans for multi-family housing within the State of North Dakota.

The University System Fund accounts for all financial transactions of the colleges and universities that compose the University System of North Dakota.

The Workers Compensation Fund is financed entirely by premiums assessed to the employers of North Dakota and provides no-fault medical and disability insurance to all North Dakota employees.

Additionally, the State reports the following fund types:

GOVERNMENTAL FUND TYPES:

Special Revenue Funds account for specific revenue sources that are legally restricted to expenditures for specified purposes. Examples include transportation, regulatory, and other activities.

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.

Permanent Funds report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry, such as the common schools within the state.

PROPRIETARY FUND TYPES

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. The State's loan programs, Mill and Elevator, and Fair are reported in this type.

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. These goods and services include motor pool services; printing, reproduction and mailing services; information technology; risk management; and investment administration services. In the government-wide statements, internal service funds are included with governmental activities.

FIDUCIARY FUND TYPES

Pension and Other Employee Benefits Trust Funds account for resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit pension plans, defined contribution plan, deferred compensation plan, flexcomp plan, and other post-employment benefit plans.

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) provides administrative services for 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.

Private Purpose Trust Funds account for resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. Examples include student donations and the State's college savings plan.

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.

D. GENERAL BUDGETARY POLICIES AND PROCEDURES

The State operates through a biennial appropriation that 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. The Legislature has also passed appropriation laws that authorize directors of certain 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 and the University System's unexpended general fund appropriation authority.

The State's biennial budget is prepared primarily on a cash basis. The State does not use encumbrance accounting. The legal level of budgetary control is at the agency, appropriation, funding source 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 authorizes General Fund appropriation authority by agency and Other Budgeted Income appropriation authority by agency. Other budgeted income includes all budgeted resources, other than the General Fund, and includes some governmental, proprietary, and fiduciary fund activities.

During 2002, the first year of the 2001-2003 biennium, there were general fund supplemental appropriations of $7,871,198.

E. 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 on the fund balance sheets 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 fund balance sheets as "Cash Deposits At The Bank Of North Dakota". For purposes of the Government-wide Statement of Net Assets, these amounts have been reclassified to internal balances.

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 Government-wide Statement of Net Assets as "Cash And Cash Equivalents".

The State had no cash overdrafts from pooled cash and investments at June 30, 2002.

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.

F. 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. The Fund’s Board of Directors estimates these values. 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 $1,650,749 at June 30, 2002. 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 on the fund balance sheets 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 fund balance sheets as "Investments At The Bank Of North Dakota.” For purposes of the Government-wide Statement of Net Assets, these amounts have been reclassified to internal balances.

Investments. State agency investments invested at financial institutions other than the Bank of North Dakota are included on the Government-wide Statement of Net Assets as "Investments.”

Differences on the Fund Balance Sheets 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.

G. 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 ninety-four days; however, the average term of loans for the Land Department is sixty-three 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 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.

H. INTERFUND ACTIVITY AND BALANCES

INTERFUND ACTIVITY

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets (such as goods or cash) without equivalent flows of assets in return or a requirement for repayment. Residual transfer amounts exist in the Government-wide Statement of Activities due to different fiscal year ends of various agencies included in business-type activities.

INTERFUND BALANCES

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

I. 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.

Federal fund inventories of commodities and vaccines totaling $2,786,617 are recorded as inventory and deferred revenue on the Government-wide Statement of Net Assets.

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

All other government fund inventories are reflected as a reservation of fund balance on the balance sheet.

J. 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.

K. CAPITAL ASSETS

Capital assets, which include land, buildings, equipment, construction in progress and infrastructure assets, are valued at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital 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 capital assets except for the University System.

All other capital assets with an original cost of $5,000 ($100,000 or more for infrastructure reported by the Department of Transportation) or more per unit and an estimated useful life in excess of one year are capitalized and reported in the applicable government or business-type activities columns in the government-wide financial statements. Capital asset costs include the purchase price or construction cost, plus the costs necessary to place the asset in its intended location and condition for use. In governmental activities, interest costs on self-constructed assets are not capitalized. In business-type activities, interest costs (if material) on self-constructed assets are also 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.

Collections of works of art and historical treasures are not capitalized if the following three criteria are met: (1) Held for public exhibition, education, or research in furtherance of public service, rather than financial gain; (2) Protected, kept unencumbered, cared for, and preserved; (3) Subject to organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The State's non-capitalized collections include the historical artifacts at the various state museums and historical sites, and monuments and other art throughout the capital grounds. Assets that do not meet all three criteria, or that were capitalized as of June 30, 1999, are capitalized and included in the government-wide financial statements.

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 reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Department of Transportation uses the first-in first-out method to remove the capitalized cost of a replaced road along with corresponding accumulated depreciation.

Fixed assets in Governmental Funds are recorded as expenditures in the funds used to acquire or construct them in the governmental fund financial statements. Capital assets, along with accumulated depreciation and depreciation expense are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Land and construction in progress are not depreciated. With the exception of infrastructure reported by the Department of Transportation (which uses the composite method), other capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	10-50
Infrastructure	10-50
Furniture and Furnishings	3-10
Office Equipment	3-10
Automobiles	3-5
Heavy Equipment	6-20
Other Equipment	3-15

L. 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.

M. 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.

N. 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.

O. 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.

The governmental fund financial statements recognize annual leave when the liability is incurred and payable from available expendable resources. The government-wide financial statements present the cost of accumulated annual leave as a liability. Proprietary and Fiduciary 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. The governmental fund financial statements recognize sick leave as it is incurred. The government-wide financial statements present the cost of the vested sick leave as a liability.

P. DEPOSITS

The following two liability line items are presented in the Government-wide Statement of Net Assets and/or fund financial statements:

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 and shown on the fund financial statements. For purposes of the Government-wide Statement of Net Assets, these amounts have been reclassified to internal balances.

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 fund balance sheets 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.

Q. DEFERRED REVENUE

In the government-wide statements and proprietary fund financial statements, deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable.

R. REVENUES AND EXPENDITURES/EXPENSES

In the Government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function for governmental activities (e.g. general government, education, health and human services, etc.). Additionally, revenues are classified between program and general revenues. Program revenues include 1) charges to customers or applicants for goods or services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either “general purpose” or “restricted”. General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g. federal grants), available only for specified purposes. Unused restricted revenues at year-end are recorded as reservations of fund balance. When both general purpose and restricted funds are available for use, it is the State’s policy to use restricted resources first.

In the governmental fund financial statements, expenditures are reported by character: “Current,” “Intergovernmental-revenue Sharing,” “Capital Outlay,” or “Debt Service.” Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services.

Capital outlay includes expenditures for real property or infrastructure (e.g. highways). Intergovernmental-revenue sharing accounts for the distribution of certain tax revenues that are shared with local units based upon constitutional and statutory requirements. Debt service includes both interest and principal outlays related to bonds and payments on capitalized leases.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g. salaries, depreciation, and purchases for resale). Operating revenues consist of sales of goods and services, quasi-external operating transactions with other funds, grant revenues for specific activities that are considered to be operating activities of the grantor, receipts from other agencies for reimbursement of operating transactions, and other miscellaneous revenue that should be classified as operating. Grants that would qualify as an operating activity are those that do not subsidize an existing program, rather they finance a program the agency would otherwise not undertake. For certain loan and investment programs, revenue that would normally be classified as non-operating should be classified as operating. Examples of this would include interest and investment income. All other revenues that do not meet the above criteria should be classified as non-operating.

S. NET ASSETS/FUND BALANCE

The difference between fund assets and liabilities is “Net Assets” on the government-wide, proprietary, and fiduciary fund statements, and “Fund Balance” on governmental fund statements.

T. CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No. 34, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments”, and Statement No. 37, an omnibus to No. 34, are effective for years beginning after June 15, 2001. The requirements of these statements establish significant changes to the financial reporting model used by the State, including statement formats along with fund types and account groups. In addition to fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to beginning fund equities were required.

GASB Statement No. 35, “Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities”, is also effective for years beginning after June 15, 2001, and establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of Statement No. 34. The State universities adopted the requirements of Statement No. 35, and are included in the primary government as an enterprise fund.

GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, requires certain note disclosures when Statement No. 34 is implemented.

Effective July 1, 2001, the State revised its revenue recognition policy to classify all revenues as available if they are collected within one year of the fiscal year end. Previously the period of availability extended to thirty days after fiscal year end. However, for federal reimbursement revenue, the period of availability of one year was changed the previous fiscal year.

NOTE 2 – RESTATEMENTS

Pursuant to the provisions of the new standards and change in accounting principle discussed previously, the following changes to beginning fund equity, as previously reported, are summarized in the following table (expressed in thousands):

	General	Federal	School Permanent Trust Fund	Nonmajor Governmental Funds	University System
June 30, 2001, fund balances/net assets, as previously reported	$ 106,476	$ 2,043	$ -	$ 444,880	$ 992,029
Prior period adjustments:					
Changes in accounting principles:					
Reclassification of funds	-	24,909	580,554	(25,461)	(3,568)
Adoption of depreciation for capital assets	-	-	-	-	(407,189)
Capitalization of infrastructure assets	-	-	-	-	19,301
Revenue recognition	50,422	3,049	-	25,394	(2,497)
Correction of errors	2,150	2,134	-	4,024	-
June 30, 2001, fund balances/net assets, as restated	$ 159,048	$ 32,135	$ 580,554	$ 448,837	$ 598,076

	Nonmajor Enterprise	Internal Service	Pension and Other Employee Benefit Trust Funds	Private Purpose Trust Funds	Nonmajor Component Units
June 30, 2001, fund balances/net assets, as previously reported	$ 194,565	$ 46,798	$ 2,567,811	$ -	$ 20,252
Prior period adjustments:					
Changes in accounting principles:					
Reclassification of funds	32,910	-	8,568	143	2,870
Revenue recognition	-	-	-	-	-
Correction of errors	(2,228)	2,281	-	-	-
June 30, 2001, fund balances/net assets, as restated	$ 225,247	$ 49,079	$ 2,576,379	$ 143	$ 23,122

CORRECTION OF ERRORS

The beginning fund balance of the general fund was restated by $2,150,043 to properly reflect unemployment insurance fees collected to pay unemployment claims. These were previously reported in an agency fund.

The beginning fund balance of the federal fund was restated by $2,133,600. The amount was previously reported as deferred revenue and should have been recognized as revenue.

The beginning fund balance of the Cultural and Natural Resources special revenue fund was restated by $4,024,110 for a loan receivable that had not previously been reported.

Beginning net assets of the Fire and Tornado enterprise fund was restated by $2,228,183. Previous years' claims and judgments payable was understated.

Beginning net assets of the Risk Management internal service fund was restated by $2,280,872 for a change in calculating incurred but not reported claims for the previous year.

NOTE 3 - 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, 2002. 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	$ 30,012	$ 170	$ 397,505	$ 427,687	$ 584,017
Certificates Of Deposit Recorded As Investments	3,553	-	-	3,553	3,455
Total	$ 33,565	$ 170	$ 397,505	$ 431,240	$ 587,472

Component Units:

	Category 1	Category 2	Category 3	Total Bank Balance	Carrying Amount
Cash Deposits	$ 604	$ -	$ 645	$ 1,249	$ 1,180
Certificates Of Deposit Recorded As Investments	-	-	12,657	12,657	12,657
Total	$ 604	$ -	$ 13,302	$ 13,906	$ 13,837

Included in the internal receivable amount in the governmental activities column in the Statement of Net Assets is $408,047,336 of Cash and Investments at the Bank of North Dakota for governmental activities. The internal payable amount in the business-type activities column includes $326,873,022 of deposits the Bank has for governmental activities. Because the Bank has a different fiscal year end, these internal balances do not equal.

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	Category 2	Category 3	Fair Value
Commercial Paper	$ 159,856	$ -	$ -	$ 159,856
Equity Securities				
Not On Securities Loan	800,527	-	8,714	809,241
On Securities Loan	2,163	-	-	2,163
Bonds And Notes				
Not On Securities Loan	895,664	-	11,310	906,974
On Securities Loan	5,126	-	-	5,126
U.S. Government & Agency Issues				
Not On Securities Loan	409,490	-	-	409,490
On Securities Loan	56,818	-	-	56,818
	$ 2,329,644	$ -	$ 20,024	2,349,668
Investments In Real Estate Pool				172,424
Investments In Unemployment Compensation Pool				36,850
Guaranteed Investment Contract				62,454
Annuities				251
Mutual Funds				1,305,489
Private Equity				72,408
Non-Security Investments				2,000
Held By Brokers/Dealers				5,213
Investments Held By Broker-Dealer Under Securities Loans With Cash Collateral:				
Equity Securities				99,930
Bonds And Notes				95,681
U.S. Government & Agency Issues				92,930
Securities Lending Short-Term Collateral Investment Pool				298,131
Totals				$ 4,593,429

Component Units:	Category 1	Category 2	Category 3	Fair Value
Equity Securities	$ -	$ -	$ 3,522	$ 3,522
U.S. Government & Agency Issues	124	-	-	124
Obligations Of State And Political Subdivisions	548	-	-	548
	$ 672	$ -	$ 3,522	4,194
Guaranteed Investment Contract				75,695
Non-Security Investments				151,564
Totals				$ 231,453

There were no violations of statutory authority or contractual provisions for investments during the year ended June 30, 2002.

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, 2002, the State had reverse repurchase agreements of $23,390,000 included in securities lending collateral on the statement of net assets. The highest month end balance for the previous year was $32,750,000 with an average daily balance of $19,495,000. The weighted average interest rate as of year end was 1.50 percent. The weighted average interest rate paid during the year was 4.39 percent. The fair value of these securities at June 30, 2002, was $23,390,000.

D. RECEIVABLES

Receivables at June 30, 2002, consist of the following (expressed in thousands):

	General	Federal	School Permanent Trust Fund	Other Governmental Funds	Bank of North Dakota	Housing Finance	University System	Workers Compensation
Receivables:								
Accounts	$ 742	$ 4,599	$ -	$ 14,342	$ -	$ 459	$ 14,551	$ 23,339
Less Allowance	(346)	-	-	(2,039)	-	-	(847)	(3,400)
Taxes	134,477	-	175	47,066	-	-	-	-
Less Allowance	(6,547)	-	-	(1,956)	-	-	-	-
Interest	15	-	5,353	1,412	20,425	3,769	152	8,085
Less Allowance	-	-	-	(148)	-	-	-	-
Current Loans and Notes	-	-	-	-	-	11,804	5,465	-
Less Allowance	-	-	-	-	-	-	-	-
Noncurrent Loans and Notes	98	-	46,318	66,020	1,250,978	612,146	39,269	-
Less Allowance	(13)	-	-	(4,490)	(23,958)	-	(3,447)	-
Net Receivables	$ 128,426	$ 4,599	$ 51,846	$ 120,207	$ 1,247,445	$628,178	$ 55,143	$ 28,024

	Other Enterprise Funds	Internal Service Funds	Fiduciary Funds	Component Units: CHAND	Component Units: Municipal Bond Bank	Component Units: Non-Major Component Units	Total
Receivables (continued):							
Accounts	$ 31,718	$ 49	$ 6,556	$ 38	$ -	$ 357	$ 96,750
Less Allowance	(4,050)	-	-	-	-	-	(10,682)
Taxes	-	-	10,635	-	-	-	192,353
Less Allowance	-	-	(424)	-	-	-	(8,927)
Interest	2,393	50	7,859	-	2,870	156	52,539
Less Allowance	-	-	-	-	-	-	(148)
Current Loans and Notes	18,700	-	-	-	-	2,287	38,256
Less Allowance	-	-	-	-	-	-	-
Noncurrent Loans and Notes	96,508	-	-	-	-	12,510	2,123,847
Less Allowance	(2,259)	-	-	-	-	(6,543)	(40,710)
Net Receivables	$ 143,010	$ 99	$ 24,626	$ 38	$ 2,870	$ 8,767	$ 2,443,278

E. INTERFUND ACCOUNTS AND TRANSFERS

DUE FROM OTHER FUNDS/DUE TO OTHER FUNDS

Interfund balances at June 30, 2002 consist of the following (expressed in thousands):

Due To General Fund From:	
Federal Fund	$ 18,196
Student Loan Trust	9,000
All Others	7,299
Total Due To General Fund	$ 34,495

Due To Federal Fund From:	
Nonmajor Governmental Funds	$ 5,675

Due To Internal Service Funds From:	
General Fund	$ 1,547
Federal Fund	855
University System	707
All Others	1,773
Total Due To Internal Service Funds	$ 4,882

Due To School Permanent Trust Fund From:	
Developmentally Disabled Fund	$ 4,600
All Others	1,571
Total Due To School Permanent Trust Fund	$ 6,171

Of the $4,600,000 from Developmentally Disabled Fund $4,056,474 is an advance from the Land Department and is not expected to be repaid within one year.

Due To Nonmajor Governmental Funds From:	
Federal Fund	$ 22,139
Internal Service Funds	3,019
All Others	3,255
Total Due To Nonmajor Governmental Funds	$ 28,413

Due To Bank Of North Dakota From:	
General Fund	$ 2,680
Mill & Elevator	5,492
University System	11,382
Housing Finance	1,973
All Others	1,355
Total Due To Bank Of North Dakota	$ 22,882

The $11,382,000 from the University System and $2,139,000 from the Mill and Elevator are the result of loans made by the bank. These amounts are not expected to be repaid within one year.

Due To University System From:	
General Fund	$ 3,560
Federal Fund	1,742
Building Authority	6,038
All Others	683
Total Due To University System	$ 12,023

Due To All Other Funds From	
All Other Funds	$ 1,420

Included in this category are all other enterprise funds, component units, and fiduciary funds.

These balances are a result of a time lag between the dates that (1) services are provided and goods received or reimbursable expenditures occur, (2) the payments are made, (3) the transactions are entered into the accounting system, and (4) because of transactions occurring between funds with a fiscal year other than June 30, 2002.

In addition, the total Internal Receivables and Internal Payables on the Government-wide Statement of Net Assets does not equal due to activity occurring between funds that have different fiscal year ends.

INTERFUND TRANSFERS

A summary of interfund transfers for the fiscal year ended June 30, 2002, follows (expressed in thousands):

	Transfers In						
	General	Federal	Non-major Governmental	University System	Non-major Enterprise	Internal Service	Total
Transfers Out							
General	$ -	$ 164	$ 7,885	$ 204,020	$ 893	$ 450	$ 213,412
Federal	-	-	34,829	-	-	-	34,829
School Permanent Trust Fund	-	-	29,839	1,677	-	-	31,516
Non-major Governmental	3,309	187	11,522	8,141	-	-	23,159
Bank of North Dakota	15,456	-	85	-	-	-	15,541
Housing Finance	-	-	24	-	-	-	24
University System	-	-	4,277	-	-	-	4,277
Workers Compensation	-	-	-	-	-	150	150
Non-major Enterprise	9,000	-	1,168	-	-	-	10,168
Total	$ 27,765	$ 351	$ 89,629	$ 213,838	$ 893	$ 600	$ 333,076

(Transfers In do not agree to the statements due to the timing differences noted below.)

Transfers are used for the following purposes:

- Move general fund appropriation amounts to certain agencies.
- Move revenues from the fund that statute requires to collect them to the fund authorized to spend them.
- Move certain excess revenues collected in other funds to the general fund.
- Move receipts restricted for debt service from the funds collected to the debt service funds as payments become due, and move capital project funds paying the construction costs.

For the year ended June 30, 2002, transfers of excess profits of $30 million and $9 million were made from the Bank of North Dakota and North Dakota Student Loan Trust, respectively, to the General Fund.

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

Transfers In		$ 351,153
Differences:		
General Fund/Bank Of ND	(14,613)	
Industrial Commission/ Bank Of ND	15	
Human Services/Developmentally Disabled Loan Fund	1,140	
Land & Minerals Trust/Developmentally Disabled Loan Fund	(907)	
Guaranteed Student Loan/Student Loan Trust	(3,200)	
Beginning Farmer/General Fund	(500)	
Bank of ND/Industrial Commission	(12)	
Total Differences		(18,077)
Transfers Out		$ 333,076

The above timing differences of $18,076,851 result from transactions between agencies that have different fiscal year ends. This difference is also the total net transfers on the Government-wide Statement of Activities.

F. CAPITAL ASSETS

PRIMARY GOVERNMENT:

The following is a summary of capital assets during the fiscal year (expressed in thousands):

Description	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Governmental Activities:				
Capital Assets Not Being Depreciated				
Land	$ 39,543	$ 438	$ (7)	$ 39,974
Construction in Progress	10,926	109,369	(9,087)	111,208
Total Capital Assets Not Being Depreciated	50,469	109,807	(9,094)	151,182
Capital Assets Being Depreciated:				
Buildings and Improvements	321,888	6,472	(1,149)	327,211
Equipment	169,421	19,050	(10,944)	177,527
Infrastructure	2,779,650	29,908	(187)	2,809,371
Total Capital Assets Being Depreciated	3,270,959	55,430	(12,280)	3,314,109
Less Accumulated Depreciation for:				
Buildings and Improvements	(125,925)	(7,693)	852	(132,766)
Equipment	(85,204)	(14,644)	7,706	(92,142)
Infrastructure	(1,934,864)	(122,085)	127	(2,056,822)
Total Accumulated Deprecation	(2,145,993)	(144,422)	8,685	(2,281,730)
Total Capital Assets Being Depreciated, Net	1,124,966	(88,992)	(3,595)	1,032,379
Governmental Activities Capital Assets, Net	$ 1,175,435	$ 20,815	$ (12,689)	$ 1,183,561
Business-Type Activities:				
Capital Assets not being depreciated				
Land	$ 15,311	$ 539	$ -	$ 15,850
Construction in Progress	35,108	19,152	(36,025)	18,235
Total Capital Assets Not Being Depreciated	50,419	19,691	(36,025)	34,085
Capital Assets Being Depreciated:				
Buildings and Improvements	590,969	16,741	(9,623)	598,087
Equipment	261,936	21,710	(6,373)	277,273
Infrastructure	121,844	5,788	(597)	127,035
Total Capital Assets Being Depreciated	974,749	44,239	(16,593)	1,002,395
Less Accumulated Depreciation for:				
Buildings and Improvements	(258,566)	(13,859)	3,842	(268,583)
Equipment	(143,638)	(18,227)	5,219	(156,646)
Infrastructure	(47,425)	(3,762)	146	(51,041)
Total Accumulated Deprecation	(449,629)	(35,848)	9,207	(476,270)
Total Capital Assets Being Depreciated, Net	525,120	8,391	(7,386)	526,125
Business-Type Activities Capital Assets, Net	$ 575,539	$ 28,082	$ (43,411)	$ 560,210

Description	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Component Units:				
Capital Assets Not Being Depreciated				
Land	$ 891	$ 24	$ -	$ 915
Construction in Progress	952	242	(952)	242
Total Capital Assets Not Being Depreciated	1,843	266	(952)	1,157
Capital Assets Being Depreciated:				
Buildings and Improvements	-	6,151	-	6,151
Equipment	3,864	2,298	(170)	5,992
Infrastructure	107	468	-	575
Total Capital Assets Being Depreciated	3,971	8,917	(170)	12,718
Less Accumulated Depreciation for:				
Buildings and Improvements	-	(31)	-	(31)
Equipment	(618)	(259)	29	(848)
Infrastructure	(56)	(12)	-	(68)
Total Accumulated Deprecation	(674)	(302)	29	(947)
Total Capital Assets Being Depreciated, Net	3,297	8,615	(141)	11,771
Business-Type Activities Capital Assets, Net	$ 5,140	$ 8,881	$ (1,093)	$ 12,928

Depreciation expense was charged to functions/programs of the primary government as follows (expressed in thousands):

Governmental Activities:	
General Government	$ 1,201
Education	319
Health and Human Services	5,706
Regulatory	130
Public Safety	4,447
Agriculture and Economic Development	126
Natural Resources	3,206
Highway	121,115
Total Governmental Activities Depreciation Expense	$ 136,250

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

Project Description:

Governmental Activities	Amount Authorized	Amount Expended Through June 30, 2002	Balance Authorized
OMB	$ 56	$ 14	$ 42
Human Services	346	204	142
Adjutant General	12,021	8,886	3,135
Historical Society	2,070	189	1,881
Department of Transportation	138,317	101,010	37,307
Job Service North Dakota	2,310	905	1,405
Total Governmental Activities	$ 155,120	$ 111,208	$ 43,912

Business-Type Activities	Amount Authorized	Amount Expended Through June 30, 2002	Balance Authorized
Mill and Elevator	$ 140	$ 44	$ 96
Workers Compensation	10,912	3,246	7,666
University System	31,052	14,945	16,107
Total Business-Type Activities	$ 42,104	$ 18,235	$ 23,869

Component Units	Amount Authorized	Amount Expended Through June 30, 2002	Balance Authorized
NDSU Research & Technology Park, Inc.	$ 242	$ 242	$ 0

G. 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 resulting expenditures are recognized as incurred. Lease expenditures for the year ended June 30, 2002, amounted to $8,531,359 for governmental activities and $7,389,673 for business-type activities.

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, 2002, for all fund types are as follows (expressed in thousands):

Year Ending June 30	Governmental Activities	Business-type Activities
2003	$ 6,180	$ 4,930
2004	1,119	2,993
2005	678	2,026
2006	332	995
2007	249	387
2008-2012	494	147
2013-2017	173	14
Total Minimum Lease Payments	$ 9,225	$ 11,492

H. CAPITAL LEASES

The State is obligated under certain leases accounted for as capital leases. In the government-wide and proprietary fund statements, capital assets and a corresponding liability are recorded at the inception of the lease. The liability is reduced by payments of principal, with a portion of the payment allocated to interest expense. For capital leases in governmental funds, other financing sources and expenditures are recorded at lease inception. Lease payments are recorded as debt service expenditures.

The schedule on the next page lists the future minimum lease payments under these capital leases and the present value of the net minimum lease payments at June 30, 2002 (expressed in thousands):

Year Ending June 30	Governmental Activities	Business-type Activities	Fiduciary Funds
2003	$ 885	$ 7,292	$ 19
2004	572	5,586	19
2005	17	4,642	5
2006	14	4,138	1
2007	5	2,626	1
2008-2012	-	8,658	-
2013-2017	-	2,656	-
2018-2022	-	2,642	-
Total Minimum Lease Payments	1,493	38,240	45
Less: Amount Representing Interest	(90)	(7,899)	(3)
Present Value of Future Minimum Lease Payments	$ 1,403	$ 30,341	$ 42

The historical costs of assets acquired under capital leases, and included as capital assets on the government-wide statement of net assets at June 30, 2002, is as follows (expressed in thousands):

	Governmental Activities	Business-Type Activities
Infrastructure	$ -	$ 1,100
Buildings	-	6,850
Equipment	4,936	35,424
Less: Accumulated Depreciation	(1,205)	(6,493)
Total	$ 3,731	$ 36,881

I. 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, 2002, consisted of bonds issued by the State and are accounted for by the respective state agencies in the government-wide financial statements that issued the bonds.

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, the 2001 Series A Bonds, and the 2002 Series A and B 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, 2002, 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 $79,155,800 at June 30, 2002. Water development projects that will benefit from the financing are as follows:

Water Development Trust Fund	$ 77,300,000
Southwest Pipeline Project	1,855,800

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 Series C Bonds are zero coupon bonds with interest accruing monthly and the face value payable at maturity. These bonds were issued to refund a portion of the 1979 Series A and 1984 Series A Bonds and to provide funds for the acquisition of student loans from the Bank of North Dakota.

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 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.

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):

Fund Type/Fund	Maturities	Interest Rates	Balance 6/30/02
Primary Government			
Governmental:			
Building Authority	2003-2023	3.50 – 6.10	$ 89,923
Lignite Research	2003-2006	4.80 – 5.75	4,600
Water Commission	2003-2042	2.50 – 6.00	45,638
Proprietary:			
State Fair	2003-2011	5.20 – 6.00	2,095
Student Loan Trust	2003-2036	1.39 – 7.90	189,506
Housing Finance:			
Multi Family	2003-2024	4.75 – 7.75	10,541
Single Family	2003-2034	2.70 – 8.375	700,801
University System:			
VCSU—Valley City	2003-2011	4.30 – 7.25	553
Williston State College	2003-2019	3.00 – 4.75	1,653
Lake Region State College	2003-2013	4.20 – 5.90	675
UND—Grand Forks	2003-2021	3.00 – 6.40	28,347
NDSU—Fargo	2003-2029	4.30 – 7.70	19,317

Fund Type/Fund	Maturities	Interest Rates	Balance 6/30/02
NDSCS—Wahpeton	2003-2016	4.00 – 5.50	3,007
MiSU–Minot	2003-2014	2.80 – 6.75	5,682
MiSU—Bottineau	2003-2011	4.30 – 6.90	229
MaSU—Mayville	2003-2009	3.00 – 4.80	723
DSU—Dickinson	2003-2019	4.30 – 5.90	1,140
BSC—Bismarck	2003-2009	4.00 – 7.40	975
Total Revenue Bonds Payable— Primary Government			$ 1,105,405
Component Units			
Proprietary:			
Municipal Bond Bank	2003-2023	2.70 – 10.00	$ 144,230
NDSU Research & Technology Park	2022	5.40	6,500
			$ 150,730

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

Primary Government:

Governmental Activities

Fiscal Year	Principal	Interest
2003	$ 6,485	$ 7,594
2004	8,002	6,927
2005	8,063	6,516
2006	9,989	6,252
2007	8,175	5,772
2008-2012	40,334	21,775
2013-2017	30,467	12,058
2018-2022	21,151	4,484
2023-2027	4,262	1,270
2028-2032	1,447	596
2033-2037	1,258	316
2038-2042	528	43
Total	$ 140,161	$ 73,603

Business-type Activities

Fiscal Year	Principal	Interest
2003	$ 79,552	$ 45,143
2004	18,282	44,003
2005	20,151	43,162
2006	63,522	42,248
2007	20,796	40,689
2008-2012	114,212	187,076
2013-2017	120,879	155,278
2018-2022	133,531	119,957
2023-2027	189,721	73,407
2028-2032	141,670	22,444
2033-2037	64,260	3,423
Less Bond Discount	(334)	284
Deferred Amount On	(317)	317
Accrued Interest At	(682)	682
Total	$ 965,243	$ 778,113

Component Units

Fiscal Year	Principal	Interest
2003	$ 7,235	$ 8,149
2004	7,490	7,612
2005	7,970	7,221
2006	8,295	6,766
2007	8,555	6,299
2008-2012	45,245	24,240
2013-2017	42,840	12,552
2018-2022	23,310	3,102
2023-2027	230	10
Less Bond Discount	(440)	440
Total	$ 150,730	$ 76,391

2. NOTES PAYABLE

The following is a schedule of notes payable outstanding at June 30, 2002 (expressed in thousands):

Fund Type/Fund	Maturities	Interest Rates	Balance 6/30/02
Primary Government			
Governmental:			
Job Service North Dakota	2004	7.90-9.00	$ 150
Information Technology Department	2003-2004	5.25-6.64	357
Proprietary:			
Bank of North Dakota	2003-2022	3.55-7.35	399,553
University Systems	2006-2012	4.87-8.00	4,307
Component Units			
Municipal Bond Bank (1)	2019	3.55	8,485
UND Aerospace Foundation	2003-2009	4.73-4.75	2,884

(1) The Municipal Bond Bank note payable is to the Bank of North Dakota, part of the primary government.

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

Primary Government:

Governmental Activities

Fiscal Year	Principal	Interest
2003	$ 463	$ 18
2004	44	1
2005	-	-
2006	-	-
2007	-	-
Total	$ 507	$ 19

Business-type Activities

Fiscal Year	Principal	Interest
2003	$ 26,897	$ 22,617
2004	35,735	20,674
2005	16,578	20,165
2006	54,983	19,297
2007	34,631	16,998
2008-2012	148,389	70,329
2013-2017	43,047	40,818
2018-2022	43,600	7,327
Total	$ 403,860	$ 218,225

Component Units

Fiscal Year	Principal	Interest
2003	$ 1,425	$ 424
2004	759	354
2005	777	320
2006	390	292
2007	291	280
2008-2012	1,030	1,203
2013-2017	4,839	824
2018-2022	1,858	139
Total	$ 11,369	$ 3,836

Changes in General Long-Term Liabilities

Changes in Long-Term Liabilities for the year ended June 30, 2002, are summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Notes Payable	$ 2,989	$ 535	$ (3,017)	$ 507	$ 463
Bonds Payable	135,167	11,368	(6,374)	140,161	6,485
Capital Leases Payable	3,275	161	(2,033)	1,403	814
Intergovernmental Payable	242	349	-	591	-
Compensated Absences	25,798	18,897	(17,388)	27,307	1,417
Claims/Judgments Payable	3,717	3,186	(1,658)	5,245	1,666
Total Long-Term Liabilities	$ 171,188	$ 34,496	$ (30,470)	$ 175,214	$ 10,845
Business-Type Activities:					
Notes Payable	$ 257,944	$ 153,400	$ (7,484)	$ 403,860	$ 26,897
Bonds Payable	1,117,828	89,601	(242,186)	965,243	79,552
Capital Leases Payable	24,291	11,902	(5,852)	30,341	5,898
Intergovernmental Payable	26,931	10,541	(13,189)	24,283	11,270
Compensated Absences	16,223	1,732	(803)	17,152	1,068
Claims/Judgments Payable	519,434	69,507	(80,945)	507,996	80,939
Total Long-Term Liabilities	$ 1,962,651	$ 336,683	$ (350,459)	$ 1,948,875	$ 205,624
Component Units:					
Notes Payable	$ 9,950	$ 2,239	$ (820)	$ 11,369	$ 1,425
Bonds Payable	151,483	24,460	(25,213)	150,730	7,235
Intergovernmental Payable	1,379	654	(794)	1,239	51
Compensated Absences	-	120	-	120	120
Total Long-Term Liabilities	$ 162,812	$ 27,473	$ (26,827)	$ 163,458	$ 8,831

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end, $1,118,537 of internal service fund compensated absences, $3,028,081 of claims and judgments, and $7,294 of capital leases are included in the above amounts. Other governmental activities compensated absences generally have been liquidated by the General Fund (48%), the Highway Fund (22%), the Federal Fund (19%), and other various funds. Other governmental activities claims and judgments are generally liquidated by the Insurance Regulatory Trust Fund (78%), Highway Fund (21%), and the Petroleum Release Compensation Fund (1%).

3. DEFEASED DEBT

Primary Government

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, 2002, $9,340,000 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, 2002, 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, 2002, of the original bonds refunded (considered defeased) by the advance refunding total $200,000.

University of North Dakota

On March 1, 2002, the University of North Dakota issued $6,710,000 of Housing and Auxiliary Facilities Improvement and Refunding Revenue Bonds (Series 2002), with an average interest rate of 4.56%. These bonds, together with other available funds, were used to provide means to currently refund $3,840,000 Housing and Auxiliary Facilities Revenue Bonds, Series 1993 A, and to provide $3,500,000 for renovation of the Memorial Union. The University of North Dakota refunded the 1993 A Bonds to reduce its total debt service payments over the next eleven years by approximately $825,000 and to obtain an economic gain of $173,482.

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, 2002, of the original bonds refunded by the advanced refunding of 1998 totaled $16,940,000.

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, 2002, of the original bonds refunded by the advance refunding of 1984 totaled $280,000.

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, 2002, of the original bonds refunded by the advance refunding of 1975 totaled $960,000.

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, 2002, of the defeased certificates totals $2,780,000.

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, 2002, of the original bonds refunded by the advance refunding total $1,270,000.

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, 2002.

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, 2002, the principal amount outstanding of the advance refunded portion of the Series 1988 Bonds is $980,000. As of June 30, 2002, 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 $145,000.

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 on the $1,634,000 original principal amount outstanding as of June 30, 2002.

Component Units

Municipal Bond Bank Bonds

On August 20, 2001, the Bond Bank issued $23,675,000 of revenue bonds with an average interest rate of 4.48 percent. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the refunded bonds. As of December 31, 2001, $13,010,000 of bonds outstanding is considered defeased, and the liability has been removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt by $1,029,000. This amount is being netted against the new debt and amortized over the life of the refunded debt, which is the same as the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next fifteen years by $1,709,000 and resulted in an economic gain of $714,000.

J. 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 $9,716,809 at June 30, 2002. These amounts are reported in the Government-wide and Proprietary Fund Type financial statements as an intergovernmental payable.

NOTE 4 - DEFICIT FUND EQUITY

RETIREMENT AND INVESTMENT OFFICE (RIO)

At June 30, 2002, RIO had a deficit of $13,163. It is expected that charges for services during fiscal year 2003 will reduce the deficit.

COMPREHENSIVE HEALTH ASSOCIATION OF NORTH DAKOTA (CHAND)

At December 31, 2001, CHAND had a deficit of $1,005,934. Additional member assessments are expected to cover the deficit.

NOTE 5 - 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, 2002, the number of participating local political subdivisions in PERS was:

Cities and Park Districts	71
Counties	42
School Districts	93
Other	52
Total Participating Local Political Subdivisions	258

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 2.00% 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 2.00% multiplier. The monthly pension benefit for security officers or firefighters at normal retirement age (55) is equal to 2.00% of the final average salary for each year of service with three years served as a security officer or firefighter.

Employees may elect to receive the pension benefits in the form of a single life, joint and survivor, level social security or term-certain annuity. Employees may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the employee's accumulated contributions plus interest.

The System is funded by employee contributions (set by statute) of 4% of regular compensation, with the exception of Supreme and district court judges' contributions, which are established at 5% of total compensation. During the 1983-1985 biennium, the State implemented the employer pickup provision of the IRS code, whereby a portion or all of the required employee contributions are made by the employer. The State is paying the full employee contribution with the exception of the Supreme and district court judges, in which the State is paying 4 of the 5% contribution. Some of the political subdivisions are paying all or part of the employee contributions. Employer contributions of 4.12% of covered compensation are set by statute. The employer contribution rate for the Supreme and district court judges is also set by statute at 14.52%, and the contribution rate for the National Guard security officers and firefighters is set by the Board at 8.33%. The required contributions are determined using an entry age normal actuarial funding method.

Effective January 1, 2000, except for Supreme and district court judges, the employees' account balance includes the vested employer contributions equal to the employee's contributions to an eligible deferred compensation plan.

The minimum member contribution is $25, and the maximum may not exceed certain parameters based upon years of service.

The North Dakota Retirement Board was created by the State Legislature and is the governing authority of PERS. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code.

NORTH DAKOTA HIGHWAY PATROLMEN'S RETIREMENT SYSTEM (NDHPRS)

The North Dakota Highway Patrolmen's Retirement System is a single-employer defined benefit pension plan covering substantially all sworn officers of the Highway Patrol of the State of North Dakota. It is not subject to the provisions of the Employee Retirement Income Security Act of 1974. NDHPRS issues a publicly available financial report that may be obtained by writing to North Dakota Public Employees Retirement System, 400 East Broadway, Suite 505, Bismarck, North Dakota 58501.

Death and disability benefits are set by statute. If an active employee dies with less than 10 years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than 10 years of credited service, the surviving spouse, if any, will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50 percent of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 55 the day before death occurred. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to any designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days service receive monthly disability benefits that are up to 70 percent of their final average salary, reduced by workers compensation with a minimum benefit of $100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled and apply for benefits within one year of termination.

Pension benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees are entitled to unreduced pension benefits after a minimum of 10 years of service upon attainment of age 55 or when the sum of age and years of credited service equals or exceeds 80. The annual pension benefit is equal to a percentage of average monthly salary using the highest 36 consecutive months out of the last 120 months of service. The percentage is equal to the sum of the first 25 years of service multiplied by 3.60% 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, 2002, the number of participating employer units in TFFR was:

Type	Number
Special Education Units	19
Vocational Education Units	4
Public School Districts	219
County Superintendents	15
Other	17
Total	274

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 2.00% 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:	5,130	86	209	5,054
Special Prior Service Retirees:	122	-	-	-
Terminated Employees:				
Vested	639	2	5	1,223
Nonvested	2,651	-	-	225
Total Terminated Employees	3,290	2	5	1,448
Active Employees:				
Vested	12,662	71	76	8,587
Nonvested	4,427	54	-	1,344
Total Active Employees	17,089	125	76	9,931
Date of Annual Valuation	July 1, 2002	July 1, 2002	July 1, 2002	July 1, 2002

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 $4,280,410 at June 30, 2002.

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, 2002, were $60,985,784, which represents 93.57% 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 Gabriel, Roeder, Smith and 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, 2002	July 1, 2002	July 1, 2002
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 10.0 years funding period.
*** As of July 1, 2002, 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, 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)%
July 1, 2002	1,150.0	1,103.5	(46.5)	104.2%	461.3	(10.1)%
NDHPRS						
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)%
July 1, 2002	39.5	40.5	1.0	97.4%	5.1	19.6%
JSND						
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%
July 1, 2002	67.6	N/A	-	N/A	3.2	0.0%
TFFR						
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%
July 1, 2002	1,443.5	1,575.8	132.3	91.6%	348.1	38.0%

*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			
	2000	$ 13,457,783	100%
	2001	9,642,770	100%
	2002	16,811,296	100%
TFFR			
	2000	$ 25,527,734	100%
	2001	26,289,206	100%
	2002	27,243,542	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, 2002:

	NDHPRS	JSND
Annual required contributions	$ 591,235	$ -
Interest on net pension obligations	(46,236)	134,390
Adjustment to annual required contributions	40,336	138,166
Annual pension costs	585,335	3,776
Contributions made	814,035	-
Increase in net pension obligations	(228,700)	3,776
Net pension obligations, beginning of year	(577,953)	(1,679,878)
(Assets in excess of) net pension obligations, end of year	$ (806,653)	$ (1,676,102)

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				
	2000	$ 532,786	139%	$ (208,303)
	2001	420,601	187%	(577,953)
	2002	591,235	138%	(806,653)
JSND				
	2000	$ 3,793	0%	$ (1,683,662)
	2001	3,784	0%	(1,679,878)
	2002	3,776	0%	(1,676,102)

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 295 participants as of June 30, 2002.

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 $452,311 and $439,113, respectively, for the fiscal year ended June 30, 2002.

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, 2002:

Fidelity Managed Income Portfolio Mutual Fund	22.72%
Fidelity Growth Company Mutual Fund	14.93%
Fidelity Freedom 2020 Mutual Fund	9.52%
Fidelity Equity Income	7.56%
Fidelity Spartan U.S. Equity Index	7.12%
PIMCO Total Return Admin. Mutual Fund	6.36%
Fidelity Diversified International Mutual Fund	6.18%
Fidelity Freedom 2010 Mutual Fund	6.10%

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 $15,311,048, which is the required contribution, for the fiscal year ended June 30, 2002.

NOTE 6 - 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 $200,177 for the period ending June 30, 2002. The number of employees from Job Service using the credit was 166 at June 30, 2002. 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, 2002. 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	(.01)%	$ (47,645)

Employer contributions totaling $4,482,993 were made for the year ended June 30, 2002. The actuarially required employer contribution of $4,653,424 for the year ended June 30, 2002, 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, 2002, the cost of benefits incurred for the fund was $3,745,958.

Employee membership is as follows:

Retirees receiving benefit	3,393
Active participants	17,462
Total Membership	20,855

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	$ 68,988,084
Net assets available for benefits, at actuarial value	26,402,058
"Unfunded" accrued liability	$ 42,586,026

The fair value of the net assets available for benefits at June 30, 2002, is $23,652,354.

NOTE 7 - 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	$ 7,176
Other Jurisdictions	1,471
Total Value	$ 8,647

NOTE 8 - 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. In accordance with the term of the contract for the 2001-2003 biennium, the system is to deposit a total of $3 million with BCBS. These surplus funds are to be used to pay any claims in excess of the premiums collected. At the end of the contract period, the system receives the remaining surplus funds plus interest. The accumulated surplus and other invested funds in the amount of $2,911,717 are shown as cash on the state's financial statements. These funds are being held by BCBS.

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 provides benefit enhancements. The accumulated surplus plus interest was paid to the system during the current fiscal year.

NOTE 9 - SEGMENT INFORMATION

North Dakota Housing Finance Agency maintains three Enterprise Funds which provide loans to finance construction of rental residential housing and single family home ownership. Segment information for the year ended June 30, 2002, was as follows (expressed in thousands):

	Agency Operating Funds	Multi-family Bond Funds	Home-Ownership Bond Funds
Condensed Statement of Net Assets			
Current assets – other	$ 27,122	$ 464	$ 147,211
Noncurrent assets – other	19,742	10,659	607,824
Total Assets	46,864	11,123	755,035
Current liabilities – other	13,433	454	34,383
Noncurrent liabilities – other	54	10,291	693,589
Total Liabilities	13,487	10,745	727,972
Net assets – unrestricted	24,604	-	-
Net assets – restricted	8,687	378	27,063
Total Net Assets	33,377	378	27,063
Condensed Statement of Revenues, Expenses and Change in Fund Net Assets			
Operating revenues	4,156	806	48,234
Operating expenses	3,883	792	43,708
Operating income	273	14	4,526
Nonoperating revenue	2,419	-	-
Change in net assets	2,668	14	4,526
Total net assets, beginning of year	30,151	364	23,095
Total net assets, end of year	33,377	378	27,063

	Agency Operating Funds	Multi-family Bond Funds	Home-Ownership Bond Funds
Condensed Statement of Cash Flows			
Net cash from (used for) operating activities	(5,857)	1,172	25,928
Net cash from (used for) noncapital financing activities	2,412	(1,463)	(178,753)
Net cash used for capital and related financing activities	(8)	-	-
Net cash from investing activities	2,440	211	6,748
Net change in cash and cash equivalents	(1,013)	(80)	(146,077)
Cash and cash equivalents, beginning of year	8,936	459	276,358
Cash and cash equivalents, end of year	7,923	379	130,281

NOTE 10 - 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	$ 241,481
Financial standby letters of credit	99,595
	$ 341,076

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 $18,010,000 at June 30, 2002. 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 $5,025,000 at June 30, 2002.

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 $70,408,000 at December 31, 2001.

COMMUNITY WATER FACILITY LOAN FUND

The Fund is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Commitments to extend credit totaled $1,150,000 as of December 31, 2001.

NOTE 11 - 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 12 - 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 2002, a total of $55,182,069 in claims was recognized. Incurred but not reported claims of $500,800,000 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, 2001, and June 30, 2002:

Fiscal Year	Beginning Balance	Current Year Claims and Changes In Estimates	Claims Payments	Ending Balance
2001	2,273,594	481,120	661,714	2,093,000
2002	2,093,000	856,677	412,046	2,537,631

Certain restatements were made to the information presented for 2001 due to a change in actuarial assumptions.

The Risk Management Workers Compensation Program (WCP) was established to consolidate all state entities under one workers compensation account, allowing for transitional duty between entities. The statutory liability of the fund is limited to $100,000 per claim with the North Dakota Workers Compensation Bureau, providing excess insurance for claims which exceed the $100,000 cap. WCP does not pay separately for this coverage. Since the inception of WCP on July 1, 2001, one claim exceeded coverage by $12,970.

Revenues to WCP are generated from contributions required from state agencies, boards, commissions, and the University System. The amount contributed from each agency is actuarially determined by North Dakota Workers Compensation and based upon the number of employees, the type of work done, and claims history of each entity. Each entity also pays a deductible of $250 per claim.

The WCP 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. Because actual claims liabilities are affected by complex factors including inflation, changes in legal doctrine, 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 into consideration settled claims, the frequency of claims, and other economic and social factors. An actual study was performed for North Dakota Workers Compensation. The liability estimates are based on that study.

The following table presents the changes in claims liabilities balance for the fiscal year ending June 30, 2002:

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2002	$ -	$ 1,157,853	$ 666,683	$ 491,170

NOTE 13 - <u>PUBLIC ENTITY RISK POOLS</u>

A. GENERAL

<u>FIRE AND TORNADO AND BONDING FUND</u>

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 1,085 policies to participating entities for a total building and content coverage of $5.18 billion. The Bonding Fund is used to provide fidelity bonding of public employees and officials. The Fund has issued 2,909 policies to participating entities. The total coverage for the Bonding Fund is $559.8 million. 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, 2002, there was no amount deducted from claims liabilities for reinsurance.

<u>WORKERS COMPENSATION BUREAU</u>

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, 2002, coverage extended to the following employer units:

Local Governments	1,864
State Agencies	1
Private Employers	18,141
Total	20,006

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, 2002, 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)	$810,000	$902,400	$1,040,000
Discounted at 6% rate	*	500,800	575,000

*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 $500.8 million at June 30, 2002.

The June 30, 2001, liability of $515 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, 2002.

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	
	2002	2001	2002	2001	2002	2001
Unpaid claims and claims adjustment expenses at the beginning of the year	$ 6,559	$ 1,801	$ 103	$ 82	$ 515,000	$ 499,700
Incurred claims and claims adjustment expenses:						
Provision for current fiscal year	5,481	6,828	26	71	87,710	82,905
Change in provision for prior fiscal year	-	-	-	-	(36,072)	34,110
Payments and claims and adjustment expenses attributable to:						
Current fiscal year insured events	1,588	(269)	100	32	(17,131)	(17,253)
Prior fiscal years' insured events	(6,559)	(1,801)	(103)	(82)	(58,307)	(59,262)
Total Payments	(4,971)	(2,070)	(3)	(50)	(75,438)	(76,515)
Change in provision for discount	-	-	-	-	9,600	(25,200)
Total unpaid claims and claims adjustment expenses at the end of the year	$ 7,069	$ 6,559	$ 126	$ 103	$ 500,800	$ 515,000

NOTE 14 - 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 15 – SCHOOL PERMANENT TRUST FUND

State law permits the permanent fund to use one-tenth of the realized gains and losses in the current and previous years to be included in its calculation of income available for distribution in the current year. When determining the amount of distribution from any of the permanent educational trusts, the board of the permanent fund must consider both preservation of trust corpus and its ability to produce income for future years and the demands for distribution of current income. Any realized gains and losses that are spent must be spent for the purposes for which the trust was established.

Any income in excess of the amount of distribution for the current year can be acted on in one of three ways by the board of the permanent fund:

1. Distribute to the fund beneficiary all or a portion of the income in excess of the previous fiscal year's distribution;
2. Retain for distribution in future years all of a portion of the income in excess of the preceding fiscal year's distribution in an amount not to exceed $10 million; or
3. Add to the permanent fund all or a portion of the income in excess of the preceding fiscal year's distribution.

At June 30, 2002, realized gains and losses available for distribution in the current year totaled $8,773,590 for the permanent educational trusts. This amount is included in Reserved Fund Balances—Undistributed Revenue in the governmental funds balance sheet.

NOTE 16 – BANK OF NORTH DAKOTA

GASB Statement No. 34 requires assets and liabilities of enterprise funds be presented in a classified format to distinguish between current and long-term assets and liabilities. The Bank of North Dakota is the only government-owned bank in the United States. Banks do not present a classified balance sheet because current assets are not matched with current liabilities. Presentation of a classified balance sheet would give the false impression that there is a liquidity problem at the bank. Presentation of a classified balance sheet for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated. Therefore, the balance sheet of the Bank of North Dakota presents assets and liabilities in order of their relative liquidity, rather than in a classified format.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

A. LONG-TERM COMMITMENTS

BANK OF NORTH DAKOTA

The 2001 North Dakota Legislature passed House Bill 1015, which included a contingent Bank transfer to the state general fund. If, during the biennium ending June 30, 2003, 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 2001 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. 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 $25,000,000 or the revenue shortfall of actual collections compared to the March 2001 legislative forecast. As of December 31, 2001, projected revenues exceed the March 2001 legislative forecast for projected revenues.

No transfers may be made which would reduce the Bank's capital structure below $140,000,000.

The 2001 North Dakota Legislature passed House Bill 1023, which authorizes the State Water Commission to issue up to $67,800,000 in bonds and appropriate the proceeds for various statewide water development projects.

Principal and interest on bonds used for projects authorized by House Bill 1023 are payable from transfers to be made and appropriated by the legislative assembly from the Water Development Trust Fund, then from transfers to be made and appropriated by the legislative assembly from revenues in the Resources

Trust Fund other than revenues from state taxes, then from appropriations of other available revenues in the then current biennium, and then from any other revenues the State Water Commission makes available during the then current biennium. If sufficient funds from these sources is not available, then principal and interest on bonds are payable from transfers to be made and appropriated by the legislative assembly from the first available current biennial earnings of the Bank of North Dakota. No appropriation was made from the Bank of North Dakota for statewide water development projects for the 2001-2003 biennium by the Legislature.

The Bank of North Dakota shall extend a line of credit not to exceed $25,000,000 for the biennium ending June 30, 2003, 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, 2001, Bank of North Dakota has not funded and has not committed to fund any amount under the line of credit.

The 2001 North Dakota Legislature passed Senate Bill 2249, which amended the Beginning Entrepreneur Loan Guarantee Program. The program provides that the Bank of North Dakota enters into an agreement with a lender that in the event of default by a beginning entrepreneur under a note and mortgage or other loan or financing agreement, the Bank of North Dakota shall pay the lender the amount agreed upon, which is 85 percent of the amount of principal due the lender on a loan at the time the claim is approved. A lender may apply to the Bank of North Dakota for a loan guarantee for a loan of up to $100,000. The term of the loan guarantee may not exceed five years. The Bank may provide guarantees totaling $3,400,000. As of December 31, 2001, the Bank has provided guarantees totaling $766,000 and has guarantee commitments of $37,000 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.

INDUSTRIAL COMMISSION

In July and September of 2001, the Industrial Commission, as part of the Lignite Research, Marketing and Development Program—Vision 21, entered into two contracts for a total of $20,000,000. These contracts 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 two contracts are with Great River Energy and Montana-Dakota Utilities/Westmoreland Power Inc. (MDU) for $10,000,000 each. Payments made on the above contracts during fiscal year 2002 totaled $645,500 and $150,000 to Great River Energy and MDU, respectively. Both contracts contain a provision for payback to the Industrial Commission of $4.5 million each over twenty years if new power plants are built and become operational. Total commitments under the contracts would be reduced by $15,292,250 if the power plants are not constructed. In addition, the Commission entered into a contract on November 1, 2001, with Great Northern Power Development L.P. totaling $673,250. Payments totaling $100,000 were made during fiscal year 2002.

MILL AND ELEVATOR

As of June 30, 2002, the Mill had commitments to purchase 1,612,109 bushels of spring wheat and 88,991 bushels of durum.

STATE COURTS

As of June 30, 2002, the state courts had significant commitments of $1,900,969. The majority of the amount consists of indigent defense contracts with law firms around the state to provide legal services for eligible indigent persons at all stages of proceedings as specified in the contracts.

JOB SERVICE NORTH DAKOTA

As of June 30, 2002, Job Service has commitments to pay $1,980,231 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 $494,889 federal and $1,485,342 non-federal.

BUILDING AUTHORITY

The Authority has committed funds to complete various construction and modernization programs at June 30, 2002, totaling $9,289,000.

The Authority has also committed to fund the Department of Transportation energy conservation project if they decide to proceed with the project prior to June 30, 2003. The amount authorized for financing this project is $353,000.

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, 2002, totaled $1,979,878.

DEPARTMENT OF HUMAN SERVICES

As of June 30, 2002, the Department of Human Services had significant commitments for the purchase of various types of services totaling $28,258,704.

WORKERS COMPENSATION

The Bureau has signed contracts for the construction of a new building. There are contracts with six separate vendors for architecture, general contracting, landscaping, electrical work, plumbing and heating, and ventilation. Total contract payments as of June 30, 2002, totaled $3,246,184, with remaining contract commitments totaling $7,665,591.

PUBLIC SERVICE COMMISSION

As of June 30, 2002, the Public Service Commission had significant commitments of $896,647. This amount consists primarily of contractor charges associated with the Abandoned Mine Lands.

AERONAUTICS COMMISSION

As of June 30, 2002, the Aeronautics Commission had significant commitments of $1,052,904. This amount consists of grants to political subdivisions for maintenance and improvements of their airports.

DEPARTMENT OF COMMERCE

As of June 30, 2002, Department of Commerce had significant commitments of $571,941. This amount consists of grants for the research and development of North Dakota agriculture products.

DAIRY PRODUCTS PROMOTION COMMISSION

As of June 30, 2002, the Dairy Products Commission had significant commitments of $268,250. 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, 2002, the North Dakota Soybean Council had significant commitments of $281,718. This amount mainly consists of grants for the research and development of soybeans.

STATE WATER COMMISSION

As of June 30, 2002, the State Water Commission had long-term commitments of $45,389,000 for various water projects.

NORTH DAKOTA DEPARTMENT OF TRANSPORTATION

At June 30, 2002, the North Dakota Department of Transportation (Special Revenue Fund) had non-construction contract commitments of approximately $10.45 million of which $8.95 million represents federal programs which are cost reimbursable.

Construction commitments at June 30, 2002, totaled approximately $156.8 million, of which $126.4 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	$ 12,162	$ 8,868	$ 3,294
NDSU	11,889	5,952	5,937
MiSU	7,967	4,987	2,980
BSC	201	34	167
DSU	207	-	207
NDSCS	2,161	1,609	552
VCSU	1,916	957	959
MaSU	1,312	1,168	144
WSC	5,548	393	5,155

NORTH DAKOTA DEVELOPMENT FUND

The Board of Directors has approved equity investments, loans, grants, and guaranty of collections at June 30, 2002, for which funds have not been disbursed or written agreements entered into in the amount of $2,660,312.

OTHER CONSTRUCTION COMMITMENTS

The State has various long-term construction commitments in the following agencies at June 30, 2002 (expressed in thousands):

OMB	$ 359
Historical Society	1,881
Department of Transportation	37,214
Adjutant General	3,135

B. LITIGATION

The estimated loss in all of the litigation against the State in which a loss to the State is probable is estimated at $150,000 to $500,000. No accrual has been set up in the financial statements as this loss is covered by insurance. Litigation that is reasonably possible to result in an unfavorable outcome is estimated at $3,000,000 to $102,900,000.

The estimated gain in all the litigation brought by the State in which a gain is probable is estimated at $14,188,842 to $14,388,892. This amount was not accrued in these financial statements.

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, 2002, in which the settlement had not been paid as of June 30, 2002.

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.

The 2001-2002 single audit will be issued sometime in March 2003. It is anticipated there will be potential questioned costs against the State as a result of this audit. The State does not believe the results of the audit will have a material impact.

NOTE 18 - SUBSEQUENT EVENTS

HOUSING FINANCE AGENCY

Subsequent to June 30, 2002, the Agency began the process for the issuance of 2002 Series B and C Housing Finance Program Bonds. The 2002 Series B bond issuance is in the amount of $40,000,000. The amount of the 2002 Series C bond issuance will be $11,634,000. Mortgage loans totaling $11,633,314 from the 1983 General Resolution and $9,461,488 from the Agency have been pledged to repay the 2002 C Bonds.

STUDENT LOAN TRUST

On July 2, 2002, the Trust purchased $28,601,000 of student loans from the Bank of North Dakota and on August 2, 2002, purchased additional student loans from the Bank of North Dakota by utilizing $43,977,000 of surplus from the General Bond Resolution (1979).

BUILDING AUTHORITY

On July 11, 2002, the Authority issued $10,665,000 Lease Revenue Refunding Bonds, 2002 Series C with an average interest rate of 3.92 percent. The proceeds of the issue were used for a current refunding of 1993 Series B. The debt will be extinguished on August 15, 2002, and the liability will then be removed from the balance sheet. The current refunding was undertaken to reduce total debt service payments over the next twelve years by $904,000 and resulted in an economic gain of $801,000.

On July 18, 2002, the Authority issued $16,425,000 Lease Revenue Refunding Bonds, 2002 Series D. The proceeds of the issue were used for an advance refunding of 1995 Series A. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the refunded bonds. As of July 18, 2002, $15,225,000 of bonds outstanding is considered defeased and the liability will be removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt by $999,000. This amount is netted against the new debt and amortized over the life of the refunded debt, which is the same as the life of the new debt issued. The current refunding was undertaken to reduce total debt service payments over the next twelve years by $561,000 and resulted in an economic gain of $478,000.

On October 31, 2002, the Authority executed a purchase agreement with Dougherty & Company, LLC for the purchase of $15,145,000 Lease Revenue Refunding Bonds, 2003 Series A. This was a forward delivery current refunding, so the closing (transfer of funds) on this bond issue will not take place until March 5, 2003. The proceeds of the 2003 Series A Bonds will be used to current refund the 1993 Authority Series A Bonds. The forward delivery current refunding was undertaken to reduce the total debt service payments over the next seven years and resulted in a net present value savings of $1,001,000.

WORKERS COMPENSATION

Subsequent to June 30, 2002, Workers Compensation was authorized to establish a subsidiary corporation for the purpose of providing workers' compensation insurance coverage to North Dakota policyholders doing temporary and incidental work in Minnesota. The corporation has been approved to be a stock company, with Workers Compensation being its sole stockholder.

NORTH DAKOTA STATE UNIVERSITY

In July 2002, NDSU received a refund of $417,748 from the Internal Revenue Service resulting from a lawsuit with the IRS over the application of FICA on faculty tenure buyouts. The refund amount does not reconcile to NDSU's claims for refund. NDSU is working with the IRS on reconciling the differences so the proper funds can be credited. It is expected that differences will be reconciled in fiscal year 2003.

In August 2002, $20.4 million of MIDA bonds were issued by the City of Fargo on behalf of the NDSU Research and Technology Park, Inc., a discretely presented component unit. The MIDA bonds were issued to finance construction of a second research facility on the campus of NDSU and to 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.

In August 2002, $3 million of revenue bonds were issued by NDSU to finance construction of an addition to Minard Hall on the main campus of NDSU. The revenue bonds will be repaid from the pledged revenue of the NDSU Housing and Auxiliary Revenue System.

UNIVERSITY OF NORTH DAKOTA

On July 1, 2002, the UND Foundation (Foundation) issued $8,595,000 lease revenue bonds to (i) finance the construction of an office building for the Energy and Environmental Research Center (EERC) of UND; (ii) renovate the current building occupied by the EERC; and (iii) finance capitalized interest and pay costs of issuance related to the bonds. The Foundation will lease certain property to UND pursuant to a lease agreement dated as of July 1, 2002, under which the aggregate of basic rents to be paid by UND, subject to biennial appropriations by the North Dakota Legislature, will be sufficient in amount and payable at such times to pay principal of and interest on the bonds when due. The repayment period extends to June 1, 2027, with interest from 2.5% to 5.0%

BISMARCK STATE COLLEGE

Subsequent to June 30, 2002, BSC incurred a note payable with GE Capital Public Finance for energy performance contracting in the amount of $1,492,000. The note bears interest at the rate of 5.01% and is payable in monthly installments beginning July 1, 2003, through July 1, 2013.

MUNICIPAL BOND BANK

On August 21, 2002, the Industrial Commission approved the issuance of a total $1,700,000 of Capital Financing Program Bonds, Series 2002 A. These bonds are for the express purpose of providing funds to political subdivisions for use in connection with various improvement, construction, and refinancing projects. Interest rates vary from 3.00% to 5.60%, with maturities ranging from June 1, 2003, to June 1, 2028.

APPENDIX G

Form of Legal Opinion

Cook Wegner & Wike PLLP

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

Attorneys at Law

*Also Licensed in South Dakota and Minnesota

September 24, 2003

Industrial Commission of North Dakota
acting as the North Dakota Building Authority
State Capitol, 14th Floor
600 E Boulevard Ave Dept 405
Bismarck, ND 58505-0840

U.S. Bancorp Piper Jaffray Inc.
800 Nicollet Mall
Minneapolis, Minnesota 55402

Re:

$20,000,000
NORTH DAKOTA BUILDING AUTHORITY
ConnectND PROJECT REVENUE BONDS
2003 SERIES C

We have acted as bond counsel to the Industrial Commission of North Dakota, acting as the North Dakota Building Authority, (the "**Authority**") in connection with the issuance by the Authority of $20,000,000 North Dakota Building Authority, ConnectND Project Revenue Bonds, 2003 Series C, dated September 24, 2003, (the "**Bonds**"). In such capacity, we have examined such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to Chapter 54-17.2 of the North Dakota Century Code and House Bill 1505 adopted by the fifty-eighth legislative assembly of the State of North Dakota (together the "**Act**"), a General Authorization Resolution, dated July 22, 2003, of the Authority authorizing the issuance and sale of the Bonds, and a Trust Indenture and Assignment of Loan Payments, dated as of the date of the sale of the Bonds, (the "**Indenture**") between the Authority and the Bank of North Dakota, as Trustee. The Authority and the North Dakota Information Technology Department, (the "**Department**") have entered into a Loan Agreement, dated as of the date of delivery of the Bonds (the "**Loan Agreement**"), regarding the project being financed by application of the proceeds from the sale of the Bonds. Under the Loan Agreement, the Department has covenanted to make loan payments (the "**Loan Payments**") to the Authority to be used to pay the principal at maturity of, premium, if any, and interest when due on the Bonds (the "**Debt Service**"). Under the Indenture, the Authority has pledged and assigned the Loan Payments to the payment of Debt Service on the Bonds. The Bonds are payable solely from the Loan Payments and all the (i) moneys, securities and investments in the Bond Account, the Project Account, any Debt Service Reserve Account, debt service reserve letter of credit, or surety bond, and the Administration Account covenanted to be created and maintained under the 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.

Regarding questions of fact material to our opinion, we have relied upon representations of the Authority and the Department contained in the Indenture and the Loan Agreement and the certified proceedings and other certifications of public officials and others furnished to us, including certifications furnished to us by or on the behalf of the Department, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of opinion that, under existing law:

1. The Authority is duly established and validly existing under the laws of the State of North Dakota with the power to adopt and to enter into and perform its obligations under the Indenture and the Loan Agreement and to issue the Bonds.

2. The Indenture has been duly adopted, authorized, executed, and delivered by the Authority, and is a valid and binding obligation of the Authority enforceable against the Authority. The Indenture creates a valid lien on the Loan Payments pledged by the Indenture to the payment of Debt Service on the Bonds and on the moneys and intangibles in the accounts and any subaccounts covenanted to be created and maintained under the Indenture.

3. The Bonds have been duly authorized and executed by the Issuer for the purpose of financing that project commonly referred to as the ConnectND project for the Department and are valid and binding limited obligations of the Authority, payable solely from the sources provided therefor in the Indenture.

4. Interest on the Bonds is excludable from gross income 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, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the Authority and the Department comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Authority and the Department have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

5. Interest on the Bonds is excludable from gross income for State of North Dakota income tax purposes (other than the tax imposed on financial institutions by North Dakota Century Code, Chapter 57-35.3).

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture are limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

We express no opinion herein regarding the accuracy, adequacy, or completeness 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”), or regarding the perfection or priority of the lien on the Loan Payments or any other accounts or subaccounts created by the Indenture. Further, we express no opinion regarding the tax consequences arising with respect to the Bond other than as expressly set forth herein.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully Submitted,

COOK WEGNER & WIKE PLLP

<u>APPENDIX H</u>

Form of Undertaking to Provide Continuing Disclosure

NORTH DAKOTA BUILDING AUTHORITY
CONNECT ND PROJECT REVENUE BONDS
2003 SERIES C -- $20,000,000

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 Loan Payments effective as of September 11, 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.

"Agency" means the North Dakota Information Technology Department.

"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, the Agency and NDUS 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 F, Appendix E pages E-5 through E-12, and the tables appearing in Appendix D, which Annual Financial Information may, but is not required to, include Audited Financial Statements.

"Audited Financial Statements" means the annual financial statements of the Authority and the Agency, 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.

"NDUS" means the North Dakota University System.

"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 24th day of September, 2003.

North Dakota Building Authority

By: ___________________________________
An Authorized Officer

Bank of North Dakota, as Trustee

By: ___________________________________
An Authorized Officer