NEW ISSUE - Book-Entry Only

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

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excludable from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from State of North Dakota income taxation. For further discussion, see "TAX MATTERS" herein.

NORTH DAKOTA BUILDING AUTHORITY
$37,955,000
FACILITIES IMPROVEMENT BONDS, 2005 SERIES A
(the "Bonds")

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

The Bonds are issuable as fully registered Bonds and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchases of Bonds will be made in book-entry only form, in the principal amount of $5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC participants. Beneficial owners of the Bonds will not receive physical delivery of bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Bonds. Interest is payable on June 1, 2006 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 redemption and extraordinary optional redemption prior to maturity upon the occurrence of certain events as described under "THE BONDS - Redemption" herein.

The Bonds are being issued to finance the acquisition, improving, equipping or construction of certain facilities (the "Projects") for the Office of Management and Budget, the Office of the Attorney General, the State Board of Higher Education, the Department of Corrections and Rehabilitation, the State Historical Society and the Parks and Recreation Department (the "Agencies"), as described under "THE PROJECTS" 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 Agencies pursuant to the Loan Agreements and Acknowledgements of the Assignment of Loan Payments (the "Loan Agreements") under which the aggregate of the semiannual loan payments due under the Loan Agreements (the "Loan Payments") to be paid by the Agencies 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 the Trust Indenture and Assignment of Loan Payments (the "Indenture") both between the Issuer and the Bank of North Dakota as trustee (the "Trustee"). The Bonds are limited obligations of the Issuer payable solely from the revenues and receipts received pursuant to the Loan Agreements, which are produced from biennial appropriations (if any) by the North Dakota Legislative Assembly, other legally available funds, and other funds or amounts held by the Trustee as security for the Bonds. Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation ("MBIA") simultaneously with the delivery of the Bonds.

MBIA

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

The Bonds are offered when, as and if issued by the Issuer subject to the approving legal opinion of Cook Wegner & Wike PLLP, Bismarck, North Dakota, Bond Counsel, as to validity and tax exemption. Certain legal matters will be passed upon for the Issuer by the Attorney General of the State of North Dakota. The Bonds will be available for delivery at The Depository Trust Company in New York, New York on or about September 28, 2005.

Prager, Sealy & Co., LLC has agreed to purchase the Bonds for an aggregate price of $38,335,614.51.

PRAGER, SEALY & CO., LLC

September 19, 2005

NORTH DAKOTA BUILDING AUTHORITY

$37,955,000
Facilities Improvement Bonds, 2005 Series A

MATURITY SCHEDULE

Maturity (December 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP
2009	$1,690,000	4.250%	NRO	658905 BU 7
2010	1,765,000	4.250%	3.310%	658905 BV 5
2011	1,840,000	4.250%	3.440%	658905 BW 3
2012	1,920,000	4.250%	3.570%	658905 BX 1
2013	2,005,000	4.250%	3.690%	658905 BY 9
2014	2,090,000	4.250%	3.790%	658905 BZ 6
2015	2,180,000	4.250%	3.890%	658905 CA 0
2016	2,275,000	4.250%	4.000%	658905 CB 8
2017	2,375,000	4.250%	4.090%	658905 CC 6
2018	2,480,000	4.250%	4.170%	658905 CD 4
2019	2,585,000	4.250%	4.250%	658905 CE 2
2020	2,700,000	4.250%	4.310%	658905 CF 9
2021	2,815,000	4.375%	4.360%	658905 CG 7
2022	2,945,000	4.375%	NRO	658905 CH 5
2023	3,075,000	4.375%	NRO	658905 CJ 1
2024	3,215,000	4.500%	NRO	658905 CK 8

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

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

This Official Statement includes forward-looking statements. Forward-looking statements are generally identifiable by the use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. Forward-looking statements are not guarantees of future performance and involve known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. The Issuer undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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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	Cory Fong
State Auditor	Robert R. Peterson
Insurance Commissioner	Jim Poolman
Superintendent of Public Instruction	Wayne Sanstead
State Treasurer	Kelly Schmidt

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	Pam Sharp
Executive Director and Secretary	Director
Industrial Commission of North Dakota	Office of Management and Budget

BOND COUNSEL
Cook Wegner & Wike PLLP
Bismarck, North Dakota

FINANCIAL ADVISOR TO THE INDUSTRIAL COMMISSION
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 North Dakota Building Authority (the "Issuer") $37,955,000 Facilities Improvement Bonds, 2005 Series A (the "Bonds"), and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto.

Issuer:	The Industrial Commission of North Dakota, acting as the North Dakota Building Authority.
Dated Date:	Date of delivery.
Purpose:	The Bonds are being issued to finance the acquisition, improving, equipping, or construction of certain facilities (the "Projects") for the Office of Management and Budget, the Office of the Attorney General, the State Board of the Higher Education, the Department of Corrections and Rehabilitation, the State Historical Society and the Park and Recreation Department (the "Agencies"), as provided in Senate Bill No. 2023 enacted by the Fifty-ninth Legislative Assembly. Bond proceeds will also be used to provide funds for deposit into the Reserve Fund, to capitalize interest on the Bonds and to pay costs of issuance.
Security:	The Bonds are issued pursuant to a Trust Indenture and Assignment of Loan Payments (the "Indenture") dated as of September 19, 2005 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 Agreements and Acknowledgement of the Assignment of Loan Payments (the "Loan Agreements") dated as of September 28, 2005 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 Agreements which are produced from biennial appropriations by the North Dakota Legislative Assembly. See "SECURITY FOR THE BONDS." Summary definitions of certain capitalized terms appear below.
Optional Redemption:	The Bonds maturing on or before December 1, 2015 are not subject to optional redemption prior to maturity except under extraordinary circumstances as described herein under "THE BONDS--Redemption Provisions." Bonds maturing on or after December 1, 2016 are subject to redemption at the option of the Issuer in whole or in part on December 1, 2015 and on any business day thereafter at a price of par plus accrued interest.
Extraordinary Optional Redemption:	In the event of damage, destruction or condemnation of the facilities constructed or improved with the proceeds of the Bonds, or any portion thereof, as provided in the Loan Agreements, the Bonds will be subject to redemption prior to stated maturity, in whole or in part on the first day of any month, at a redemption price equal to 100% of the principal amount of such Bonds to be redeemed plus accrued interest thereon to the Redemption Date, at the option of the Issuer as directed by the affected Agency in the event that Agency elects under the Loan Agreements to redeem the Bonds rather than repair or rebuild the affected facilities constructed or improved with its share of the proceeds of the Bonds.
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, 2009 through 2024.

Interest Payments:	Semiannually on June 1 and December 1 of each year, commencing June 1, 2006. Interest on the Bonds will be capitalized through June 1, 2008.
Tax Status:	Generally exempt from federal and North Dakota income taxes (see "TAX MATTERS" 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 opinions will be substantially in the form set forth in Appendix J attached hereto.
Authority for Issuance:	The Bonds are being issued pursuant to Chapter 54-17.2 of the North Dakota Century Code, as amended by and Senate Bill 2023 adopted by the Fifty-ninth Legislative Assembly of the State (the "Act").
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 28, 2005.
Book-Entry Only:	The Bonds will be issued as book-entry-only securities through The Depository Trust Company.

Selected Definitions:

"Additional Payments"	Additional amounts due under the Loan Agreements relating to administrative matters under the Indenture and certain costs of operating and maintaining the facilities constructed or improved with proceeds of the Bonds.
"Agencies"	The Office of Management and Budget, the Office of the Attorney General, the North Dakota State Board of Higher Education, the Department of Corrections and Rehabilitation, State Historical Society and the Parks and Recreation Department.
"Indenture"	The Trust Indenture and Assignment of Loan Payments dated as of September 19, 2005 between the Issuer and the Bank of North Dakota, as trustee.
"Loan Agreements"	The Loan Agreements and Acknowledgements of the Assignment of Loan Payments dated as of September 28, 2005 between the Issuer and the Agencies.
"Loan Payments"	Semiannual loan payments due under the Loan Agreements.

"Projects"	The facilities, the acquisition, improving, equipping or construction of, which are being financed with the proceeds of the Bonds.
"Trustee"	Bank of North Dakota.

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

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 Agreements and General Authorization Resolution may be obtained from, Public Financial Management, Inc., 45 South Seventh Street, Suite 2800, 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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OFFICIAL STATEMENT

NORTH DAKOTA BUILDING AUTHORITY

$37,955,000

FACILITIES IMPROVEMENT BONDS, 2005 SERIES A

This Official Statement, including the cover page and Appendices hereto (the "Official Statement"), is furnished to prospective purchasers in connection with the sale and delivery by the Industrial Commission of North Dakota acting as the North Dakota Building Authority (the "Issuer") of $37,955,000 aggregate principal amount of Facilities Improvement Bonds, 2005 Series A (the "Bonds"). The Issuer was created pursuant to Chapter 571 of the 1985 Session Laws of the State of North Dakota for the purpose of acquiring, owning, constructing, reconstructing, extending, rehabilitating or improving buildings, related structures, parking facilities, equipment, improvements, real and personal property and interests therein primarily for the use of the State of North Dakota (the "State") and its agencies and instrumentalities. See "The Industrial Commission of North Dakota" at Appendix A.

The Bonds are being issued pursuant to Chapter 54-17.2 of the North Dakota Century Code, known as the North Dakota Building Authority Act (the "Act"), and as authorized by Senate Bill No. 2023 enacted by the Fifty-ninth Legislative Assembly and an authorizing resolution of the Issuer adopted on August 23, 2005 (the "General Authorization Resolution"). Proceeds of the Bonds will be used to (i) finance the Projects for the Agencies, as provided in Senate Bill No. 2023; (ii) provide moneys for deposit into the Reserve Fund established with respect to the Bonds; (iii) provide moneys which, with the investment earnings thereon, will capitalize interest on the Bonds; and (iv) pay costs of issuance related to the Bonds.

With respect to the Bonds, the Issuer will loan monies to the Agencies for the Projects pursuant to Loan Agreements and Acknowledgements of the Assignment of Loan Payments (the "Loan Agreements") dated as of September 28, 2005. The Bonds are issued under and are equally and ratably secured by the Trust Indenture and Assignment of Loan Payments (the "Indenture) dated as of September 19, 2005, 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 Agreements as security for the payment of the principal of and interest on the Bonds.

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

An Event of Nonappropriation will occur under the Indenture if the Legislative Assembly fails to appropriate sufficient moneys for the payment of Loan Payments under the Loan Agreements. If an Event of Nonappropriation has occurred and continues without cure until the following August 1, unless such Agency has certified to the Authority and the Trustee that it will pay the Loan Payments when due from sources other than appropriation by the Legislative Assembly of the State, the Event of Nonappropriation will become an Event of Default under the Indenture, and will entitle the Trustee to exercise the remedies available under the Indenture.

The Bonds are limited obligations of the Issuer payable solely from the revenues and receipts received pursuant to the Loan Agreements, which are produced from biennial appropriations (if any) by the Legislative Assembly, 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 Agreements specifically provide that nothing therein shall be construed to require the Legislative Assembly to appropriate any moneys to pay the Loan Payments thereunder and that the Agencies shall not be obligated to pay the Loan Payments except to the extent appropriated for each biennium. THE OBLIGATION OF THE AGENCIES TO PAY THE LOAN PAYMENTS UNDER THE LOAN AGREEMENTS IS

SUBJECT TO BIENNIAL APPROPRIATION BY THE LEGISLATIVE ASSEMBLY AS PROVIDED IN THE LOAN AGREEMENTS. NEITHER THE OBLIGATION OF THE AGENCIES TO PAY THE LOAN PAYMENTS NOR THE OBLIGATION OF THE ISSUER TO PAY THE BONDS WILL CONSTITUTE A DEBT OF THE STATE OR ANY AGENCY OR POLITICAL SUBDIVISION OF THE STATE OF NORTH DAKOTA WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION. THE ISSUANCE OF THE BONDS DOES NOT DIRECTLY OR CONTINGENTLY OBLIGATE THE AGENCIES TO PAY THE LOAN PAYMENTS BEYOND THAT APPROPRIATED FOR THE CURRENT BIENNIUM OF THE STATE. THE ISSUER HAS NO TAXING POWER. For certain economic and financial information with respect to the State, see Appendix A and Appendix C hereto.

The Agencies have covenanted in the Loan Agreements to include in their submission to the Governor for inclusion by the Governor in the biennial executive budget of the State for each year of each biennium during the term of the Loan Agreements an amount fully sufficient to pay the Loan Payments required to be paid in each year of the biennium and certain Additional Payments, less any amounts derived from the net revenues and income of the Project, if any. For each biennium in which the Legislative Assembly appropriates funds to pay Loan Payments, the State is legally committed to pay semiannually to the Trustee the specified Loan Payments as described above. For information with respect to the Office of Management and Budget, see Appendix D. For information with respect to the Office of the Attorney General, see Appendix E. For information with respect to the North Dakota State Board of Higher Education, see Appendix F. For information with respect to the Department of Corrections and Rehabilitation, see Appendix G. For information with respect to the State Historical Society, see Appendix H. For information with respect to the Park and Recreation Department, see Appendix I.

Capitalized terms used herein have the same meaning as ascribed to them in the Loan Agreements and the Indenture. See Appendix B hereto.

BONDOWNERS' RISKS

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

Limited Obligations

The Bonds are payable from the aggregate of Loan Payments due under the Loan Agreements, payable from budgeted expenditures of the State subject to biennial appropriations (if any) by the Legislative Assembly from general funds and non-general funds as required by Senate Bill No. 2023, other funds or amounts held by the Trustee as security for the Bonds under the Indenture and/or any other funds available and authorized by law. The Loan Agreements will commence as of the date of the issuance of the Bonds and will expire when the Bonds are repaid. The State's obligation under the Loan Agreements does not constitute a general obligation or other indebtedness of the State or any agency or political subdivision of the State within the meaning of any constitutional or statutory provision or limitation. The Issuer has no taxing power.

There is no assurance that the Legislative Assembly will appropriate sufficient funds for Loan Payments. Accordingly, the likelihood that there will be sufficient funds to pay the principal of and interest on the Bonds depends upon certain factors which are beyond the control of the Bondowners, including (a) the continuing need of the State and the Agencies for the subjects of the Projects, (b) the economic and demographic conditions within the State, and (c) the ability of the State to generate sufficient funds from sales taxes, personal and corporate income taxes and other taxes and other sources of revenue to pay obligations associated with the Loan Payments and other obligations of the State (whether now existing or hereafter created).

The obligation of the Agencies under the Loan Agreements will be satisfied solely from funds of the Agencies or for the benefit of the Agencies which the Legislative Assembly appropriates biennially for such use or other funds that are legally available for such use. Neither the Indenture nor the Loan Agreements limits the ability of the State to incur additional obligations against its revenues.

No Security Interest in Physical Assets

The Bonds are not secured by any security interest in or lien on the physical assets comprising the Projects. Accordingly, upon the occurrence of an Event of Default under the Loan Agreements or the Indenture resulting in nonpayment of principal and interest on the Bonds, the remedies available to the Trustee are limited. If the Agencies do 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).

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.

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THE PROJECTS

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

Agency	Facility	Project Description	Amount
State Board of Higher Education	North Dakota State University	Hazardous Material Handling and Storage Facility	$ 3,500,000
	North Dakota State College of Science	Electrical Distribution	736,000
	Dickinson State University	Murphy Hall Renovation	4,100,557
	Minot State University – Bottineau	Thatcher Hall Addition and Renovation	2,500,000
	University of North Dakota	Energy Conservation Projects	2,331,554
	North Central Research Center	Laboratory and Greenhouse	440,000
	Central Grasslands Research Center	Office Addition	270,000
	Main Research Center	Greenhouse Complex	2,000,000
		Subtotal	$15,878,111
State Historical Society	Heritage Center	Addition	$ 5,500,000
	Chateau Interpretive Center	Renovation and Addition	1,100,000
		Subtotal	$ 6,600,000
Department of Corrections and Rehabilitation	ET Building	Renovation	$ 980,000
	18A Building	Renovation	584,000
		Subtotal	$ 1,564,000
Office of Management and Budget	State Capital Complex	Fire Suppression System	$ 3,155,000
Office of the Attorney General	Crime Laboratory	Renovation and Addition	$ 3,632,691
Parks and Recreation Department	Turtle River State Park	Office Building Construction	$ 350,000
	Total of Authorized Projects		$31,179,802

State Board of Higher Education

North Dakota State University, Fargo. This project will build the Hazardous Material Handling and Storage Facility, a 12,000 square foot facility to provide safe handling and storing of the numerous hazardous materials required at the North Dakota State University. The construction of this facility will allow the University to meet all the legal requirements for handling and storing of hazardous materials in one location on campus.

North Dakota State College of Science, Wahpeton. This project is Phase II of a four-phase plan to upgrade and replace the electrical distribution system within the campus. This phase consists of replacing conductors and electrical services for the remaining buildings not completed in Phase I and removing the existing 5KV conductors.

Dickinson State University, Dickinson. This project is the complete renovation of the Murphy Hall science facility. The renovation is designed to compliment a 34,308 square foot addition completed in July, 2005. Together, the addition and renovation of the existing facility will provide for the academic space requirements of the natural sciences; Biology, Chemistry, Physics, as well as host courses for programs in Agriculture, Nursing and Teacher Education. The renovation will consist of completely gutting the interior of the original building inclusive of the HVAC systems and upgrading of the façade of the one exterior wall not affected by the wrapped around addition with brick and new windows matching the same as included within the addition. Upon completion anticipated in January 2007, the renovation will provide for a safe and conducive learning environment that shall enable the institution to effectively compete nationally. Facilities programmed within the renovation consist of an anatomy laboratory, a physics laboratory, a general science laboratory, a scientific computer lab, a computer applications laboratory, five general lecture classrooms, a 147 seat lecture auditorium, chemistry and biology student/faculty research laboratories and an animal suite.

Minot State University – Bottineau Campus, Bottineau. The Thatcher Hall project will consist of the construction of a two-story addition (plus basement) onto the east end of Thatcher Hall, a classroom and administration building. The size of the addition is estimated to be approximately 19,000 square feet. The Thatcher Hall addition will include the following: (i) classrooms; (ii) meeting rooms; (iii) additional space for tutoring and counseling of students; (iv) library expansion; (v) renovation of existing library space; and (vi) office space for staff, faculty and other departmental purposes.

University of North Dakota, Grand Forks. This project consists of sundry State Facility Energy Improvement Projects throughout buildings on the University of North Dakota campus consisting of: (i) the replacement of low-efficiency existing light fixtures and components within 75 individual university buildings (ii) installation of modern digital controls for the Fargo Medical Education Center buildings and the Hyslop Sports Center; (iii) installation of heat recovery systems and/or digital control systems within several university laboratory buildings; (iv) installation of new exhaust air controls and specialized equipment within Merrifield Hall; (v) installation of digital controls, enhancements to the air handling systems and supplemental window systems in Ryan Hall; (vi) installation of digital controls and enhancements to the air handling systems in Witmer Hall; (vii) installation of heat recovery and domestic water usage reduction systems in West Hall, McVey Hall and Brannon Hall; and (viii) installation of air handling components and digital controls in the University Housing and Children's Center. It is estimated, upon completion of these projects, the campus will experience savings of $332,858 per year.

North Central Research Center, Minot. This project is the construction of the Agronomy Laboratory and Greenhouse at the North Central Research Extension Center. This new 9,600 square foot facility will provide appropriate climate control and meet all required building codes. This project includes a greenhouse for winter research.

Central Grasslands Research Center, Streeter. This project will provide an additional 3,000 square feet of office space for the Central Grasslands Research Extension Center.

Main Research Center, Fargo. This is the first phase of a multi-year project to renovate and replace the greenhouses on the Main Research Center at the North Dakota State University Campus. The first phase will involve the construction of approximately 50,000 square feet of greenhouse and climate controlled hothouse space for research on agronomic plants important to the northern Great Plains. Renovation of existing greenhouse space will bring the facilities up to building code.

State Historical Society

Heritage Center, Bismarck. This project includes a 32,563 square foot addition to the North Dakota Heritage Center which serves as both a museum and the headquarters of the State Historical Society. The new space will provide room for archival records from various state offices and agencies including the Governor's office, the attorney general, the legislative council, and selected records from county and local governments. The State Historical Society maintains a growing collection of books, newspapers, manuscripts, film, video, microfilm, electronic records, and photographs which document events and personalities in North Dakota and Northern Great

Plains history. The expanded facility will also provide specialized preservation storage for the variety of priceless historic documents held by the State Historical Society while enhancing capacity and work flow.

Chateau Interpretive Center, Medora. This project consists of minor remodeling of the existing 2,700 square foot Visitor Center and a 5,000 square foot addition. The majority of the addition will be an interpretive area with the existing building used for support spaces.

Department of Corrections and Rehabilitation

ET Building, Jamestown. The project will upgrade the ET building at the James River Correctional Center (JRCC), an existing dormitory building, needing major retrofits to improve building security, increase energy efficiency, and add critically needed bed space for the Prisons Division.

18A Building, Jamestown. The second project will upgrade the 18A building. This is a three-story building that the prison needs for space for treatment and education classes at the facility, but it requires improvements to bring it up to code before JRCC can occupy the building. These improvements include an elevator and stairwell to make it ADA accessible, new roofing, and restrooms. Additionally, the corridors and fire alarm system will be upgraded to meet code requirements.

Office of Management and Budget

State Capitol Complex, Bismarck. This project consists of the installation of a fire suppression system in the tower and basement portion of the State Capitol. This fire suppression system is the number one mitigation factor for fighting fires in the Capitol. The Life Safety Code, the International Building Code and the International Fire Code all require an approved automatic fire suppression system.

Office of the Attorney General

Crime Laboratory, Bismarck. This project is phase III of the Master Plan development at the east laboratory campus. The project includes remodeling of the existing 5,291 square foot crime laboratory and an addition of 14,679 square feet. The goal of the Crime Laboratory is to provide scientific support to the state's criminal justice system by use of accepted techniques in the analysis, identification, and comparison of physical evidence involved in the investigation and prosecution of criminal offenses. The Crime Lab’s most critical need is to obtain additional space to adequately perform statutory mandates. A Master Plan was formulated in June of 2000, to remodel and add space at the State’s laboratory facility located in east Bismarck. The final phase of the Master Plan capital improvement project is the Crime Lab addition and renovations to the current space.

Parks and Recreation Department

Turtle River State Park, Arvilla. The project involves the construction of a 4,000 square foot administrative office building to include utility service updates and parking accommodation at the Turtle River State Park.

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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	$37,955,000
Net Reoffering Premium	568,258
Total Sources	$38,523,258
Uses of Funds:	
Deposit to the Project Account:	
State Board of Higher Education	$15,878,111
State Historical Society	6,600,000
Department of Corrections and Rehabilitation	1,564,000
Office of Management and Budget	3,155,000
Office of the Attorney General	3,632,691
Parks and Recreation Department	350,000
Deposit to Reserve Account	3,288,628
Capitalized Interest to June 1, 2008	3,774,024
Underwriter's Discount	64,744
Insurance Paid by Underwriter	122,900
Costs of Issuance	90,000
Contingency	3,160
Total Uses	$38,523,258

THE BONDS

General Provisions

The Bonds will be issued in the aggregate principal amount of $37,955,000, 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 June 1, 2006 and semiannually thereafter on June 1 and December 1 of each year (collectively, the "Bond Payment Dates"), and mature on the dates, all as set forth on the inside cover page of this Official Statement. The Bonds are issuable only in fully registered form without coupons in the denomination of $5,000 or any integral multiple thereof.

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

Book-Entry-Only System

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

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

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

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

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

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

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

Neither DTC or Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

Redemption Provisions

Optional Redemption. The Bonds maturing on or before December 1, 2015 are not subject to call and redemption prior to maturity, except as described under "Extraordinary Optional Redemption Upon the Occurrence of Certain Events" below. The Bonds maturing on or after December 1, 2016 are subject to redemption from moneys deposited to the credit of the Bond Account pursuant to the Loan Agreements, at the option of the Issuer in whole or in part on December 1, 2015 and on any business day thereafter, by direction of the Issuer, at a Redemption Price equal to 100% of the principal amount of Bonds to be redeemed plus accrued interest thereon to the Redemption Date.

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

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

Notice of Redemption. Notice of redemption shall be given by the Trustee in accordance with the requirements of DTC, 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 Agreements require semiannual Loan Payments to be paid by each Agency to the Issuer which, when aggregated, represents the total amount of principal of and interest on the Bonds, which Loan Payments have been assigned to the Trustee pursuant to the Indenture. See "SECURITY FOR THE BONDS--The Loan Agreements and the Indenture" herein. The aggregate amount of such Loan Payments payable under the Loan Agreements is designed to be sufficient to pay the principal of and interest on the Bonds becoming due during the term of the Loan Agreements.

The following table shows the scheduled Loan Payments payable under the Loan Agreements, 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	Total Loan Payments
2006	$ -	$ 1,101,713.91	$ 1,101,713.91
2007	-	1,632,168.76	1,632,168.76
2008	-	1,632,168.76	1,632,168.76
2009	-	1,632,168.76	1,632,168.76
2010	1,690,000.00	1,596,256.26	3,286,256.26
2011	1,765,000.00	1,522,837.51	3,287,837.51
2012	1,840,000.00	1,446,231.26	3,286,231.26
2013	1,920,000.00	1,366,331.26	3,286,331.26
2014	2,005,000.00	1,282,925.01	3,287,925.01
2015	2,090,000.00	1,195,906.26	3,285,906.26
2016	2,180,000.00	1,105,168.76	3,285,168.76
2017	2,275,000.00	1,010,500.01	3,285,500.01
2018	2,375,000.00	911,687.51	3,286,687.51
2019	2,480,000.00	808,518.76	3,288,518.76
2020	2,585,000.00	700,887.51	3,285,887.51
2021	2,700,000.00	588,581.26	3,288,581.26
2022	2,815,000.00	469,628.13	3,284,628.13
2023	2,945,000.00	343,628.13	3,288,628.13
2024	3,075,000.00	211,940.63	3,286,940.63
2025	3,215,000.00	72,337.50	3,287,337.50
Total	$37,955,000.00	$20,631,585.95	$58,586,585.95

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SECURITY FOR THE BONDS

The Loan Agreements and the Indenture

The Bonds are payable from Loan Payments due under the Loan Agreements, payable from budgeted expenditures of the State subject to biennial appropriations (if any) by the Legislative Assembly from general funds and non-general funds as required by Senate Bill No. 2023, and certain other revenues as provided in the Indenture. The term of the Loan Agreements will commence as of the date of the issuance of the Bonds and will expire upon the maturity or defeasance of the Bonds. In the opinion of Bond Counsel, neither the Loan Agreements, nor the Bonds constitute a general obligation or indebtedness of the State within the meaning of any constitutional or statutory debt limitation. The State has not pledged its credit to the payment of the Loan Agreements, 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 Agreements, or the Bonds. The Issuer has no taxing power.

The Issuer will assign to the Trustee its interest under the Loan Agreements and all Loan Payments payable under the Loan Agreements for the benefit of the owners of the Bonds. The Issuer has granted to the Trustee for the benefit of the owners of the Bonds certain specified funds held under the Indenture. The Issuer has not granted to the Trustee for the benefit of the owners of the Bonds a mortgage lien on, or a security interest in, or both, in the facilities constructed or improved with a share of the proceeds of the Bonds.

So long as the term of the Loan Agreements has not expired by its terms, the Agencies are required under the Loan Agreements to pay semiannually to the Trustee specified Loan Payments for the Projects of the Agencies under the Loan Agreements. The aggregated Loan Payments payable under the Loan Agreements represent an amount sufficient to pay the principal of and interest on the Bonds.

The Agencies have covenanted in the Loan Agreements to cause to be included in the Governor's budget submitted to the Legislative Assembly for each successive biennium for so long as the Loan Agreements are in effect a request or requests for a sufficient amount to permit the Agencies to discharge all of its obligations under the Loan Agreements. See "THE LOAN AGREEMENT -- Covenant to Request Appropriations" in Appendix B hereto. The Issuer has covenanted in the Indenture that, upon notification from the Trustee, the Issuer will request that the Legislative Assembly include in the executive budget of the State a sufficient amount for payment of Loan Payments pursuant to the Loan Agreements if any Agency has failed to comply with its covenant to request such an appropriation as described above.

In the event the Legislative Assembly does not appropriate sufficient funds to pay the Loan Payments, the Agencies will have no further payment obligation under the Loan Agreements. See "BONDOWNERS' RISKS" herein. Should such a shortfall occur, the Bonds would be paid ratably as to interest and principal as described under "THE INDENTURE -- Remedies on Default -- Application of Moneys" in Appendix B hereto.

Maintenance and Insurance of the Projects

The Agencies have each agreed in their respective Loan Agreements not to cause or permit any waste, damage or injury to the facilities constructed or improved with their share of the proceeds of the Bonds, and at their own expense, to keep the facilities constructed or improved with their share of the proceeds of the Bonds in good condition and repair with reasonable wear from normal use, and damage by act of God, fire or other causes beyond the control of the Agencies excepted. 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 facilities constructed or improved with their share of the proceeds of the Bonds.

The facilities constructed or improved with the proceeds of the Bonds are required to be insured to the extent described under "THE LOAN AGREEMENT -- Maintenance and Insurance of Project" in Appendix B hereto. If a facility constructed or improved with a share of the proceeds of the Bonds or any part thereof is destroyed, damaged or taken by condemnation, within 90 days after any such damage, destruction or taking, the affected Agency is required under its Loan Agreement to notify the Trustee of the Agency's intent as to the application and disbursement of such funds.

Reserve Account

A Reserve Account is established by the Indenture for each series of Bonds and will be fully funded at the time of original issuance of the Bonds, from proceeds of the sale of the Bonds in an amount equal to the Reserve Account Requirement. The Bonds maturing on December 1, 2024 and accrued interest thereon is expected to be paid, in part, from amounts then held in the Reserve Account.

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 Revenue--Reserve Account" in Appendix B hereto.

Bond Insurance

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

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

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

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

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

MBIA Insurance Corporation

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

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

Financial Strength Ratings of MBIA

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

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

Fitch Ratings rates the financial strength of MBIA "AAA."

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

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

MBIA Financial Information

As of December 31, 2004, MBIA had admitted assets of $10.4 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $3.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2005 MBIA had admitted assets of $10.7 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2004 and December 31, 2003 and for each of the three years in the period ended December 31, 2004, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2004 and the consolidated financial statements of MBIA and its subsidiaries as of June 30, 2005 and for the six month periods ended June 30, 2005 and June 30, 2004 included in the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2005, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2004; and
(2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2004, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005 and June 30, 2005) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

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

TAX MATTERS

In the opinion of Bond Counsel, based upon existing statutes, regulations, rulings and court decisions, interest on the Bonds is excludable from gross income for federal and State of North Dakota income tax purposes (other than the tax imposed on certain financial institutions by North Dakota Century Code, Chapter 57-35.3). A copy of the proposed opinion of Bond Counsel is set forth in Appendix J hereto.

Noncompliance following issuance of the Bonds with certain requirements of the Code may result in the inclusion of interest on the Bonds in gross income for federal and North Dakota income tax purposes retroactive to the date of issuance of the Bonds. The Issuer has 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 issuance 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.

Original Issue Discount:

To the extent the issue price of the Bonds is less than the amount to be paid at maturity of the Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds that is excluded from gross income for federal income tax purposes. For this purpose, the issue price of the Bonds is the first price at which a substantial amount of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Original Issue Premium:

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of a Bond, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such owner. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

LITIGATION

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

APPROVAL OF LEGAL PROCEEDINGS

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

CONTINUING DISCLOSURE

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

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Group ("S&P") will assign the Bonds the ratings of "Aaa" and "AAA" respectively, based on the issuance by MBIA Insurance Corporation of its financial guaranty insurance policy simultaneously with the delivery of the Bonds. Moody's and S&P have assigned underlying ratings to the Bonds of "Aa3" and "AA-", respectively. For an explanation of the significance of a particular rating, an investor should communicate directly with the appropriate rating agency. Such rating reflects only the views of such rating agency. The Issuer furnished to the agencies certain materials and information regarding the Issuer and the Bonds. Generally, rating agencies base their ratings on such material and information and on investigations, studies and assumptions by the rating agency. There is no assurance that a particular rating will remain in effect for any given period of time or that it will not be lowered, suspended or withdrawn entirely, if, in an agency's judgment, circumstances warrant. Any such downgrade, change or suspension or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Issuer has sold the Bonds at public sale to Prager, Sealy & Co., LLC, as underwriter, for a price of $38,355,614.51.

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

General Information Regarding
The State of North Dakota

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THE INDUSTRIAL COMMISSION OF NORTH DAKOTA

The Legislative Assembly 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 financed through the Authority. The Commission is responsible for the operation and management of certain other State enterprises and programs, including the Bank of North Dakota, the North Dakota Mill and Elevator Association, the North Dakota Public Finance Authority, the North Dakota Housing Finance Agency, Oil and Gas Research Program, the Agricultural Revenue Bond Program, and the North Dakota Student Loan Trust. The Commission performs regulatory functions through its Department of Mineral Resources. 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. Additionally, as of August 1, 2005, the Industrial Commission is responsible for the North Dakota Transmission Authority.

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 terms expiring December 14, 2008 (with respect to the Governor) and December 31, 2006 (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 Loan Payments under the Loan Agreements, 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 primarily responsible for 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 16 departments of the Executive Branch, and chairs a number of State Commissions including the Industrial Commission, the Indian Affairs Commission, the Board of University and School Lands 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 warranto, 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 system utilizing PeopleSoft financials as part of an enterprise resource plan ("ERP"). This system provides 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 financial statements of the State for fiscal year 2004 is attached as Appendix C.

Budget Procedures

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

Budget Stabilization Fund

North Dakota Century Code 54-27.2 provides for a Budget Stabilization Fund. The law states that "any amount in the state general fund in excess of sixty-five million dollars at the end of any biennium must be transferred by the state treasurer to the budget stabilization fund." Monies held in the Budget Stabilization Fund may be used as follows:

1. If General Fund revenues for the biennium are projected to be at least two and one-half percent less than estimated by the most recently adjourned legislative session, the Governor may order the Director of the Office of Management and Budget to transfer the appropriate funds from the Budget Stabilization Fund to the State General Fund to offset the decrease in General Fund revenues.

2. As appropriated by the Legislative Assembly in subsequent legislative sessions.

The Budget Stabilization Fund has had a zero balance since June 30, 1993. In early September 2005, the State Treasurer will transfer to the Budget Stabilization Fund $99,472,631, the maximum amount that can be transferred to the Budget Stabilization Fund. The law states that the amount transferred to and the balance maintained in the Budget Stabilization Fund may not be greater than five percent of the current biennial State General Fund budget. Five percent of the 2005-07 General Fund budget is $99,472,631. Interest earnings on the Budget Stabilization Fund will be placed in the General Fund.

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				
	2000	2001	2002	2003	2004
Revenues					
Taxes	$ 734,974,065	$ 755,449,647	$ 743,815,240	$ 747,980,524	$ 811,437,016
Licenses & Permits	11,317,453	11,260,815	11,327,505	10,441,274	11,824,190
Intergovernmental	164,095	381,322	--	25,066,265	25,444,241
Sales and Services	1,408,547	1,891,369	1,358,059	1,940,615	2,293,692
Royalties and Rents	4,451,445	6,705,433	3,797,829	5,608,132	6,356,596
Fines and Forfeits	1,664,005	2,294,372	2,296,396	3,298,945	7,379,437
Interest and Investment Income	7,511,546	9,264,494	3,431,724	1,288,838	956,020
Miscellaneous	1,664,074	61,592	363,255	428,106	1,196,937
TOTAL REVENUES	$ 763,155,230	$ 787,309,404	$ 766,390,008	$ 796,052,699	$ 866,888,129
Expenditures					
General Government	$ 51,857,281	$ 62,140,718	$ 63,145,955	$ 68,475,297	$ 61,905,844
Education	288,446,110	284,909,751	287,577,112	301,083,785	310,471,873
Health and Human Services	166,163,619	185,861,396	196,337,923	167,437,111	206,303,706
Regulatory	5,909,924	6,250,073	7,569,309	6,764,226	7,105,914
Public Safety and Corrections	44,230,789	40,616,062	60,631,989	54,297,990	60,953,820
Agriculture and Commerce	5,399,415	5,576,666	10,312,451	10,049,690	12,182,156
Natural Resources	12,507,337	13,851,581	13,069,208	11,843,329	11,346,360
Transportation	263,872	--	334,817	209,408	522,500
Capital Outlay	--	--	58,354	10,610,311	4,005,247
Debt Service	--	--	--	118,212	59,782
TOTAL EXPENDITURES	$ 574,778,347	$ 599,206,247	$ 639,037,118	$ 630,889,359	$ 674,857,202
Other Financing Sources (Uses)					
Operating Transfers In	$ 33,460,525	$ 31,402,315	$ 42,294,412	$ 73,517,425	$ 97,345,371
Operating Transfers Out	(194,061,401)	(231,297,905)	(213,412,321)	(228,083,459)	(221,558,208)
Operating Transfers to Component Units	(375,000)	(375,000)	--	--	--
Other	5,606	11,273	204,715	410,737	2,020,619
Total Other Financing Sources (Uses)	$(160,970,270)	$(200,259,317)	$(170,913,194)	$(154,155,297)	$(122,192,218)
Revenues and Other Sources Over Expenditures and Other Uses	27,406,613	(12,156,160)	(43,560,304)	11,008,043	69,838,709
Beginning Cash Balance	87,896,448	118,632,571 (1)	159,048,414 (2)	115,908,161 (3)	126,916,204
FUND BALANCE – END OF YEAR	$ 115,303,061	$ 106,476,411	$ 115,488,110	$ 126,916,024	$ 196,754,913

(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.

(3) The beginning fund balance was restated by $420,051 because of a change in accounting principles.

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 2000 through the Third Quarter of Fiscal Year 2005 (dollars in millions).

Quarter	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005[(1)]
First	$45.4	$50.8	$24.8	$38.6	$56.7	$139.5
Second	21.1	10.1	13.6	50.8	13.3	128.2
Third	15.2	32.4	16.9	74.6	56.3	213.6
Fourth	43.0	74.0	2.7	34.7	37.3	68.5

(1) During this fiscal year, the State began to see a substantial increase in oil and gas tax revenues and sales tax collections. Oil and gas tax revenues were held in the General Fund until the end of the 2003-2005 biennium when oil and gas tax revenues in excess of $71,000,000, i.e. excess revenues in the amount of $49,478,335, were transferred to the Permanent Oil Tax Trust Fund. Sales tax collections constitute over 46 percent of all general fund revenue collections. Due to higher than anticipated taxable sales and purchases, this tax source exceeded projections by over $39,000,000, or 6.7 percent, through March 2005.

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 1995 to 1997, 1997 to 1999, 1999 to 2001 and 2001 to 2003.

	1995-97	1997-99	1999-01	2001-03
Cash Balance Beginning July 1	$ 170,958,855	$ 210,872,624	$ 221,694,897	$ 334,139,162
Collections	4,283,926,637	4,781,013,805	5,550,897,975	5,893,541,216
Transfer from Other Funds	0	0	0	0
Disbursements	(4,244,012,868)	(4,770,191,532)	(5,438,453,710)	(5,964,157,110)
Transfer to Other Funds	0	0	0	0
Cash Balance Ending June 30	$ 210,872,624	$ 221,694,897	$ 334,139,162	$ 263,523,268

Source: Biennial Reports of the State of North Dakota, Office of the Treasurer; July 1, 1995 to June 30, 1997; July 1, 1997 to June 30, 1999; July 1, 1999 to June 30, 2001; and July 1, 2001 to June 30, 2003.

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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.

2005-2007 General Fund Appropriations

Purpose		Appropriation
General Government		$ 168,852,736
Education:		1,051,839,054
Public Institutions and Other	$664,681,161	
Higher Education	387,157,893	
Health and Human Services		505,573,540
Regulatory		21,112,165
Public Safety		142,777,447
Agricultural, Economic Development, Extension and Research:		81,048,559
Extension and Research	56,612,187	
Other Agricultural and Economic Development	24,436,372	
Natural Resources		18,249,122
TOTAL		$1,989,452,623

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 1999-01, 2001-03 and 2003-05 biennia, and the State's Legislative forecast for the 2005-07 biennium are shown below.

Revenue Source	1999-2001 Actual Collections	2001-2003 Actual Collections	2003-2005 Actual Collections	2005-2007 Legislative Forecast
Sales and Use Tax	$ 613,066,466	$ 640,618,363	$ 717,758,293	$ 762,724,000
Motor Vehicle Excise Tax	109,115,230	119,592,232	128,010,103	136,133,400
Individual Income Tax	409,331,437	396,153,000	452,547,326	464,347,000
Corporate Income Tax	99,134,855	88,417,166	102,926,972	83,819,000
Business Privilege Tax	5,464,955	6,257,389	4,958,673	5,166,400
Cigarette and Tobacco Tax	41,706,350	39,313,360	39,476,712	37,147,000
Oil and Gas Production Tax	38,433,365	39,159,000	45,534,044	39,838,800
Oil Extraction Tax	23,566,635	22,841,000	25,465,956	31,161,200
Coal Severance Tax	22,173,854	0	0	0
Coal Conversion Tax	25,672,170	46,878,511	47,196,831	48,833,000
Insurance Premium Tax	39,113,433	48,990,027	56,284,535	63,637,000
Wholesale Liquor Tax	10,321,999	11,155,834	11,889,465	12,300,000
Gaming Tax	27,437,507	27,612,652	20,850,911	20,130,000
Lottery	0	0	7,269,005	10,000,000
Departmental Collections	40,816,171	57,506,019	61,004,537	48,545,021
Interest Income	20,832,123	8,509,483	6,935,015	10,470,000
Mineral Leasing Fees	9,531,698	6,440,513	11,024,583	5,996,333
Bank of North Dakota Transfers	50,000,000	78,699,787	60,000,000	60,000,000
State Mill Transfers	3,000,000	6,000,000	5,000,000	5,000,000
Student Loan Trust Fund Transfers	0	9,000,000	26,258,969	9,000,000
Gas Tax Administration	1,380,608	1,363,392	1,396,200	1,400,000
Federal Fiscal Relief Payments	0	0	56,456,581	0
Other Transfers(1)	5,159,194	15,370,511	65,153,319	79,100,000
Total	$1,595,258,050	$1,669,878,239	$1,953,398,031	$1,934,748,154

(1) 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, $2,000,000 from the Developmental Disability Loan Sale, and $91,589 from miscellaneous transfers. Other transfers 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, $2,200,000 from the PACE fund, $35,911,035 from the Health Care Trust Fund and $261,911 from miscellaneous transfers. Other transfers estimated for the 2005-07 biennium include $6,800,000 from the Land and Minerals Trust Fund, $55,300,000 from the Permanent Oil Tax Trust Fund, $100,000 from the Compulsive Gambling Fund, and $16,900,000 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 1999-01, 2001-03, 2003-05 and 2005-07 biennia is presented below:

	1999-2001 Legislative Appropriation	2001-2003 Legislative Appropriation[1]	2003-2005 Legislative Appropriation	2005-2007 Legislative Appropriation
General Fund	$1,594,038,538	$1,746,983,713	$1,803,661,161	$1,989,452,623
Special Funds	3,215,299,301	3,025,896,983	3,255,778,235	3,763,221,167
Total	$4,809,337,839	$4,772,880,696	$5,059,439,396	$5,752,673,790

(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 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:

> 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. Also enacted by the 1999 Legislative Assembly was the Renaissance Zone Act. The provisions of this legislation included income and property tax exemptions in addition to income and financial institutions tax credits.
>
> 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 were exempted from sales tax.
>
> 2003 Session enacted the Streamlined Sales and Use Tax Agreement and modified the sales tax law to be in compliance with key aspects of the agreement. The State's statutory changes become effective January 2006. An additional 1% sales tax on hotel and motel accommodations was adopted for the period of July 1, 2003 through June 30, 2007. Receipts of this additional tax are intended to be used to assist with the promotion of the Lewis and Clark Celebration.
>
> 2005 Session granted a number of exemptions with an impact of less than $500,000. They include exemptions for sales to licensed assisted living facilities, sales to an emergency medical services provider, and precious metal bullion. The Legislative Assembly also changed the implementation date for compliance with the Streamlined Sales and Use Tax Agreement from December 31, 2005 to September 30, 2005. The Legislative Assembly also allocated a portion of the sales, use and motor vehicle excise tax collections to the senior citizen services and program fund.

Individual Income Tax. A tax on income (defined as federal taxable income with adjustments) is imposed upon individuals and fiduciaries. The 2005 rates and brackets for married taxpayers filing joint return are as follows:

	2005
Up to $49,600	Computed at 2.10%
$49,600 to $119,950	$1,041.60 plus 3.92% of excess over $49,600
$119,950 to $182,800	$3,799.32 plus 4.34% of excess over $119,950
$182,800 to $326,450	$6,527.01 plus 5.04% of excess over $182,800
Over $326,450	$13,766.97 plus 5.54% of excess over $326,450

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.

The 2003 Legislative Assembly created a new individual income tax deduction to allow National Guard and U.S. armed forces reserve members who are called into active duty to deduct any taxable compensation earned while on active duty outside of the State. The seed capital investment tax credit rate was increased to 45%, and thresholds on eligible investments and credits were increased.

The 2005 Legislative Assembly provided for additional seed capital investment tax credits and expanded the agricultural investment tax credit to include investments made by corporations and passthrough entities.

Motor Vehicle Excise Tax. The State imposes a 5% tax on the purchase price (the sale price less any trade-in amount) of any motor vehicle purchased or acquired, either within or outside of North Dakota if the vehicle is required to be registered in North Dakota. If the vehicle is acquired by means other than purchase, the tax is 5% of the fair market value.

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 State does not allow the federal deduction for domestic production. The current rates are as follows:

If North Dakota taxable income is:		For taxable years beginning after December 31, 2003 The tax is:
Over	But not over	
$ 0	$ 3,000	2.60% of N.D. taxable income
$ 3,000	8,000	$ 78.00 + 4.10% of the amount over $3,000
$ 8,000	20,000	$283.00 + 5.60% of the amount over $8,000
$20,000	30,000	$955.00 + 6.40% of the amount over $20,000
$30,000		$1,585,99 + 7.00% of the amount over $30,000

If a corporation elects to use the water's edge method to apportion its income, the corporation will be subject to an additional 3.5% surtax on its North Dakota taxable income. The 2005 Legislative Assembly changed the top rate from 7.0% to 6.5% effective in tax year 2007.

Oil Extraction Tax. The Oil Extraction Tax went into effect January 1, 1981. 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. Other incentives have been adopted since 1991. The reduced rate provisions and exemptions for new wells, horizontal wells, horizontal reentry wells, two-year inactive wells, workover wells and enhanced recovery wells are ineffective if the average price of a barrel of crude oil exceeds the trigger price ($35.50, as indexed for inflation) for each month in any consecutive five-month period. The reduced rates and exemptions are reinstated if the average price falls below the trigger price for each month in any consecutive five-month period. 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.

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 was taxed at four cents per non exempt million cubic feet of gas produced. This rate is adjusted annually to follow fluctuations in gas value by using the yearly producer price index for gas fuels.

Total oil tax collections (Oil Extraction and Oil and Gas Production Taxes) to the State General Fund are capped at $71 million per biennium. All revenues in excess of $71 million are transferred to the Permanent Oil Trust Fund. As of September 1, 2005, the balance in the Permanent Oil Trust Fund was $50,369,096.

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.

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. The revenues generated from the $0.375 per ton tax are allocated 30% to the Coal Development Trust Fund and 70% to the counties.

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

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.

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.

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.

Mineral Leasing Fees. This fee represents the money the State receives for the lease of the State's mineral interests. As of June 30, 2005, the State had rights to approximately 2,555,643 acres, of which approximately 20% was under lease.

Fuel Taxes. North Dakota generally imposes a tax of 23 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 23 cents per gallon, however 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.

NORTH DAKOTA STATE TAX DEPARTMENT
NET COLLECTIONS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 TO 2005

TAX TYPE	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Sales and Use Taxes(1)	$ 398,639,332	$401,554,564	$ 424,855,990	$ 438,438,623	$ 480,337,687
Oil Extraction Tax	24,793,997	17,068,846	22,618,069	25,638,914	45,566,628
Gross Production Tax	46,029,027	36,515,072	43,477,533	47,519,075	74,046,219
Motor Fuels Taxes	112,685,871	111,635,118	115,252,746	119,937,991	122,239,373
Individual Income Tax	213,442,150	198,922,525	200,528,205	214,145,899	241,319,731
Corporation Income Tax	51,606,853	41,600,758	46,027,577	40,257,083	62,669,889
Coal Taxes(2)	39,539,107	38,200,783	39,448,602	40,556,785	37,723,016
All Other Taxes and Fees(3)	117,682,317	121,246,054	131,017,892	124,851,764	132,280,744
Total Net Collections	**$1,004,418,654**	**$966,743,720**	**$1,023,226,614**	**$1,051,346,134**	**$1,196,183,287**

(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.

Additionally, the Legislative Assembly has established statutory limitations on the amount of general fund revenues that will be made available for lease payments and loan 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 Legislative Assembly 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 Legislative Assembly 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 Legislative Assembly is free to alter or even eliminate such limitations in future sessions.) Lease payments and loan payments from other sources of funds, including energy savings on energy conservation projects and charges and fees related to the project funded, are not subject to such statutory limitations.

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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, 2005, Bonds as follows:

1998 Series A:	
4.60% to 5.125% Serial Bonds, due December 1, 2005-2013	$ 3,715,000
5.125% Term Bonds, due December 1, 2018	2,910,000
1998 Series B:	
4.50% to 5.00% Serial Bonds, due December 1, 2005-2010	6,880,000
1998 Series C:	
4.05% to 4.35% Serial Bonds, due December 1, 2005-2009	1,685,000
2000 Series A:	
5.125% to 5.60% Serial Bonds, due December 1, 2005-2019	3,835,000
2001 Series A:	
4.00% to 5.125% Serial Bonds, due December 1, 2005-2018 and 2022	9,805,000
5.125% Term Bonds, due December 1, 2021	2,700,000
2002 Series A:	
4.25% to 5.125% Serial Bonds, due December 1, 2005-2017	7,070,000
5.20% Term Bond, due December 1, 2019	815,000
5.25% Term Bond, due December 1, 2022	1,390,000
2002 Series B:	
5.00% to 5.20% Serial Bonds, due December 1, 2005-2006	795,000
2002 Series C:	
3.00% to 4.30% Serial Bonds, due August 15, 2005-2014	9,350,000
2002 Series D:	
3.00% to 4.50% Serial Bonds, due December 1, 2005-2016	13,890,000
2003 Series A:	
5.25% Serial Bonds, due June 1, 2006-2010	11,305,000
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
2003 Series C:	
3.50% to 5.25% Serial Bonds, due December 1, 2005-2013	20,000,000
Total Outstanding (Excluding the Bonds)	**$109,225,000**

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.

The 2003C Bonds were 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 for the North Dakota Information Technology Department.

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 Public Finance Authority Bonds listed below include a moral obligation provision. Such outstanding debt as of July 1, 2005 is shown below:

	Outstanding
State of North Dakota Student Loan Revenue Bonds	$ 122,150,000
North Dakota Public Finance Authority Bonds[(1)]	135,890,000
North Dakota Housing Revenue Bonds, including accreted value	613,245,000
Board of Higher Education[(2)]	108,492,000
North Dakota State Water Commission[(3)]	107,101,240
Lignite Bonds [(3)]	1,910,000
Total	$1,088,788,240

(1) Section 6-09.4-10 of the North Dakota Public Finance Authority 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 Public Finance Authority 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. Prior to August 1, 2005, the North Dakota Public Finance Authority was known as the North Dakota Municipal Bond Bank under which the outstanding bonds were issued.

(2) As of June 30, 2004.

(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

Agriculture is one of the State's chief sources of revenue. Crops make up two-thirds of the State's annual agricultural productivity; livestock makes up the rest.

Cash receipts for 2004 from the marketing of crops and livestock in the State totaled over $4.167 billion, as compared to $3.777 billion in 2003. 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 2003. Cattle and calves ranked second, with 15.6% of the total and government payments ranked third with 14.7% of the total.

Below is a table which lists the major crops of North Dakota in 2004, the State's rank in national production of each of these crops, and the percentage of the national production of each of these crops that is grown in North Dakota.

State of North Dakota
Major Crop Production 2004

Crop	Rank in Nation	Percent of U.S. Production
All Wheat	2nd	14%
Durum Wheat	1st	59%
Spring Wheat	1st	43%
Barley	1st	33%
Flaxseed	1st	95%
All Sunflower	1st	39%
Sunflower, Oil	1st	39%
Sunflower, Non-Oil	1st	37%
All Dry Edible Beans	1st	27%
Pinto Beans	1st	46%
Navy Beans	2nd	30%
Canola	1st	91%
Dry Edible Peas	1st	61%
Oats	1st	12%
Rye	2nd	9%
Sugar Beets	3rd	16%
Lentils	1st	31%
Honey	1st	17%

Source: North Dakota Agricultural Statistics Service.

North Dakota 2003 Cash Receipts From Crops and Livestock ($000)

	Receipts
Crops	$2,907,322
Livestock	870,197
Total Crops & Livestock	$3,777,519
Government Payments	651,968
TOTAL	$4,429,487
Five Leading Commodities(1):	
Wheat	$ 947,652
Cattle/Calves	690,249
Soybeans	514,048
Barley	238,158
Corn	228,419

(1) Receipts data in dollars are for 2003, the latest year for which data is available.

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

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. With recent increases in crude oil prices, production has risen to 97,957 barrels/day in July 2005. 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 Department of Mineral Resources – 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 2004, 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 Department of Mineral Resources – 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, 1950-2000, 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%
2003	633,837	--

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 and Job Service North Dakota.

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Total average nonagricultural employment in the State in 2004 was approximately 337,150. Below is a table with North Dakota annual nonagricultural employment for the years 2000 through 2004.

North Dakota Annual Average Total Nonagricultural Employment

	2000	2001	2002	2003	2004
Construction	15,850	15,400	15,100	15,950	17,150
Educational and Health Services	45,050	46,000	46,700	47,650	48,550
Financial Activities	16,750	16,900	18,050	18,350	18,600
Government	73,350	73,350	74,250	75,300	74,550
Information	8,450	8,450	7,950	7,700	7,650
Leisure and Hospitality	29,350	29,400	29,850	29,950	30,750
Manufacturing	23,900	24,050	23,700	23,550	24,550
Natural Resources & Mining	3,300	3,500	3,200	3,350	3,550
Other Services	15,300	15,250	15,250	15,150	15,200
Professional and Business Services	24,900	25,250	24,100	23,700	24,050
Retail Trade	41,100	40,700	40,650	40,900	41,250
Transportation, Warehousing and Utilities	11,950	13,000	13,000	13,100	13,050
Wholesale Trade	18,350	18,350	18,000	17,950	18,250
Employment	327,600	329,600	329,800	332,600	337,150

Source: North Dakota Job Service.

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Annual Average
Unemployment Rates

	2000	2001	2002	2003	2004
United States	4.0%	4.7%	5.8%	6.0%	5.5%
North Dakota	3.0%	2.9%	4.0%	3.6%	3.4%
Bismarck MSA	2.6%	2.6%	3.2%	3.1%	3.0%
Fargo MSA	2.0%	1.9%	2.4%	2.6%	3.2%
Grand Forks MSA	3.4%	3.2%	4.0%	3.6%	3.7%

Source: Job Service North Dakota and the U.S. Department of Labor, Bureau of Labor Statistics.

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)	2000(1)	2001(1)	2002(1)	2003(1)	2004(2)	2004 Rank
United States	$9,940	$18,667	$23,255	$29,760	$30,413	$30,941	$31,472	$32,937	--
North Dakota	7,641	15,320	18,899	24,990	25,798	26,982	28,922	31,398	25th
Other Northern Plains States									
Minnesota	9,982	18,784	24,295	32,231	33,059	34,071	34,031	35,861	10th
Iowa	9,346	16,683	20,985	26,540	27,225	28,280	28,340	30,560	32nd
South Dakota	7,701	15,628	19,588	25,815	26,566	26,894	28,856	30,856	28th
Montana	8,728	14,743	18,592	22,961	24,044	25,020	25,406	26,857	46th

(1) Revised
(2) Preliminary

Source: U.S. 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 2000-2004.

Sales Category	2000	2001	2002	2003	2004
Mining, Construction, & Manufacturing	$ 692,292,638	$ 532,281,142	$ 540,338,418	$ 531,975,232	$ 603,718,143
Transportation, Communication, & Public Utilities[1]	520,249,975	659,367,459	599,641,011	648,627,210	763,314,774
Wholesale & Retail Trade	4,959,046,582	5,012,155,708	5,243,133,516	5,067,840,360	5,485,101,552
Services	683,652,769	685,894,218	708,635,488	715,890,346	763,810,335
Other	46,123,347	46,209,173	60,128,993	69,892,481	64,078,624
Total	$6,901,365,311	$6,935,907,700	$7,151,877,426	$7,034,225,629	$7,680,023,428

(1) Includes Gas and Sanitary Services.

Source: North Dakota Sales and Use Tax statistical report, North Dakota Tax Department and the Comprehensive Annual Financial Report of the State.

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APPENDIX B

The Trust Indenture and a Form of the Loan Agreement

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$37,955,000
NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT BONDS
2005 SERIES A

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 19, 2005

Cook Wegner & Wike PLLP
811 East Interstate Avenue, Suite B
Bismarck, ND 58503-1136
Phone: 701.255.1008
Fax: 701.255.6325
E-Mail: cww@cwwbondlaw.com

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PREAMBLE

THIS TRUST INDENTURE AND ASSIGNMENT OF LOAN PAYMENTS dated as of September 19, 2005, 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, to issue and sell its bonds and to lend the proceeds from the sale thereof to the agencies listed therein to provide money 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 such agencies pursuant to loan agreements, to the Issuer for assignment to the Trustee to secure the payment of principal and interest on such bonds and to enter into this Indenture with the Trustee for the benefit and security of the Bondholders; and

WHEREAS, the Issuer has deemed it advisable to pledge Loan Payments and to enter into this Indenture to secure the payment of the Bonds, 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 loan agreements with the agencies listed in the Act and defined herein with respect to their respective projects that provides for, among other items, loan payments payable in amounts and at times which shall be adequate to pay the principal of and interest on the Bonds; and

WHEREAS, the Loan Agreements provide for the disbursement of the proceeds of the Project Account, upon presentment of vouchers from the agencies, to pay the Costs of the Projects as provided in this Indenture; and

WHEREAS, the execution and delivery of this Indenture and the Loan Agreements 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 purchasers 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, the Repair and Replacement 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 Holders 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 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 Bondholders as follows:

ARTICLE I
DEFINITION OF CERTAIN TERMS

Section 1.01. Defined Terms. Definitions used in this Indenture are defined in Appendix A appended hereto.

Section 1.02. Characteristics of Certificate. Every certificate 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 has 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 contained in such certificate 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 may be based as aforesaid are erroneous, or, in the exercise of reasonable care, should have known that the same were erroneous.

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, Facilities Improvement Bonds, 2005 Series A". The aggregate principal amount of Bonds that may be authenticated and delivered under this Indenture is limited to and shall not exceed $37,955,000.

The Bonds shall be dated September 28, 2005, and shall mature on December 1 in each of the years and in the principal amounts, as serial bond maturities and/or term bond sinking installments, and shall bear interest at the rates per annum and be payable as set forth in Exhibit C and any Exhibit 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 projects set out in Sections 1 and 3 of Senate Bill No. 2023 enacted by the Fifty-ninth Legislative Assembly of the State (see Attachment 1), (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 $37,955,000 principal amount of the Bonds, less an Underwriters Discount of $187,643.64 plus a net premium of $568,258.15 and accrued interest of $-0-, being the $38,335,614.51 derived from the sale of the Bonds, shall be deposited with the Trustee as follows:

(a)	To the Bond Account:			
	(i)	Capitalized Interest		$3,774,023.55
	(ii)	Accrued Interest, if any		$ -0-
(b)	To the Reserve Account			$3,288,628.13
(c)	To the Administration Account			$93,160.83
(d)	To the Project Account:			
	(i)	Bond Anticipation Note(s) Redemption, if any		$-0-
	(ii)	Costs of the Projects:		
		(1)	Office of Management and Budget	$3,155,000
		(2)	Office of the Attorney General	$3,632,691
		(3)	State Board of Higher Education	$15,878,111

(4)	Department of Corrections and Rehabilitation	$1,564,000
(5)	State Historical Society	$6,600,000
(6)	Parks and Recreation Department	$350,000

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, 2016, 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, 2015, 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 Extraordinary Optional Redemption.

(a) Sinking Installment Redemption of Term Bonds. Any Term Bond or Bonds in principal amount set out in any Exhibit D attached 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 such Exhibit D.

(b) Extraordinary Optional Redemption. In the event of damage, destruction or Condemnation of the facilities constructed or improved with the proceeds of the Bonds or any portion thereof, Bonds shall be subject to redemption prior to their Stated Maturity, in whole or in part, on any Business Day, at a Redemption Price equal to 100% of the principal amount of such Bonds or portions thereof to be redeemed, together with accrued interest thereon to the Redemption Date, in the principal amount equal to moneys which are deposited in or transferred to the Bond Account pursuant to Section 9.3 of the Loan Agreements. The Trustee shall apply any such amounts described above to the redemption of the Bonds in accordance with the applicable provisions of such Section 9.3 and this Section 3.02(b) on the first day of the month after which proper notice of redemption has been given; provided, however, that such amount to be applied to such redemption shall be rounded to the next lower $5,000 multiple.

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 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. In addition to such Bond proceeds, to the extent permitted by law, the Agency has covenanted in the Loan Agreements that it will with regard to the Projects make available the additional moneys, if any, which, together with such Bond proceeds will be sufficient to finance the Costs of the Projects. The Issuer and the Agency have no obligation hereunder or under the Act to deposit any moneys in the Project Account or apply moneys to the Costs of the Projects except proceeds of the Bonds, any grant proceeds, and Net Proceeds of insurance or Condemnation awards received pursuant to Article IX of the Loan Agreements.

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 Agreements.

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 or others 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 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 3.6 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 Projects 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.

Section 4.06. Establishment of Project Sub-Accounts. The Issuer hereby establishes the following sub-accounts of the Project Account:

(a) Office of Management and Budget Project Account

(b) Office of Attorney General Project Account

(c) State Board of Higher Education Project Account

(d) Department of Corrections and Rehabilitation Project Account

(e) State Historical Society Project Account

(f) Parks and Recreation Department Project Account

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 Agreements 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 13.13 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.

The value of Permitted Investments credited to the Reserve Account shall be determined by the Trustee as of each Interest Payment Date. In the event the Balance in the Reserve Account is less than the Reserve Account Requirement, the Trustee will deposit amounts paid to the Trustee pursuant to Section 5.4(d) of the Loan Agreements. In the event the Balance in the Reserve Account is greater than the Reserve Account Requirement, the Trustee shall transfer such excess to the Rebate Account or Bond Account. 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 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 5.2 of the Loan Agreements 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 who 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 5.4 (a), (b) and (c) of the Loan Agreements.

Amounts in the Administration Account shall, upon receipt by the Trustee of Issuer Certificates, or other Trustee approved vouchers, 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 or vouchers.

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 or authorized entities of 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 Payments.

(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.

Section 5.09. Repair and Replacement Account. The Authority covenants that it will establish and maintain with the Trustee an Account to be designated the Repair and Replacement Account if and to the extent it receives Net Proceeds of insurance or Condemnation awards. Moneys held in the Repair and Replacement Account will be applied by the Trustee to the payment of the costs of repair, replacement or restoration upon such terms as the Trustee may reasonably require. Any earnings on or income from the investment of moneys in the Repair and Replacement Account shall be retained therein and expended for costs of repair, replacement or restoration. Any balance remaining in the Repair and Replacement Account after the payment of all costs of any repair, replacement or restoration shall be transferred to the Bond Account and used to pay the principal of the Bonds including the redemption of Term Bonds.

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 Agreements. It will not modify or amend or consent to modification or amendment of the provisions of the Loan Agreements 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 Agreements so that the obligations of the Agency there under shall not be impaired or excused.

Section 6.03. Appropriation Request. It will, upon notification from the Trustee, request that the legislative assembly of the State include in the executive budget of the State sufficient moneys for the payment of Loan Payments pursuant to the Loan Agreements, if the Agency has failed to comply with the requirements of Section 2.4 of the Loan Agreements and if the amounts available to the Trustee will not be sufficient to pay the principal of and interest on the Bonds when due.

Section 6.04. Fire and Extended Coverage Insurance. The Issuer will cause the Agency to procure and maintain, so long as any Bonds are Outstanding hereunder, insurance pursuant to the requirements of Article IX of the Leases.

Section 6.05. Concerning the Insurance Policies. In case of any default by the Agency in fulfilling the covenants with respect to maintaining any of the insurance policies required under Section 9.2 of the Loan Agreements and Section 6.04 hereof, the Trustee may, and at the direction of the Issuer upon indemnification of the Trustee satisfactory to the Trustee shall, effect such insurance in the name of the Issuer or the Agency or in the name of the Trustee. All money paid by the Trustee as premiums upon such insurance shall be repaid to it by the Agency, upon demand, with interest at the rate equal to the Bank of North Dakota Base Rate and, if not so repaid, shall be secured by the lien of this Indenture subordinate to the indebtedness evidenced by the Bonds issued hereunder.

Upon the happening of any loss or damage covered by any such policies from one or more of the causes to which reference is made in Section 6.04, the Issuer shall make or cause the Agency to make due proof of loss containing a power of attorney in favor of the Trustee to endorse all drafts drawn for the payment thereof to the order of the Trustee, and to sign receipts therefore, and shall do all things necessary or desirable to cause the insuring companies to make payments in full directly to the Trustee.

Section 6.06. Repairs and Reconstruction. Unless the Agency exercises the option to prepay Loan Payments for the purpose of redeeming a portion of the Bonds pursuant to Section 9.3 of the Loan Agreements, in the event of any loss or damage to or destruction or Condemnation of the facilities constructed or improved with the proceeds of the Bonds, the Issuer will promptly cause to be repaired, reconstructed or restored the damaged or destroyed portion thereof or portion thereof taken by Condemnation, and will apply the Net Proceeds of the insurance policies or Condemnation awards solely for that purpose as provided in Section 9.3 of the Loan Agreements, by deposit to the Repair and Replacement Account to be disbursed pursuant to Section 5.09 hereof.

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

In the event the Agency pursuant to rights under the Loan Agreements, or the Authority, shall not elect to repair, reconstruct or restore the damaged, destroyed or condemned property as above provided, the Trustee shall deposit the Net Proceeds in the Bond Account and retire a portion of the Outstanding Bonds. Upon the deposit of Net Proceeds under this Section to the Bond Account the Bonds shall be subject to redemption, and redemption shall be affected pursuant to the provisions of, in the manner, and with the effect provided in Article III of this Indenture.

Section 6.07. Further Assurances. The Issuer will execute or cause to be executed any and all further instruments that may reasonably be requested by the Trustee and be authorized by law, pursuant to NDCC §54-17.2-17, to perfect the pledge of the Loan Payments granted in this Indenture, or intended so to be, or to vest in the Trustee the right to receive and apply the same to the payment or protection and security of the Bonds.

Section 6.08. Proper Books and Records. So long as any of the Bonds issued hereunder shall remain Outstanding and unpaid, the Issuer 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 Projects. Such books and records shall be open to inspection by the Trustee, the Bondholders, the Original Purchaser of the Bonds, and their agents and representatives.

The Issuer shall cause 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 6.09. To Observe All Covenants and Terms -- Limitations on Issuer's Obligations. It will not issue or permit to be issued any Bonds hereunder in any manner other than in accordance with the provisions of this Indenture and the Act and the agreements in that behalf herein contained, and will not suffer or permit any Default to occur under this Indenture, but will faithfully observe and perform all the conditions, covenants and requirements hereof under the Act. The Issuer may issue other bonds or evidences of indebtedness for refunding the Bonds under the terms of this Indenture or issue evidences of indebtedness as may be from time to time authorized by the legislative assembly of the State pursuant to NDCC §54-17.2-13 under the Act, and it is expressly agreed that, the Issuer has no authority or obligation to levy taxes for, or to make any advance or payment or incur any expense or liability from its general funds in, performing or causing performance of, any of the conditions, covenants or requirements of the Bonds or this Indenture.

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 herein) occurs under Section 8.1(a) of the Loan Agreements 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; or

(e) If an Event of Nonappropriation has occurred and continues without cure until the following August 1, unless the Agency has certified to the Issuer and the Trustee that it will pay the Loan Payments and Additional Payments when due from sources other than an appropriation by the legislative assembly of the State.

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 Agreements 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:

  (i) 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

  (ii) 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:

  (i) 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

  (ii) 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 concerning questions of law shall be full and complete authorization and protection in respect of any action taken or suffered by the Trustee 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 the facilities constructed or improved with the proceed of the Bonds, 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 the facilities constructed or improved with the proceed of the Bonds, or otherwise as to the maintenance of the facilities constructed or improved with the proceed of the Bonds; 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 or the facilities constructed or improved with the proceed of the Bonds. 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 is reasonably assured to it, except as required by Section 7.03 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, 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, but only from funds appropriated for such purpose.

Section 8.09. Right to Inspect Project, Facilities 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 and the facilities constructed or improved with the proceed of the Bonds, 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 NDBA Fee, which shall be collectable through the Trustee as part of the additional charges payable by the Agency under Section 5.4 of the Loan Agreements.

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 Issuer, 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 Agreements 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 Agreements or this Indenture, so long as the Loan Agreements 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 AGREEMENTS

Section 12.01. Amendments to Loan Agreements 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 Agreements as may be deemed necessary or desirable (i) by the provisions of the Loan Agreements 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 Agreements 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 Agreements, 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 Agreements reduce the Loan Payments payable under the Loan Agreements to an amount which together with the credits against Loan Payments provided for in Section

5.8 of the Loan Agreements 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
MISCELLANEOUS

Section 13.01. 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 13.02. 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 13.03. 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 13.04. 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 13.05. 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 13.06. 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 13.07. 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 Agreements, 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:	Office of Management and Budget State Capitol, 4th Floor 600 East Boulevard Avenue Bismarck, ND 58505-0400 Attention: Director
	Office of Attorney General State Capitol, 1st Floor 600 East Boulevard Avenue Bismarck, ND 58505-0040 Attention: Deputy Attorney General
	State Board of Higher Education State Capitol, 10th Floor 600 East Boulevard Avenue Bismarck, ND 58505-0230 Attn: Secretary
	Department of Corrections and Rehabilitation 3100 Railroad Avenue PO Box 1898 Bismarck, ND 58502-1898 Attn: Director

State Historical Society
North Dakota Heritage Center
612 E. Boulevard Avenue
Bismarck, ND 58505-0830
Attention: Director

Parks and Recreation Department
1600 East Century Avenue, Suite 3
Bismarck, ND 58503-0649
Attention: Director

Section 13.08. 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 13.09. 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 13.10. Governing Law. This Indenture shall be governed by and construed in accordance with the laws of the State.

Section 13.11. 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 any default made in the due and punctual payment of Debt Service on the Bonds, 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 13.12. 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 13.13. 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 "A1" or better by Moody's, rated "investment grade" by S & P or provided by the Bank of North Dakota, 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_____________________________

Appendix A

DEFINITIONS

Defined Terms. Unless the context otherwise requires, the terms herein defined shall, for all purposes of this Indenture and of any indenture supplemental hereto, have the meanings herein specified. Any terms defined in the Loan Agreement, but not defined herein shall have the same meaning herein as defined in the Loan Agreements. 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 and Senate Bill No. 2023 adopted by the Fifty-ninth Legislative Assembly of the State.

"**Additional Payments**" means the payments to be made pursuant to Section 5.4 of the Loan Agreements.

"**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 Agreements 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, whether one or more, the following North Dakota agencies:

Office of Management and Budget
Office of Attorney General
State Board of Higher Education
Department of Corrections and Rehabilitation
State Historical Society
Parks and Recreation Department

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

"**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 Agreements.

"**Bond Resolution**" means the General Authorization Resolution of the Issuer adopted by the Issuer on August 23, 2005, 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, Facilities Improvement Bonds, 2005 Series A" described in this Indenture, and any additional bonds authorized to be issued hereunder and any bonds issued to refund the Bonds in whole or in part.

"**Building Authority 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 Agreements 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 Issuer, certified by the Secretary to the Commission to have been duly adopted by the Issuer.

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

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

"**Costs of the Projects**" means the aggregate of all Costs of the Project as defined in the Loan Agreements and set out in Attachment 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 Projects, 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 13.13 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 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**" means the Industrial Commission of North Dakota acting as the North Dakota Building Authority created under and pursuant to the provisions of the NDCC Chapter 54-17.2 or any Person succeeding to its rights or duties under this Indenture.

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

"**Loan Agreements**" mean the Loan Agreements and Acknowledgments of the Assignment of Loan Payments, dated as of September 28, 2005, between the Issuer and the Agency.

"**Loan Payments**" means the payments to be paid pursuant to Section 5.2 of the Loan Agreements.

"**Loan Term**" means the duration of the repayment period set out in the Loan Agreements 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.

"**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 authenticated and delivered by the Trustee under the Indenture except:

(i) Bonds canceled by the Trustee or surrendered to the Trustee for cancellation; and

(ii) Bonds for the payment or redemption of which funds in the necessary amount shall have 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 "investment grade" 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; or

(9) Deposits of the Bank of North Dakota which, as provided by NDCC §6-09-10, are guaranteed by the State; or

(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 13.07 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**" or "**Projects**" means the projects described in Attachment A to each Loan Agreement between the Issuer and the Agency, which are to be implemented in whole or 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.

"**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.

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

"**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 any Exhibit D attached 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.

Exhibit A

R – 1

NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT BONDS
2005 SERIES A

Book Entry Bond

Principal Amount: ___________________________ Dollars ($___________.00)

Registered Holder: Cede & Co.

Dated Date	Maturity Date	Interest Rate	CUSIP
September 28, 2005	December 1, 20__	_____%	

Interest Payment Dates	Initial Interest Payment Date	Registrar/Paying Agent
June 1 and December 1	June 1, 2006	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 September 19, 2005 for the above-captioned 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 the above-captioned and duly authorized series of bonds of the State (the "**2005 Series A Bonds**") issued by the Issuer in the initial aggregate principal amount of $37,955,000 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 August 23, 2005. (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 2005 Series A Bonds:

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

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

<u>This bond and the series of which it is one do not constitute a general 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 Agreements, as provided in the Indenture, and as provided in NDCC ch. 54-17.2 and in 2005 Senate Bill No. 2023 adopted by the North Dakota Fifty-ninth legislative assembly. The issuance of the 2005 Series A 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.</u>

IN WITNESS WHEREOF, the Issuer has caused the 2005 Series A Bonds to be executed in the name of the State and on its behalf by the manual or facsimile signatures of the members of the Commission and the official seal of the Commission (or a facsimile thereof) to be hereunto affixed, imprinted, engraved or otherwise reproduced and attested to by the manual or facsimile signature of an Authorized Officer of the Commission.

INDUSTRIAL COMMISSION OF NORTH DAKOTA

____________________________ ____________________________
Governor and Chairman Attorney General

____________________________ ____________________________
Agriculture Commissioner Executive Director of the Commission
Authorized Officer

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

By ____________________________
Authorized Signature

STATEMENT OF INSURANCE

MBIA Insurance Corporation (the "Insurer") has issued a policy containing the following provisions, such policy being on file at the Bank of North Dakota, Bismarck, North Dakota.

The Insurer, in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to the Bank of North Dakota or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

$37,955,000
NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT BONDS
2005 SERIES A

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

MBIA INSURANCE CORPORATION

$37,955,000
NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT BONDS
2005 SERIES A

ORIGINAL PURCHASER

Prager, Sealy & Co., LLC

Exhibit C

2005 SERIES A BONDS
SERIAL BOND PRINCIPAL MATURITY AND INTEREST RATE SCHEDULE

Maturity (December 1)	Principal Amount	Interest Rate
2009	$1,690,000	4.250%
2010	1,765,000	4.250%
2011	1,840,000	4.250%
2012	1,920,000	4.250%
2013	2,005,000	4.250%
2014	2,090,000	4.250%
2015	2,180,000	4.250%
2016	2,275,000	4.250%
2017	2,375,000	4.250%
2018	2,480,000	4.250%
2019	2,585,000	4.250%
2020	2,700,000	4.250%
2021	2,815,000	4.375%
2022	2,945,000	4.375%
2023	3,075,000	4.375%
2024	3,215,000	4.500%

Attachment 1

SENATE BILL NO. 2023

See Transcript Tab 22

State of
North Dakota
Office of the Governor

John Hoeven
Governor

April 26, 2005

The Honorable Jack Dalrymple
President
North Dakota Senate
State Capitol
Bismarck, ND 58505

Re: Item Veto of SB 2023

Dear President Dalrymple:

I have signed SB 2023, but disapprove and veto Section 6 of the bill.

Section 6 would have appropriated funds to study the archival storage requirements of the North Dakota Heritage Center, as an alternative to actually funding a facility for expanded storage.

The funding of the expanded storage facility at the Heritage Center was authorized in Section 1 of this bill, making a study unnecessary.

For these reasons, I veto Section 6 of SB 2023.

Sincerely,

John Hoeven
Governor

38:31:35

600 E Boulevard Ave
Bismarck, ND 58505-0001
Phone: 701.328.2200
Fax: 701.328.2205
www.discovernd.com

Fifty-ninth Legislative Assembly of North Dakota
In Regular Session Commencing Tuesday, January 4, 2005

SENATE BILL NO. 2023
(Appropriations Committee)
(At the request of the Governor)

AN ACT to provide an appropriation for capital projects of various state departments; to provide an appropriation for state facility energy improvement capital projects of various state departments and institutions; to authorize the industrial commission to issue and sell evidences of indebtedness for capital projects; to provide a statement of legislative intent; to provide for a legislative council study; to provide an appropriation; and to amend and reenact section 48-01.1-09 of the North Dakota Century Code, relating to the use of a construction manager.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. PROJECT AUTHORIZATIONS. The industrial commission, acting as the North Dakota building authority, shall arrange for the funding of the projects authorized in this section, declared to be in the public interest, through the issuance of evidences of indebtedness under chapter 54-17.2, beginning with the effective date of this Act and ending June 30, 2007. The industrial commission shall issue evidences of indebtedness under this section with the condition that lease rental payments need not begin until July 1, 2007. The authority of the industrial commission to issue evidences of indebtedness under this section ends June 30, 2007, but the industrial commission may continue to exercise all other powers granted to it under chapter 54-17.2 and this Act and comply with any covenants entered into before that date. The proceeds of the evidences of indebtedness and other available funds are appropriated to the agencies listed in this section, beginning with the effective date of this Act and ending June 30, 2007, for the following projects:

Office of management and budget fire suppression	$3,155,000
Office of the attorney general crime lab addition and renovation	3,632,691
North Dakota state university hazardous material handling and storage facility	3,500,000
North Dakota state college of science electrical distribution	736,000
Dickinson state university murphy hall	4,100,557
Minot state university - Bottineau thatcher hall addition	2,500,000
Department of corrections and rehabilitation James River correctional center ET building improvements	980,000
Department of corrections and rehabilitation James River correctional center programs building code improvements	584,000
North central research center agronomy laboratory and greenhouse	440,000
Central grasslands research extension center office addition	270,000
Main research center greenhouse complex	2,000,000
Historical society chateau interpretive center	1,100,000
Historical society and heritage center research collections expansion	5,500,000
Parks and recreation Turtle River state park administrative office	350,000
Total special funds appropriation	$28,848,248

The north central research center may obtain and utilize federal and other funds to assist in the construction of an agronomy laboratory at the north central research center. There is appropriated to the north central research center the sum of $1,250,000, or so much of the sum as may be necessary, from any federal acts, private grants, gifts and donations, or other funds that may become available for this project for the biennium beginning the effective date of this Act and ending June 30, 2007.

The central grasslands research extension center may obtain and utilize federal and other funds to assist in the construction of an office addition at the central grasslands research extension center. There is appropriated to the central grasslands research extension center the sum of $80,000, or so much of the sum as may be necessary, from any federal acts, private grants, gifts and donations, or other funds that may become available for this project for the period beginning with the effective date of this Act and ending June 30, 2007.

The main research center may obtain and utilize federal funds and other funds to assist in the construction of a greenhouse complex at the main research center. There is appropriated to the main research center the sum of $5,000,000, or so much of the sum as may be necessary, from any federal acts, private grants, gifts and donations, or other funds that may become available for this project for the biennium beginning the effective date of this Act and ending June 30, 2007.

The state historical society may obtain and utilize federal funds to assist in the renovation and addition at the chateau interpretive center. There is appropriated to the state historical society the sum of $500,000, or so much of the sum as may be necessary, for any federal or other funds that may become available for this project for the biennium beginning the effective date of this Act and ending June 30, 2007.

The state historical society may obtain and utilize federal or other funds to assist in the heritage center research collections expansion. There is appropriated to the state historical society the sum of $200,000, or so much of the sum as may be necessary, from any federal or other funds that may become available for this project for the biennium beginning the effective date of this Act and ending June 30, 2007.

The department of parks and recreation may obtain and utilize federal funds to assist in the construction of the administrative office building at Turtle River state park. There is appropriated to the department of parks and recreation the sum of $350,000, or so much of the sum as may be necessary, from any federal or other funds that may become available for this project for the biennium beginning the effective date of this Act and ending June 30, 2007.

Grand total special funds appropriation	$36,228,248

SECTION 2. BOND ISSUANCE REPAYMENT RESPONSIBILITY. Of the total amount of evidences of indebtedness issued under the provisions of section 1 of this Act, a total of $300,000 must be available from non-general fund sources to assist in the retirement of the evidences of indebtedness issued for the project costs associated with the construction of the projects authorized by this Act:

Historical society	$300,000

SECTION 3. STATE FACILITY ENERGY IMPROVEMENT PROJECT AUTHORIZATIONS. The industrial commission, acting as the North Dakota building authority, shall arrange for the funding of the projects authorized in this section, which are described in a report dated November 3, 2004, filed with the governor by the division of community services of the department of commerce, and which are declared to be in the public interest, through the issuance of evidences of indebtedness under chapter 54-17.2 and section 54-44.5-08, beginning with the effective date of this Act and ending June 30, 2007. The authority of the industrial commission to issue evidences of indebtedness under this section ends June 30, 2007, but the industrial commission may continue to exercise all other powers granted to it under chapter 54-17.2, section 54-44.5-08, and this Act and comply with any covenants entered into prior to that date. The proceeds of the evidences of indebtedness and other available funds are appropriated to the agencies and institutions listed in this section, beginning with the effective date of this Act and ending June 30, 2007, for the following projects:

University of North Dakota sundry projects	$2,331,554
Total special funds appropriation	$2,331,554

SECTION 4. LEGISLATIVE INTENT - OLD MAIN RENOVATION. It is the intent of the fifty-ninth legislative assembly that no state funding be used for any renovation projects of old main at Minot state university - Bottineau.

SECTION 5. LEGISLATIVE COUNCIL STUDY - DEFERRED MAINTENANCE - INFRASTRUCTURE. The legislative council shall consider studying, during the 2005-06 interim, deferred maintenance and infrastructure for all state agencies and institutions and compile a list of all the deferred maintenance and long-term infrastructure needs. The legislative council shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixtieth legislative assembly.

SECTION 6. APPROPRIATION - HERITAGE CENTER STUDY. There is appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, the sum of $150,000, or so much of the sum as may be necessary, to the office of management and budget for the purpose of conducting a study regarding an expanded heritage center, including archive storage, exhibit area, and all other such spaces necessary to complete the facility as outlined in the North Dakota state capitol complex master plan dated December 14, 2000. The study also must examine an alternate location for a comparable replacement facility on the capitol grounds taking into account the cost to retrofit the existing heritage center and long-range plans for the capitol grounds. The office of management and budget shall present the results of the study to the sixtieth legislative assembly.

SECTION 7. AMENDMENT. Section 48-01.1-09 of the North Dakota Century Code is amended and reenacted as follows:

48-01.1-09. Use of construction manager. If a governing body uses a construction manager on a public improvement, the construction manager must be a licensed contractor. <u>The architect awarded the design contract and the construction manager awarded the construction management contract for a public improvement shall carry out their contractual duties as agents to the public improvement entity. The architect and construction manager may not construct any portion of the public improvement and may not contract with any contractor or subcontractor to construct any portion of the work.</u> The construction manager awarded the contract for ~~construction of~~ a public improvement shall bond the entire cost of the project through a single bond~~,~~ or through bonds provided by all bid packages and the construction manager's bond for the full amount of the construction manager's services. If the total of the bonds is less than the total project bid, the construction manager shall bond the difference between the total of the bonds and the total project bid.

John S. Dalrymple
President of the Senate

Speaker of the House

Timothy W. Wood
Secretary of the Senate

Chief Clerk of the House

This certifies that the within bill originated in the Senate of the Fifty-ninth Legislative Assembly of North Dakota and is known on the records of that body as Senate Bill No. 2023.

Senate Vote:	Yeas	44	Nays	0	Absent	3
House Vote:	Yeas	56	Nays	33	Absent	5

Timothy W. Wood
Secretary of the Senate

Received by the Governor at 9:20 A.M. on this 25th day of April, 2005.

Approved at 2:01 P. M. on this 4th day of May, 2005.

Governor

Filed in this office this 4th day of May, 2005,
at 4:10 o'clock P. M.

Secretary of State

LOAN AGREEMENT
AND
ACKNOWLEDGEMENT OF THE
ASSIGNMENT OF LOAN PAYMENTS

between

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

and

NORTH DAKOTA STATE BOARD
OF HIGHER EDUCATION

Dated as of September 28, 2005

NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT BONDS
2005 SERIES A

Cook Wegner & Wike PLLP
811 East Interstate Avenue, Suite B
Bismarck, ND 58503-1136
Phone: 701.255.1008
Fax: 701.255.6325
E-Mail: cww@cwwbondlaw.com

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RECITALS

THIS LOAN AGREEMENT dated as of September 28, 2005, is made and entered into between the **INDUSTRIAL COMMISSION OF NORTH DAKOTA, ACTING AS THE NORTH DAKOTA BUILDING AUTHORITY**, a North Dakota instrumentality empowered, subject to legislative authorization, to issue evidences of indebtedness to make funds available for a project or projects as directed by the legislative assembly of the State of North Dakota, (the "**Issuer**"), and the **NORTH DAKOTA STATE BOARD OF HIGHER EDUCATION**, which has control and administration of state institutions of higher education and related research facilities within the State of North Dakota, (the "**Agency**").

Chapter 54-17.2 of the North Dakota Century Code, as amended, and Senate Bill No. 2023 enacted by the Fifty-Ninth Legislative Assembly of the State of North Dakota (together the "**Act**"), empower the Issuer to issue the Bonds and to loan the proceeds thereof for the purposes set out in Senate Bill No. 2023 ("**SB 2023**").

Pursuant to the Indenture (as defined herein), the Issuer proposes to issue the Bonds, in the original principal amount of $37,955,000, to provide, in part, funds which will be loaned to the Agency to pay Costs of the Project (as defined herein) of the Agency's project(s) authorized by SB 2023 and described in Attachment A attached hereto (the "**Project**") and to finance the Agency's proportionate share of the costs of issuance of the Bonds, capitalized interest, and the funding of a reserve fund for the benefit of the Bondholders. The Agency desires to use the proceeds of the Bonds in accordance with the terms and conditions set forth in this Loan Agreement.

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

ARTICLE I
DEFINITIONS

Section 1.1. Definitions. For all purposes of this Loan Agreement, unless defined otherwise below or within the Recitals above, or the context clearly requires otherwise, all terms defined in Article I of the Indenture (attached hereto as Appendix A) have the same meanings in this Loan Agreement.

"**Agency Representative**" means any individual appointed by the Agency pursuant to Section 2.2(f) hereof.

"**Bonds**" mean the "$37,955,000, North Dakota Building Authority, Facilities Improvement Bonds, 2005 Series A" and any additional bonds authorized to be issued under the Indenture and any bonds issued to refund the Bonds in whole or in part.

"**Costs of the Project**" means the cost of implementing the Project as is reasonably estimated and intended to be lawfully financed with the proceeds of the Bonds. Such cost does not include costs to finance the Agency's proportionate share of the costs of issuance of the Bonds, capitalized interest, or the funding of a reserve fund for the benefit of the Bondholders.

"**Discharge Price**" means the amount required to be paid pursuant to Section 10.2 hereof to discharge the Agency's obligation under this Loan Agreement and the Bonds.

"**Indenture**" means the Trust Indenture and Assignment of Loan Payments relating to the Bonds, dated as of the date of the sale of the Bonds, and entered into 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.

"**Plans**" means the plans and specifications or other report prepared by or on behalf of the Agency upon which the Agency has based its estimated total expenses associated with implementation of the Project, whether or not such expenses are financed with the proceeds of the Bonds, and such expenses not including the costs to finance the Agency's proportionate share of the costs of issuance of the Bonds, capitalized interest, or the funding of a reserve fund for the benefit of the Bondholders.

ARTICLE II
REPRESENTATIONS

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

(a) The Issuer (1) is 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 and through a General Authorization Resolution dated August 23, 2005, 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.

(c) 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.

(d) 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.

(e) 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.

(f) 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 and materially 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.

(g) 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).

(h) 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 the Costs of the Project through the issuance of the Bonds will further the public purposes of the Act.

(i) 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.

(j) 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 a governmental instrumentality duly organized and existing under the constitution and/or laws of the State, (2) is duly authorized to exercise the authority and to perform its functions set out in the constitution and/or laws of the State, (3) is not in violation of any provision of the constitution and/or laws of the State, (4) has full power to acquire, own and lease properties in the name of the State, (5) has full legal right, power and authority to enter into this Loan Agreement and to consummate all transactions contemplated by this Loan Agreement, 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 nor the consummation by the Agency of the transactions contemplated by this Loan Agreement conflicts with or will result in a violation of the constitution or laws of the State, or any order, rule, regulation, agreement or instrument to which the Agency is a party or by which it is bound.

(c) This Loan Agreement has been duly authorized, executed and delivered by the Agency and constitutes a legal, valid and binding obligation of the Agency in accordance with its 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 or the ability of the Agency to comply with its obligations under this Loan Agreement.

(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 is true and correct in all material respects.

(f) 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 an 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.

(g) The Agency covenants that it expects that it will, within 6 months of the issue date of the Bonds, spend (or enter into binding contracts with third parties obligating the Agency to spend) an amount equal to at least 5 percent of its share of the net sale proceeds of the Bonds on the applicable portion of the Project.

(h) The Agency has no reason to believe that the State legislature will discontinue the Agency; however, the legislature has the power to alter the statutory laws regarding the Agency. Therefore, 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 2.3. Special Representations of the Agency Relating to the Tax-Exempt Status of the Bonds. The Agency shall take no action authorized to be taken under this Loan Agreement which shall in any manner violate or otherwise contradict or cause to be violated the requirements of the Tax Certificate on file with the Agency and Issuer or otherwise cause the Trustee or Issuer to violate or in any way fail to maintain compliance with the Tax Certificate. For instance, the Agency shall not (i) use the facilities constructed or improved with its share of the proceeds of the Bonds for any purpose, or (ii) otherwise assign any rights under this Loan Agreement for any private business use, which would cause the interest payable on the Bonds to be includable in the gross income of the Bondholders for federal income tax purposes, including leasing space in a building, the construction of which was financed by the proceeds of the Bonds, to an entity other than a state or local government agency or institution.

Section 2.4. Special Representation of the Agency to Request Appropriation. The Agency shall include in its submission to the governor of the State for inclusion by the governor in the biennial executive budget of the State for each year of the respective biennium during any renewal term of this Loan Agreement an amount fully sufficient to pay the Loan Payments required to be paid in each year of the biennium, Additional Payments required under Section 5.4 hereof and estimated to be payable in each year of the biennium and any such Additional Payments remaining unpaid less the amount, if any, from moneys from non-general fund sources. Provided that should the governor not include in the executive budget for any reason the amounts required to be so included by the previous sentence of this Section 2.4, the Agency shall request independently that the legislative assembly of the State amend the executive budget appropriation so as to include such amounts. The Agency is hereby contractually obligated to provide in each year of the biennium from legislative appropriations for such purpose, amounts sufficient to pay the Loan Payments required hereunder when due, the same being an ordinary annual expense for each year of the biennium and a contract obligation of the Agency and the Agency will do all things lawfully within its power to obtain and maintain the appropriated funds from which the Loan Payments may be paid. In an Event of Nonappropriation, the Agency is not required to continue to make the Loan Payments required under this Loan Agreement. However, the Agency reserves the right to make payments of Loan Payments from legally available sources other than appropriations in accordance with Section 7.01(e) of the Indenture.

Section 2.5. Special Representation of the Agency Regarding 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 III
PROJECT COSTS, CHANGES, AND COMPLETION

Section 3.1. Cost of and Changes to Project and Plans.

(a) The Agency estimates the Costs of the Project to be in the amount of $15,878,111. The Agency estimates the total expenses associated with implementation of the Project, not including the Agency's proportionate share of the costs of issuance of the Bonds, capitalized interest, and the funding of a reserve fund for the benefit of the Bondholders, to be $______________.

(b) The Agency may make changes or modifications to the Plans, or deletions from or substitutions or additions to the Project, without the prior consent of the Issuer if such changes or modifications to the Plans, or deletions from or substitutions or additions to the Project will not, in the written opinion of the Agency Representative filed with the Issuer, (i) materially alter the Project, (ii) cause a material delay in the completion date of the Project as provided in Section 3.6 of this Loan Agreement, (iii) cause the estimated Costs of the Project to exceed the amount of the Costs of the Project approved by the State legislature and such other legally available funds, (iv) materially affect the structural integrity and utility of the facilities constructed or improved with its share of the proceeds of the Bonds or impair the usefulness or character of the facilities constructed or improved with its share of the proceeds of the Bonds, or (v) violate the requirements of the Act or of a licensing authority, if any. No change of use of the facilities constructed or improved with the Agency's share of the proceeds of the Bonds shall be made without the prior written opinion of Bond Counsel stating that such change in use will not cause the interest payable on the Bonds to be includable in a Bondholder's gross income for federal income tax purposes.

(c) The Agency hereby covenants and agrees that no changes or modifications to the Plans or substitutions, deletions or additions to the Project increasing the Costs of the Project from the amount estimated herein shall be made unless there shall be on deposit with the Agency adequate moneys therefore, and the availability of such moneys shall be certified in writing by the Agency to the Issuer and the Trustee.

Section 3.2. Contracts. If necessary, the Agency will enter into contracts to assure completion of the Project, executed copies of which are or will be filed with the Agency and the Agency represents and warrants that the Project can be completed with the amount of funds available therefore in the Project Account and/or other funds or accounts to be made available by the Agency. If appropriate, as evidence of the sufficiency of the contracts, the Agency will furnish the Issuer and the Trustee, at the time of delivery of the Bonds or within 30 days of the execution of such contracts, whichever date is later, the following:

(a) A breakdown, itemizing by major category, of all costs necessary and sufficient for the implementation of the Project.

(b) Copies of performance and payment bonds written by a surety company satisfactory to the Issuer, payable to the Issuer, assuring completion of the Project or a certificate in form and substance satisfactory to the Issuer evidencing such insurance, as the Issuer shall direct.

(c) A copy of builders risk insurance and/or commercial general liability policies issued by financially responsible, recognized and qualified insurers, insuring all contractors, service providers, and the Agency in form and amount satisfactory to the Issuer or a certificate in form and substance satisfactory to the Issuer evidencing such insurance, as the Issuer shall direct.

Except as expressly permitted by this Loan Agreement pursuant to Section 3.1, the Agency shall not agree or consent to any amendments to any of the contracts, whether by change order or otherwise, which increase the Costs of the Project or materially alter the scope, character or function of the Project's purpose, or materially extend the construction or other implementation period, unless it shall have first obtained the prior written approval of the Issuer.

Section 3.3. Disbursement from Project Account. The Issuer, in the Indenture, has authorized the Trustee to make payments from the Project Account to pay the Costs of the Project, upon receipt of a voucher signed by an Agency Representative certifying, with respect to each payment to be made:

(a) The purpose and amount of such payment, and the name of the person or entity to which each such payment is due, or, if such payment is made as reimbursement to the Agency, the name of the person or entity to which each such payment was made by the Agency;

(b) That the Costs of the Project stated in such voucher (i) has been paid or incurred and is then due and payable, (ii) was necessary for the implementation of the Project, and (iii) if applicable, were made or incurred in accordance with the Plans;

(c) That no part of the Costs of the Project stated in such voucher was included in any voucher request previously filed with the Trustee; and

(d) That the balance remaining in the Project Account, after disbursement of moneys there from in accordance with such request, together with any other moneys available to the Agency, will be at least sufficient to pay the remaining Costs of the Project in accordance with the Plans.

The Agency shall also provide the Issuer and the Trustee with sworn statements upon request and an itemization of the Costs of the Project in sufficient detail to evidence the incurring of such cost for the payment of which application has been or is then being made. The Agency shall permit the Issuer and the Trustee, upon request, to inspect the records of the Agency relating to the Costs of the Project.

Section 3.4. Completion of Project. The Agency hereby covenants that it expects that at least 85 percent of its share of the net sale proceeds of the Bonds will be allocated to expenditures for the implementation of the portion of the Project financed with the proceeds of the Bonds before September 28, 2008. If, at any time the amount remaining in the Project Account is insufficient to complete the Project in accordance with the Plans, and the Issuer and the Agency each certify that they decline or are unable to provide additional funds therefore, the Agency shall revise the Plans, subject to the requirement of Section 3.1 hereof, in such a manner so that the Project may be completed within the amount of funds available therefore.

Section 3.5. Abandonment of Project. If the Agency, at any time prior to the completion of the Project, abandons the Project or ceases work thereon and fails to resume work thereon within 30 days after written notice from the Issuer or the Trustee to the Agency requesting that work on the Project be resumed (except where such cessation in work is caused by causes beyond the Agency's control, including, but not limited to labor disputes, fire, unusual delay in transportation or unavoidable casualties), or fails to complete the Project substantially in accordance with the Plans, or makes changes in the Plans without first securing written approval when required by Section 3.1 and Section 3.2 hereof, or if the Issuer determines the Agency is not using its best efforts to complete the Project in accordance with the Plans on or before the date given for such completion in Section 3.4 hereof, then, after consultation with the Agency, the Issuer may, with the consent of the Trustee, declare an Event of Default, as that term is defined in this Loan Agreement and the Indenture.

Section 3.6. Certificate of Completion. The completion date of the Project and the payment of the entire Costs of the Project shall be evidenced to the Trustee, the Issuer, and the Agency by a "Certificate of Completion" signed by the Agency Representative to the effect that, except for any Costs of the Project not then due and payable, or the liability for payment of which is being contested or disputed by the Agency, the Project has been completed in accordance with any contracts and Plans and all Costs of the Project have been paid. Notwithstanding the foregoing, such certificate shall state that it is given without prejudice to any rights against third parties, which exist at the date of such certificate or which, may subsequently come into being.

ARTICLE IV
ISSUANCE OF BONDS; LOAN TO AGENCY

Section 4.1. Issuance of Bonds; Loan to Agency. In order to pay the Costs of the Project, and to finance the Agency's proportionate share of the costs of issuance of the Bonds, capitalized interest, and the funding of a reserve fund for the benefit of the Bondholders, the Issuer will issue, sell and deliver the Bonds and cause the proceeds thereof allocated for the benefit of the Agency to be disbursed or deposited with the Trustee as provided in 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 allocated for the benefit of the Agency and deposited with it into the various Accounts as set out in the Indenture and to make disbursements out of such Accounts as set out herein and therein. If the proceeds of the Bonds are not sufficient to pay the total expenses associated with implementation of the Project, including the Agency's proportionate share of the costs of issuance of the Bonds, capitalized interest, and the funding of a reserve fund for the benefit of the Bondholders, 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 and expenses from any legally available funds. The Agency hereby approves the Indenture and the issuance of the Bonds.

ARTICLE V
LOAN TERM; PAYMENTS

Section 5.1. Term of this Loan. The term of this Loan Agreement shall commence on September 28, 2005, and shall continue until the Agency's proportionate share of the Debt Service on the Bonds has been paid in full.

Section 5.2. Loan Payments. During the term of this Loan Agreement, and subject to any credits referred to in Section 5.8 hereof, the Agency agrees to pay and shall make, in immediately available funds, Loan Payments from funds legally appropriated by the legislative assembly of the State, or other legally available funds, on or before a date which is five Business Days prior to June 1, 2006, and semiannually thereafter on a date which is five Business Days prior to each June 1 and December 1, to pay its proportionate share of (i) an amount equal to the amount payable as interest on the Bonds on such Interest Payment Date, plus (ii) an amount which is equal to the amount payable as principal of the Bonds due on such Principal Payment Date, and (iii) the amount which is equal to the principal, if any, which shall be payable by call for redemption pursuant to the Indenture and premium, if any, due on the Bonds on such date.

Section 5.3. Place of Loan Payments. The Loan Payments provided for in Section 5.2 shall be paid directly to the Issuer at its office for payment to the Trustee. The Loan Payments are then paid to the Trustee for deposit in the Bond Account as provided in the Indenture.

Section 5.4. Additional Payments. During the term of this Loan Agreement, the Agency shall pay as Additional Payments:

(a) To the Trustee, for itself or for remittance to the Paying Agent, promptly after being billed, its proportionate share of the amount of (i) the annual fee of the Trustee as trustee, for the ordinary services of the Trustee rendered and its ordinary expenses incurred under the Indenture during the preceding billing period, (ii) the annual NDBA Fee payable under the Indenture during the preceding billing period, (iii) the reasonable fees and charges of the Paying Agent and Registrar on the Bonds for acting as Paying Agent and Registrar as provided in the Indenture, as and when the same become due and (iv) the reasonable fees and charges of the Trustee for necessary extraordinary services rendered by it and extraordinary expenses incurred by it under the Indenture, as and when the same become due, other than the fees and charges which were required by reason of the negligence or willful misconduct of the Trustee under the Indenture; provided, that the Agency may, without creating a default hereunder, contest in good faith the necessity for any such extraordinary services and extraordinary expenses and the reasonableness of any such fees, charges or expenses; and

(b) To the Trustee, (i) amounts for reasonable compensation, expenses, advances and Counsel fees incurred by the Trustee in and about the execution of the trusts created by the Indenture related to the Project and exercise and performance of the powers and duties of the Trustee under the Indenture related to the Project; and (ii) the cost and expense incurred by the Trustee in defending against any liability in the Project of any character whatsoever (unless such liability shall have resulted from the negligence or willful misconduct of the Trustee); and (iii) its proportionate share of any cost and expense incurred by the Trustee in calculating the amount of any rebate required to be made to the United States and the amount of such rebate unless moneys are available from some other source to make such rebate payment. The Agency hereby covenants and agrees to pay or cause to be paid all advances, Counsel fees and other expenses reasonably made or incurred by the Trustee in and about the execution of the trusts created by the Indenture related to the Project; and

(c) To the Trustee upon demand, amounts advanced by the Trustee for the account of the Agency in the event the Agency shall fail to maintain or repair, rebuild or restore the facilities constructed or improved with its share of the proceeds of the Bonds or shall fail to maintain any insurance as required by the provisions of this Loan Agreement, or to do any other thing or make any other payment required to be done or made by any other provision of this Loan Agreement; whereby the Trustee, in its own discretion, may upon indemnification of the Trustee satisfactory to it, do or cause to be done any such thing or make or cause to be made any such payment at the expense or as an advance for the account of the Agency, including all costs and expenses so incurred and advances so made, with interest at the rate equal to the Bank of North Dakota Base Rate; and

(d) To the Trustee on or before the next regularly scheduled Interest Payment Date, following written notice from the Trustee, in the event the Balance in the Reserve Fund is less than the Reserve Fund Requirement due to (i) the Agency's failure to pay Additional Payments as required by the Loan Agreement or to pay Loan Payments pursuant to the Loan Agreement or (ii) a reduction in the Value of Permitted Investments credited to the Reserve Fund, its proportionate share of an amount sufficient to bring the amount on deposit in the Reserve Fund up to the Reserve Fund Requirement.

Section 5.5. Loan Covenants. The Issuer shall not be required to make any expenditures whatsoever in connection with this Loan Agreement or the Project (except as otherwise provided in this Loan Agreement and the Indenture from proceeds of the Bonds), or to make any repairs to or to maintain the facilities constructed or improved with the Agency's share of the proceeds of the Bonds, including any costs and expenses incurred by the Agency in connection with the Project, including but not limited to any or all government charges or taxes, if any, levied on the facilities constructed or improved with the Agency's share of the proceeds of the Bonds or the operation thereof, and all charges for services including utility services supplied to, or used during the implementation of the Project. The obligations of the Agency to make the Loan Payments and Additional Payments and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional and shall not be subject to abatement for any reason; and until such time as the principal, premium (if any) and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, the Agency (i) will not, subject to the provisions of Section 5.7 and Section 5.8 hereof, suspend or discontinue any of the Loan Payments or Additional Payments, (ii) will perform and observe all of its other agreements contained in this Loan Agreement, and (iii) except as provided in Article X, will not terminate this Loan Agreement for any cause, including, without limiting the generality of each of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the facilities constructed or improved with the Agency's share of the proceeds of the Bonds, frustration of purpose, any change in the tax or other laws or administrative rulings of or administrative actions by the United States of America or the State, or any failure of the Issuer to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Loan Agreement or the Indenture. Nothing contained in this Section shall be construed to release the Issuer from the performance of any of the agreements on its part contained in this Loan Agreement; and in the event the Issuer should fail to perform any such agreement on its part, the Agency may institute such action against the Issuer as the Agency may deem necessary, so long as no judgment or court order sought or obtained in such action shall interfere with the prompt and full payment of the Loan Payments and Additional Payments as contemplated hereby. Neither the payments payable under this Article of this Loan Agreement nor any obligation of the Agency shall be subject to setoff by the Issuer.

Section 5.6. Interest on Unpaid Payments. In the event the Agency shall fail to make any Loan Payments or Additional Payments, the item or installment so in default shall continue as an obligation of the Agency until the amount in default shall have been fully paid. The Agency agrees to pay interest on any Loan Payments in default at the rate or rates of interest payable on the Bonds as specified in Article II of the Indenture. The Agency agrees to pay interest on any Additional Payments in default at the rate or rates of interest equal to the Bank of North Dakota Base Rate.

Section 5.7. Prepayment of Loan Payments; Redemption of Bonds. There is expressly reserved to the Agency the right, and the Agency is authorized and permitted, at any time it may choose, to prepay all Loan Payments in an amount equal to the Discharge Price pursuant to Section 10.2 hereof or any part of the Loan Payments or the Additional Payments, and the Issuer agrees that the Trustee may accept such prepayments when the same are tendered by the Agency. All Loan Payments or Additional Payments so prepaid shall be credited to the Loan Payments or Additional Payments respectively, in a manner determined by the Issuer in compliance with the requirements of the Indenture.

The Agency with the consent of the Issuer and the Trustee also may at any time deliver to the Trustee moneys in addition to the Loan Payments and Additional Payments required under this Loan Agreement with instructions to the Trustee to deposit such funds in the Bond

Account and to use such moneys for the purpose of purchasing any of the Outstanding Bonds or to call for redemption any of the Bonds in accordance with the provisions of the Indenture.

Section 5.8. Credit Against Loan Payments. Moneys on deposit to the credit of the Bond Account shall be invested by the Trustee pursuant to the requirements of Section 5.03 of the Indenture. Any interest accruing on and any profit realized from such investment to be credited to the Bond Account pursuant to the Indenture shall be credited against the amount of Loan Payments required to be deposited in the Bond Account under Section 5.2 hereof prior to the next Interest Payment Date. The Agency shall be liable for any loss resulting from any such investment and from failure to preserve rights against endorsers or other prior parties to instruments evidencing any such investment; provided, however, that any loss resulting from the failure by the Trustee to invest such moneys in accordance with Section 5.03 of the Indenture, shall be borne by the Trustee.

Section 5.9. Event of Nonappropriation. Failure, for whatever reason, of the legislative assembly of the State to make the appropriation of monies for the payment of Loan Payments and Additional Payments as requested pursuant to Section 2.4 hereof in an amount sufficient to allow the Agency to pay the Loan Payments and Additional Payments as they shall come due shall constitute an Event of Nonappropriation. The Agency shall notify the Trustee and the Issuer in writing of the Event of Nonappropriation.

Section 5.10. 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 Section 5.2 and Section 5.4 hereof 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 5.2 or Section 5.4 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 facilities constructed or improved with its share of the proceeds of the Bonds, 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
NO RECOURSE TO ISSUER

Section 6.1. 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 only be obligated to pay the Agency's proportionate share of the Bonds from 1) appropriation made to the Agency by the legislative assembly of the State and paid by the Agency to the Issuer for such payment, or 2) Loan Payments the Agency paid to the Issuer, in accordance with Section 7.01(e) of the Indenture, which were derived from legally available sources other than appropriations. 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 whatsoever or to make any appropriation for their payment. Neither the Issuer, nor any member, director, officer, employee or agent of the Issuer or 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 VII
ASSIGNMENT

Section 7.1. 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 7.2. 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.

Section 7.3. Assignment Not to Affect Tax-exempt Status. Any assignment permitted above and made, other than the Issuer's assignment of its rights and interests in this Loan Agreement, shall be accompanied by an Opinion of Bond Counsel to the effect that such assignment will not cause the interest payable on the Bonds to become includable in gross income of the Bondholders for federal income tax purposes.

ARTICLE VIII
EVENTS OF DEFAULT AND REMEDIES

Section 8.1. Events of Default. The term "Event of Default" shall mean, whenever used in this Loan Agreement, any one or more of the following events:

(a) Failure to pay the Loan Payments required to be paid under this Loan Agreement at the times specified herein.

(b) Failure to pay Additional Payments as required to be paid under this Loan Agreement.

(c) Failure by the Agency to observe and perform any covenant, condition or agreement or pay any amounts specified in this Loan Agreement, other than the failure specified in subsections (a) or (b) above, which continues after a period thirty (30) days after written notice specifying such failure and requesting that it be remedied is given to the Agency, by the Issuer, or the Trustee; provided, however, that if the default shall be such that it cannot be corrected within such period, it shall not constitute an Event of Default if in the opinion of the Issuer corrective action is instituted by the Agency within such period and diligently pursued until the default is corrected.

Section 8.2. Remedies. Whenever any Event of Default referred to in Section 8.1 hereof shall have happened and be continuing, the Trustee, or the Issuer with the written consent of the Trustee, may take one or any combination of the following remedial steps:

(a) By written notice to the Agency, declare Loan Payments in an amount equal to all amounts due and payable on the Bonds and any other amounts then due and payable under this Loan Agreement to be immediately due and payable as liquidated damages and not as a penalty whereupon the same shall become immediately due and payable;

(b) Have reasonable access to and inspect, examine and make copies of the books and records and any and all accounts and data of the Agency if reasonably necessary in the opinion of the Trustee; or

(c) Take whatever action at law or in equity may appear necessary or desirable to collect the Loan Payments and Additional Payments then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Agency under this Loan Agreement.

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

Section 8.3. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Issuer is intended to be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer to exercise any remedy reserved to it in this article, it shall not be necessary to give any notice other than such notice as may be required in this article. Such rights and remedies as are given the Issuer hereunder shall also extend to the Trustee, and the Trustee and the Bondholders, subject to the provisions of the Indenture, shall be entitled to the benefit of all covenants and agreements herein contained.

Section 8.4. Agreement to Pay Attorneys' Fees and Expenses. Except when prohibited by Section 28-26-04 of the North Dakota Century Code, if the Agency should default under any of the provisions of this Loan Agreement and the Issuer or Trustee should employ Counsel or incur other expenses for the collection of Loan Payments or Additional Payments or for the enforcement of performance or observance of any obligation or agreement on the part of the Agency herein contained, the Agency agrees that it will on demand therefore pay to the Issuer or Trustee, but only from Additional Payments subject to appropriation, the reasonable fee of such Counsel and such other reasonable expenses so incurred by the Issuer or Trustee.

ARTICLE IX
MAINTENANCE AND INSURANCE OF PROJECT

Section 9.1. Maintenance and Repair of Project. The Agency shall not cause or permit any waste, damage or injury to the facilities constructed or improved with its share of the proceeds of the Bonds. During the term of this Loan Agreement, the Agency shall, at its expense, keep the facilities constructed or improved with its share of the proceeds of the Bonds in good condition and repair with reasonable wear from normal use, and damage by act of God, fire, or other causes beyond the control of the Agency, excepted. The Agency shall indemnify the Issuer, its members, officers, agents or employees, against all costs, expenses, liabilities, losses, damages, suits, fines, penalties, claims and demands, including reasonable Counsel fees, arising out of the Agency's failure to comply with the foregoing covenant to the extent not prohibited by law and for which appropriations in sufficient amounts are available.

Section 9.2. Insurance. To the extent practicable or insurable the Agency shall at its own expense keep the facilities constructed or improved with its share of the proceeds of the Bonds insured by the State Fire and Tornado Fund or other authorized insurer at all times during the term of this Loan Agreement. Such insurance shall be in an amount equal to the greater of (i) the Discharge Price established pursuant to Section 10.2 hereof, or (ii) one hundred percent (100%) of the full replacement cost of the facilities constructed or improved with its share of the proceeds of the Bonds as certified by the Agency on the effective date of this Loan Agreement and on or before the first day of July of each year thereafter.

Each policy shall include as named insureds the Issuer, the Agency and the Trustee, as their interests may appear. All Net Proceeds of any insurance shall be payable to the Issuer and used as provided in Section 9.3 in this Loan Agreement or Sections 6.04 and 6.05 of the Indenture. The Agency shall supply evidence to the Issuer and the Trustee of the acquisition and maintenance of the insurance required by this Loan Agreement by filing copies of the insurance policies or certificates evidencing such insurance, as the Issuer shall direct.

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

Section 9.3. Damage, Destruction, and Condemnation.

(a) In the event the facilities constructed or improved with the Agency's share of the proceeds of the Bonds or any part thereof is destroyed, damaged or taken by Condemnation, the Agency shall, within 90 days of receipt of funds from any insurance or

Condemnation award resulting from such destruction, damage or taking, or such longer period as permitted by the Trustee, notify the Issuer and the Trustee in writing of its intent to either repair, replace, or restore such or prepay Loan Payments for the purposes of redeeming a portion of the Outstanding Bonds. If the Agency elects to rebuild, replace, or restore the facilities constructed or improved with its share of the proceeds of the Bonds, the provisions of Section 9.3(b) shall apply. In the event the Agency elects to prepay Loan Payments for the purpose of redeeming Bonds the provisions of Section 9.3(c) shall apply.

(b) If the Agency elects to repair, replace, or restore the facilities constructed or improved with its share of the proceeds of the Bonds, all Net Proceeds of any insurance or Condemnation award shall be paid directly to the Trustee who will: (i) apply such Net Proceeds to the payment of the costs of repair, replacement, or restoration upon such terms as it may reasonably require; and (ii) apply any balance of the Net Proceeds remaining after payment of all costs of any repair, replacement, or restoration to the reduction of the principal balance of the Bonds (including sinking fund redemption of any Term Bonds).

(c) In the event the Agency determines not to rebuild, replace, or repair the facilities constructed or improved with its share of the proceeds of the Bonds, or any part thereof, all Net Proceeds of any insurance claim or Condemnation award shall be paid to the Trustee to be applied by the Trustee to the reduction of the principal balance of the Bonds.

(d) The Agency shall not, by reason of any damage, destruction or Condemnation, or the payment of any costs of repair, replacement or restoration be entitled to any reimbursement from the Issuer or the Trustee or any abatement or diminution of the Loan Payments or Additional Payments payable under Article V hereof or the other sums payable by the Agency hereunder, except to the extent of any reduction as a result of prepayment of a portion of the Bonds.

(e) All equipment and other property acquired in the repair, replacement, or restoration of the facilities constructed or improved with the Agency's share of the proceeds of the Bonds shall be deemed a part of the Project and available for use by the Agency without the payment of any Loan Payments or Additional Payments other than those provided in Article V hereof, to the same extent as if they had been specifically described and demised in this Loan Agreement; provided that no equipment shall be acquired subject to any lien or encumbrance not approved by the Trustee.

(f) If the facilities constructed or improved with the Agency's share of the proceeds of the Bonds are to be replaced by new facilities or property, which are substantially dissimilar in construction or use from the original, then the facilities constructed or improved with the Agency's share of the proceeds of the Bonds shall not be replaced unless (i) the plans and specifications are approved by the Agency and the Issuer pursuant to authorization by the legislative assembly of the State, and (ii) if applicable, the Issuer has obtained an Opinion of Bond Counsel stating that the interest payable on the Bonds following such replacement will not be included in the gross income of the Bondholders for federal income tax purposes.

Section 9.4. Improvements to the Project. The Agency may make any improvements to the facilities constructed or improved with its share of the proceeds of the Bonds as it deems necessary or desirable, provided that the Agency shall indemnify the Issuer, its members, officers, agents or employees, from any and all losses, damages, liabilities or claims arising from or in connection with the making of such improvements by the Agency to the extent not prohibited by law for which appropriations, including insurance proceeds, in sufficient amount were available.

ARTICLE X
OPTIONS IN FAVOR OF AGENCY

Section 10.1. Option to Terminate. The Agency shall have the option to cancel or terminate the term of this Loan Agreement at any time when its proportionate share of the Debt Service on the Bonds shall be deemed to have been paid and its proportionate share of the Bonds have been discharged under the provisions of Article X of the Indenture, its proportionate share of the other costs and expenses due under the Indenture have been paid, and when its share of any Additional Payments payable to the Issuer, Trustee, Paying Agent or Registrar due or to become due have been paid. Such option shall be exercised by giving the Issuer notice in writing and such cancellation or termination shall forthwith become effective. Upon such termination any funds or investments then remaining on deposit to the credit of the Bond Account established pursuant to the Indenture (not set aside for the payment of Bonds and interest thereon pursuant to the Indenture) and deposited therein pursuant to this Loan Agreement shall be paid over by the Trustee to the order of the Issuer.

Section 10.2. Option to Terminate Loan Agreement Prior to Payment of the Bonds. The Agency shall have, and is hereby granted, the option to terminate this Loan Agreement at any time. To exercise such option, the Agency shall give written notice to the Issuer and to the Trustee and shall deposit its proportionate share of the Discharge Price with the Trustee at least sixty days prior to the termination date. In the event any of the Agency's proportionate share of the Bonds are then Outstanding, the Issuer shall effect the redemption of such Bonds or portion thereof in accordance with the Indenture and make arrangements satisfactory to the Trustee for the giving of the required notice of redemption. The Discharge Price payable by the Agency in the event of its exercise of the option granted in this Section shall be the sum of the following:

(a) An amount which, when added to the moneys and investments held and credited to the Bond Account and the Reserve Account, will be sufficient pursuant to the provisions of Article X of the Indenture (i) to pay and discharge under the Indenture, the Agency's proportionate share of the Outstanding Bonds including interest due thereon to the Redemption Date established by the Issuer under the Indenture, and (ii) pay the Agency's proportionate share of any additional fees, costs, or expenses of the Issuer incurred because of the redemption of the Agency's proportionate share of the Bonds, plus

(b) An amount of money equal to the Additional Payments payable by the Agency due or to become due on or prior to the Redemption Date of the Bonds redeemed under subsection (i) of Section 10.2(a) hereof.

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

In the event of the exercise of the option granted in this Section any Net Proceeds of insurance shall be paid to the Agency, notwithstanding any provision of Section 9.3 hereof, and the Issuer will deliver to the Agency the documents referred to in Section 10.3 below.

The mutual agreements contained in this Section 10.2 are independent of, and constitute an agreement separate and distinct from, any and all provisions of this Loan Agreement and shall be unaffected by any fact or circumstance which might impair or be alleged to impair the validity of any other provisions.

Section 10.3. Delivery of Documents on Exercise of Termination. On the exercise of any option to terminate this Loan Agreement, the Issuer will, upon payment of its proportionate share of the Discharge Price, deliver or cause to be delivered to the Agency documents terminating this Loan Agreement.

Section 10.4. Relative Position of this Loan Agreement and Indenture. The rights and options granted to the Agency in this Loan Agreement shall be and remain subordinate to the rights of the Trustee under the Indenture and may be exercised only when no Event of Default has occurred or is continuing hereunder.

ARTICLE XI
MISCELLANEOUS

Section 11.1. Entry. The Issuer, its agents or employees shall have the right at reasonable times to enter the Agency's property for the purpose of inspecting the facilities constructed or improved with the Agency's share of the proceeds of the Bonds to determine whether the Agency has complied with all of the terms, agreements, covenants and conditions of this Loan Agreement.

Section 11.2. Amendment to Loan Agreement. Except as may otherwise be provided in this Loan Agreement, no amendment to this Loan Agreement shall be effective as to any party hereto, subsequent to the issuance of the Bonds and prior to the payment of the Bonds in full or prior to the provision for payment thereof having been made in accordance with the provisions of the Indenture, unless and until the same is reduced to writing and executed by the duly Authorized Officers of the Issuer and the Agency Representative and consented to in writing by the Trustee, and all requirements of the Indenture and the Act respectively have been complied with.

Section 11.3. Member, Officer, and Employee Liability. The promises, covenants, agreements and obligations made or assumed by the Issuer or the Agency in this Loan Agreement shall be deemed to be those of the Issuer or the Agency and not of any member, officer or employee of the Issuer or the Agency in his or her individual capacity, and no recourse shall be had, for the payment of the Loan Payments or Additional Payments or any other moneys required to be paid under this Loan Agreement or for the performance of any other duty or obligation required of the Issuer or the Agency under this Loan Agreement against any member, officer or employee of the Issuer or the Agency or any person executing or attesting to this Loan Agreement or the Indenture.

Section 11.4. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when mailed by registered or certified mail, postage prepaid, return receipt requested, addressed to the Issuer, the Agency or the Trustee, as the case may be, or hand delivered to the above at their respective addresses. A duplicate copy of each such notice, certificate or other communication given hereunder to the Issuer, the Agency or the Trustee shall also be given to the others. Until otherwise provided in writing by the respective parties, all notices and communications to the parties shall be addressed as follows:

Issuer: North Dakota Building Authority
State Capitol, 14th Floor
600 East Boulevard Avenue
Bismarck, North Dakota 58505-0840
Attention: Executive Director, Industrial Commission

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

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

Section 11.5. Entire Agreement. This Loan Agreement contains all agreements between the parties relative to the Project and there are no other representations, warranties, promises, agreements or understandings, oral, written or inferred, between the parties relative to the Project, unless reference is made to them in this Loan Agreement. Provided, however, that all provisions contained herein shall be construed in accordance with provisions of the Act and to the extent of inconsistencies, if any, between the covenants and agreements in this Loan Agreement and the provisions of the Act, the provisions of the Act shall be deemed to be controlling and binding upon the parties hereto.

Section 11.6. Severability. If any clause, provision or section of this Loan Agreement be ruled invalid or unenforceable by any court of competent jurisdiction, the invalidity or unenforceability of such clause, provision or section shall not affect any of the remaining clauses, provisions or sections.

Section 11.7. Execution in Counterparts. This Loan Agreement may be executed in several counterparts, each of which shall be an original and all, which shall constitute but one and the same instrument.

Section 11.8. Captions. The captions or headings in this Loan Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provision of this Loan Agreement.

Section 11.9. Applicable Law. This Loan Agreement shall be governed in all respects, whether as to validity, construction, performance or otherwise, by the laws of the State.

Section 11.10. Binding Effect. This Loan Agreement shall inure to the benefit of and be binding upon the Issuer and the Agency and their successors and assigns.

Section 11.11. Declaration of Governmental Function. The Issuer and the Agency, in accordance with the Act, hereby specifically declare that the portion of the Project financed with the proceeds of the Bonds is essential to the proper, efficient and economic operation of the Agency and is intended to serve an essential governmental function and nothing herein is to be construed to conclude a contrary intent.

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

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

____
John Hoeven, Governor
Chairman

Attest:

____
Karlene Fine
Executive Director and Secretary

(SEAL)

NORTH DAKOTA STATE BOARD OF HIGHER EDUCATION

____
Robert L. Potts
Commissioner

____
Hugh Patrick Seaworth
Secretary

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APPENDIX C

Audited General Purpose Financial Statements of the State of North Dakota For the Fiscal Year Ended June 30, 2004

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

TABLE OF CONTENTS – BASIC FINANCIAL STATEMENTS

STATE OF NORTH DAKOTA

Statement of Net Assets
June 30, 2004

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and Cash Equivalents	$ 7,483,122	$ 483,934,356	$ 491,417,478	$ 24,733,184
Investments	732,175,269	1,674,610,291	2,406,785,560	578,796,307
Accounts Receivable - Net	35,273,724	68,663,743	103,937,467	6,786,935
Taxes Receivable - Net	169,134,234	-	169,134,234	-
Interest Receivable - Net	5,940,502	31,284,866	37,225,368	3,474,222
Intergovernmental Receivable - Net	144,181,135	45,314,401	189,495,536	-
Internal Receivable	468,649,478	-	144,463,972	-
Due from Fiduciary Funds	142,183	9,933	152,116	-
Due from Component Units	-	1,388,885	1,388,885	-
Due from Primary Government	-	-	-	10,420,105
Prepaid Items	3,092,393	1,473,120	4,565,513	-
Inventory	11,234,042	19,522,191	30,756,233	622,138
Loans and Notes Receivable - Net	95,673,151	2,048,148,999	2,143,822,150	5,894,007
Unamortized Bond Financing Costs	1,075,495	9,124,101	10,199,596	1,442,357
Pension Assets	2,480,673	-	2,480,673	-
Other Assets	-	9,865,477	9,865,477	7,825,233
Capital Assets:				
Land and Construction in Progress	250,348,020	49,621,113	299,969,133	8,103,567
Infrastructure - Net	602,089,424	89,943,139	692,032,563	549,874
Buildings and Equipment - Net	297,934,446	500,979,328	798,913,774	116,006,283
Total Assets	2,826,907,291	5,033,883,943	7,536,605,728	764,654,212

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES				
Accounts Payable	141,198,886	24,990,087	166,188,973	4,757,957
Accrued Payroll	28,027,464	9,146,694	37,174,158	-
Securities Lending Collateral	62,919,132	280,513,479	343,432,611	-
Interest Payable	1,793,214	14,347,400	16,140,614	1,568,000
Intergovernmental Payable	33,402,972	1,661,088	35,064,060	-
Tax Refunds Payable	40,065,704	-	40,065,704	-
Internal Payable	-	324,185,506	-	-
Due to Fiduciary Funds	2,453	26,605	29,058	-
Due to Component Units	-	298,927	298,927	-
Due to Primary Government	-	-	-	1,388,885
Contracts Payable	6,982,441	939,397	7,921,838	-
Federal Funds Purchased	-	170,097,000	170,097,000	-
Reverse Repurchase Agreements	-	20,500,000	20,500,000	-
Claimant Liability	4,569,845	-	4,569,845	1,525,000
Deposits Held for Other Funds	-	-	-	-
Other Deposits	-	487,391,365	487,391,365	-
Amounts Held in Custody for Others	-	6,306,087	6,306,087	-
Deferred Revenue	11,791,893	62,232,316	74,024,209	4,716,083
Other Liabilities	-	12,350,176	12,350,176	23,099,736
Long-Term Liabilities				
Due within one year	13,943,797	241,760,496	255,704,293	12,208,874
Due in more than one year	174,439,656	1,799,201,707	1,973,641,363	187,124,837
Total Liabilities	519,137,457	3,455,948,330	3,650,900,281	236,389,372
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	1,027,252,008	499,222,000	1,526,474,008	112,595,978
Restricted for:				
General Government	5,406,604	-	5,406,604	-
Education	12,566,822	-	12,566,822	-
Health and Human Services	47,215,292	-	47,215,292	-
Regulatory Purposes	13,059,160	-	13,059,160	-
Agriculture and Commerce	13,688,158	-	13,688,158	-
Cultural and Natural Resources	56,341,458	-	56,341,458	-
Transporation	90,462,520	-	90,462,520	-
Capital Projects	8,906,206	2,420,937	11,327,143	-
Debt Service	15,670,785	80,257,900	95,928,685	71,638,000
Loan Purposes	-	46,968,136	46,968,136	89,334,000
Pledged Assets	-	143,023,000	143,023,000	-
Unemployment Compensation	-	72,785,081	72,785,081	-
Permanent and Endowment Funds - Expendable	18,139,109	12,541,510	30,680,619	-
Permanent and Endowment Funds - Nonexpendable	645,868,206	8,888,957	654,757,163	-
Other	-	50,916	50,916	208,894,741
Unrestricted	353,193,506	711,777,176	1,064,970,682	45,802,121
Total Net Assets	$ 2,307,769,834	$ 1,577,935,613	$ 3,885,705,447	$ 528,264,840

The Accompanying Notes are an Integral Part of the Financial Statements

STATE OF NORTH DAKOTA

Statement of Activities

For the Fiscal Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	$ 81,510,068	$ 21,798,406	$ 31,098,943	$ -
Education	466,908,523	3,443,449	206,861,216	-
Health and Human Services	803,600,511	19,339,252	590,157,677	20,000
Regulatory	15,104,651	19,476,543	3,352,906	-
Public Safety and Corrections	107,036,068	5,460,128	44,740,942	-
Agriculture and Commerce	57,532,612	20,260,986	19,700,451	-
Natural Resources	63,117,591	20,873,885	11,130,354	8,647,581
Transportation	360,231,121	64,565,890	143,615,231	64,745,153
Intergovernmental - Revenue Sharing	157,200,675	-	-	-
Interest on Long Term Debt	7,372,042	-	-	-
Total Governmental Activities	2,119,613,862	175,218,539	1,050,657,720	73,412,734
Business-Type Activities:				
Bank of North Dakota	58,865,964	88,549,000	-	-
Housing Finance	49,646,082	39,327,000	12,689,000	-
Loan Programs	13,846,154	16,980,295	460,486	-
Mill and Elevator	92,261,275	97,914,279	17,902	-
State Fair	4,323,777	3,201,041	310,541	-
Unemployment Compensation	49,327,620	64,644,433	3,046,308	-
University System	656,811,533	270,650,811	194,827,531	9,405,153
Workforce Safety and Insurance	125,727,859	99,083,053	95,416,258	-
Other	11,131,686	15,270,970	2,380,925	-
Total Business-Type Activities	1,061,941,950	695,620,882	309,148,951	9,405,153
Total Primary Government	$ 3,181,555,812	$ 870,839,421	$ 1,359,806,671	$ 82,817,887
Component Units:	$ 61,110,043	$ 27,969,195	$ 178,441,401	$ -

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	Business-Type Activities	Total	Component Units
$ (28,612,719)		$ (28,612,719)	
(256,603,858)		(256,603,858)	
(194,083,582)		(194,083,582)	
7,724,798		7,724,798	
(56,834,998)		(56,834,998)	
(17,571,175)		(17,571,175)	
(22,465,771)		(22,465,771)	
(87,304,847)		(87,304,847)	
(157,200,675)		(157,200,675)	
(7,372,042)		(7,372,042)	
(820,324,869)		(820,324,869)	
	$ 29,683,036	29,683,036	
	2,369,918	2,369,918	
	3,594,627	3,594,627	
	5,670,906	5,670,906	
	(812,195)	(812,195)	
	18,363,121	18,363,121	
	(181,928,038)	(181,928,038)	
	68,771,452	68,771,452	
	6,520,209	6,520,209	
-	(47,766,964)	(47,766,964)	
(820,324,869)	(47,766,964)	(868,091,833)	
			$ 145,300,553
266,252,580	-	266,252,580	-
599,064,637	-	599,064,637	-
112,454,541	-	112,454,541	-
61,395,792	-	61,395,792	-
1,103,625	-	1,103,625	-
12,640,791	-	12,640,791	-
10,528,733	-	10,528,733	-
-	-	-	-
11,262,038	-	11,262,038	10,051,576
(152,421,836)	155,342,786	2,920,950	1,550,000
922,280,901	155,342,786	1,077,623,687	11,601,576
101,956,032	107,575,822	209,531,854	156,902,129
2,205,813,802	1,470,359,791	3,676,173,593	371,362,711
$ 2,307,769,834	$ 1,577,935,613	$ 3,885,705,447	$ 528,264,840

STATE OF NORTH DAKOTA

Balance Sheet
Governmental Funds
June 30, 2004

	General	Federal	School Permanent Trust Fund	Other Governmental Funds	Total
ASSETS					
Cash Deposits at the Bank of ND	$ 72,958,642	$ 50,736,770	$ 3,299,894	$ 260,230,283	$ 387,225,589
Cash and Cash Equivalents	1,245,959	68,346	-	6,165,067	7,479,372
Investments at the Bank of ND	-	-	-	53,095,985	53,095,985
Investments	-	-	672,695,870	52,933,276	725,629,146
Accounts Receivable - Net	3,174,549	5,759,119	5,191,210	21,088,265	35,213,143
Taxes Receivable - Net	124,571,690	-	219,583	44,342,961	169,134,234
Interest Receivable - Net	2,798	45	4,669,904	1,214,777	5,887,524
Intergovernmental Receivable - Net	541,704	138,039,333	-	5,402,539	143,983,576
Due from Other Funds	90,052,858	12,301,571	5,554,445	22,777,329	130,686,203
Prepaid Items	360,385	904,560	-	1,824,249	3,089,194
Inventory	701,822	3,059,510	-	4,431,196	8,192,528
Loans and Notes Receivable - Net	94,904	-	24,020,190	71,558,057	95,673,151
Total Assets	$ 293,705,311	$ 210,869,254	$ 715,651,096	$ 545,063,984	$ 1,765,289,645
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	$ 23,223,249	$ 92,690,943	$ 282,094	$ 23,960,237	$ 140,156,523
Accrued Payroll	14,188,598	5,897,934	-	6,743,776	26,830,308
Securities Lending Collateral	-	-	46,744,450	14,995,575	61,740,025
Interest Payable	36,867	-	-	3,117	39,984
Intergovernmental Payable	373,580	1,632,685	-	31,396,107	33,402,372
Tax Refunds Payable	39,722,869	-	-	342,835	40,065,704
Due to Other Funds	16,453,526	72,875,154	47,392	22,487,340	111,863,412
Contracts Payable	2,991	5,623,061	-	1,356,389	6,982,441
Claims/Judgments Payable	-	-	4,569,845	-	4,569,845
Deferred Revenue	2,948,718	12,249,776	-	10,091,756	25,290,250
Total Liabilities	96,950,398	190,969,553	51,643,781	111,377,132	450,940,864
Fund Balances:					
Reserved for:					
Inventory	701,822	207,013	-	4,431,196	5,340,031
Long - Term Receivables	46,650	-	-	66,218,812	66,265,462
Capital Projects	-	-	-	8,906,206	8,906,206
Debt Service	-	-	-	16,885,869	16,885,869
Prepaid Expenditures	360,385	904,560	-	1,824,249	3,089,194
Legal Requirements	-	-	-	9,318,192	9,318,192
Undistributed Revenue	-	-	10,596,616	-	10,596,616
Permanent Trust Fund	-	-	653,410,699	-	653,410,699
Unreserved, Reported in :					
General Fund	195,646,056	-	-	-	195,646,056
Special Revenue Funds	-	18,788,128	-	326,102,328	344,890,456
Total Fund Balances	196,754,913	19,899,701	664,007,315	433,686,852	1,314,348,781
Total Liabilities and Fund Balances	$ 293,705,311	$ 210,869,254	$ 715,651,096	$ 545,063,984	$ 1,765,289,645

STATE OF NORTH DAKOTA

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

June 30, 2004

Total Fund Balances-Governmental Funds		$ 1,314,348,781
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 $3,594,797,294 and the accumulated depreciation is $2,501,413,162.		1,093,384,132
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.		16,625,032
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.		57,270,835
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.		1,009,000
The pension assets resulting from contributions in excess of annual required contribution are not financial resources and, therefore, are not reported in the funds.		2,480,673
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	(140,422,602)	
Notes Payable	(5,021,590)	
Accrued Interest on Long-Term Liabilities	(1,746,171)	
Compensated Absences	(27,437,572)	
Intergovernmental Payable	(668,248)	
Capital Leases	(1,052,436)	
Claims and Judgments	(1,000,000)	
Total Long-Term Liabilities		(177,348,619)
Net Assets of Governmental Activities		$ 2,307,769,834

STATE OF NORTH DAKOTA

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Federal	School Permanent Trust Fund	Other Governmental Funds	Total
REVENUES					
Individual and Corporate Income Taxes	$ 258,325,963	$ -	$ -	$ 7,581,394	$ 265,907,357
Sales and Use Taxes	442,915,770	-	-	156,491,595	599,407,365
Oil, Gas, and Coal Taxes	67,302,408	-	2,550,592	42,601,541	112,454,541
Business Taxes	42,892,875	-	-	18,502,917	61,395,792
Licenses, Permits and Fees	11,824,190	15,595	-	88,662,710	100,502,495
Intergovernmental	25,444,241	984,518,807	-	1,370,882	1,011,333,930
Sales and Services	2,293,692	2,682,441	-	39,453,332	44,429,465
Royalties and Rents	6,356,596	-	16,125,279	2,998,201	25,480,076
Fines and Forfeits	7,379,437	-	919,573	7,056,736	15,355,746
Interest and Investment Income	956,020	14,308	76,645,977	6,679,062	84,295,367
Tobacco Settlement	-	-	10,342,465	12,640,791	22,983,256
Commodity Assessments	-	-	-	11,897,001	11,897,001
Miscellaneous	1,196,937	21,233	-	4,192,843	5,411,013
Total Revenues	866,888,129	987,252,384	106,583,886	400,129,005	2,360,853,404
EXPENDITURES					
Current:					
General Government	61,905,844	5,050,639	-	7,256,257	74,212,740
Education	310,471,873	109,194,718	2,835,685	39,289,107	461,791,383
Health and Human Services	206,303,706	554,114,922	-	34,593,959	795,012,587
Regulatory	7,105,914	2,412,473	-	5,429,917	14,948,304
Public Safety and Corrections	60,953,820	37,346,805	-	3,974,618	102,275,243
Agriculture and Commerce	12,182,156	20,416,859	-	24,877,124	57,476,139
Natural Resources	11,346,360	11,625,474	-	34,565,140	57,536,974
Transportation	522,500	142,889,814	-	96,631,326	240,043,640
Intergovernmental - Revenue Sharing	-	-	-	157,200,675	157,200,675
Capital Outlay	4,005,247	82,787,847	-	38,738,123	125,531,217
Debt Service:					
Principal	59,782	20,528	-	8,301,460	8,381,770
Interest and Other Charges	-	-	-	6,962,225	6,962,225
Total Expenditures	674,857,202	965,860,079	2,835,685	457,819,931	2,101,372,897
Revenues over (under) Expenditures	192,030,927	21,392,305	103,748,201	(57,690,926)	259,480,507
OTHER FINANCING SOURCES (USES)					
Bonds and Notes Issued	1,869,275	2,501,493	-	1,500,243	5,871,011
Capital Lease Acquistions	156,018	31,265	-	-	187,283
Sale of Capital Assets	13,409	-	-	567,641	581,050
Other	(18,083)	-	-	10,221	(7,862)
Transfers In	97,345,371	156,087	-	109,978,536	207,479,994
Transfers Out	(221,558,208)	(29,928,242)	(32,287,952)	(76,563,592)	(360,337,994)
Total Other Financing Sources (Uses)	(122,192,218)	(27,239,397)	(32,287,952)	35,493,049	(146,226,518)
Net Change in Fund Balances	69,838,709	(5,847,092)	71,460,249	(22,197,877)	113,253,989
				-	
Fund Balances - Beginning of Year, as Adjusted	126,916,204	25,746,793	592,547,066	455,884,729	1,201,094,792
				-	
Fund Balances - End of Year	$ 196,754,913	$ 19,899,701	$ 664,007,315	$ 433,686,852	$ 1,314,348,781

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, 2004

Net Change in Fund Balances-Total Governmental Funds		$ 113,253,989
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	125,537,567	
Depreciation Expense	(138,080,083)	
Excess of capital outlay over depreciation expense		(12,542,516)
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.		(4,735,345)
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.		440,745
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.		(187,283)
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.		(235,068)
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		3,999,987
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		(1,500,243)
Notes payable proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		(4,370,768)
The pension assets resulting from contributions in excess of annual required contribution are not financial resources and, therefore, are not reported in the funds.		(90,966)
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	7,746,210	
Note payments	338,372	
Capital lease payments	1,391,882	
Total long-term debt repayment		9,476,464
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	76,920	
Net increase/decrease in compensated absences	(1,358,333)	
Net increase/decrease in claims and judgments	(271,551)	
Total additional expenditures		(1,552,964)
Change in Net Assets of Governmental Activities		$ 101,956,032

STATE OF NORTH DAKOTA

Statement of Net Assets
Proprietary Funds
June 30, 2004

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Bank of North Dakota	Housing Finance	University System	Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds
ASSETS							
Current Assets:							
Cash Deposits at the Bank of ND		$ 1,451,000	$ 56,767,546	$ 1,748,242	$ 29,813,163	$ 89,779,951	$ 8,204,218
Cash and Cash Equivalents		35,000	4,767,609	-	58,213,623	63,016,232	3,750
Investments at the Bank of ND		-	52,052,392	44,012,071	3,203,348	99,267,811	-
Investments		4,164,000	110,653	1,303,048,697	25,624,406	1,332,947,756	6,546,123
Accounts Receivable - Net		504,000	12,036,189	18,887,646	37,235,908	68,663,743	60,581
Interest Receivable - Net		239,000	9,840	7,618,804	2,784,354	10,651,998	52,978
Intergovernmental Receivable - Net		349,000	42,114,563	-	2,850,838	45,314,401	197,559
Due from Other Funds		41,000	6,871,428	33,710	177,424	7,123,562	4,084,144
Due from Fiduciary Funds		-	-	-	9,933	9,933	142,183
Due from Component Units		-	1,388,885	-	-	1,388,885	-
Prepaid Items		30,000	-	24,520	1,418,600	1,473,120	3,199
Inventory		-	7,051,335	-	12,470,856	19,522,191	110,991
Loans and Notes Receivable - Net		-	5,736,528	-	13,217,704	18,954,232	-
Other Current Assets		-	1,883,639	-	-	1,883,639	-
Restricted Cash at the Bank of ND		5,473,000	-	-	6,019,901	11,492,901	1,648,029
Restricted Cash and Cash Equivalents		140,182,000	-	-	-	140,182,000	-
Restricted Investments at the Bank of ND		-	-	-	37,022,150	37,022,150	-
Restricted Interest Receivable - Net		2,532,000	-	-	2,995,868	5,527,868	-
Restricted Loans Receivable - Net		9,851,000	-	-	26,234,000	36,085,000	-
Total Current Assets		164,851,000	190,790,607	1,375,373,690	259,292,076	1,990,307,373	21,053,755
Noncurrent Assets:							
Restricted Cash at the Bank of ND		-	9,562,767	-	-	9,562,767	-
Restricted Cash and Cash Equivalents		-	3,811,781	-	257,343	4,069,124	-
Investments at the Bank of ND		-	6,909,325	-	-	6,909,325	-
Investments		-	13,796,996	-	-	13,796,996	-
Restricted Investments at the Bank of ND		-	26,022,850	-	-	26,022,850	-
Restricted Investments		26,583,000	16,807,276	-	222,263	43,612,539	-
Loans and Notes Receivable - Net		-	37,432,753	-	54,873,014	92,305,767	-
Restricted Loans Receivable - Net		493,315,000	-	-	86,374,000	579,689,000	-
Unamortized Bond Issuance Costs		5,840,000	2,319,865	-	964,236	9,124,101	66,495
Other Noncurrent Assets		1,891,000	163,287	-	1,629,551	3,683,838	-
Capital Assets:							
Land and Construction in Progress		-	47,247,582	901,974	799,557	48,949,113	3,595,766
Infrastructure - Net		-	88,689,107	-	1,254,032	89,943,139	-
Buildings and Equipment -Net		35,000	443,368,288	11,203,614	42,235,426	496,842,328	53,391,992
Total Noncurrent Assets		527,664,000	696,131,877	12,105,588	188,609,422	1,424,510,887	57,054,253
Bank Related Assets:							
Cash and Cash Equivalents	$ 276,667,000					276,667,000	
Investments	284,253,000					284,253,000	
Interest Receivable - Net	15,105,000					15,105,000	
Due from Other Funds	46,912,000					46,912,000	
Loans and Notes Receivable - Net	1,321,115,000					1,321,115,000	
Other Assets	4,298,000					4,298,000	
Capital Assets:							
Land and Construction in Progress	672,000					672,000	
Buildings and Equipment - Net	4,137,000					4,137,000	
Total Bank Related Assets	1,953,159,000					1,953,159,000	
Total Assets	1,953,159,000	692,515,000	886,922,484	1,387,479,278	447,901,498	5,367,977,260	78,108,008

STATE OF NORTH DAKOTA

Statement of Net Assets
Proprietary Funds
June 30, 2004

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Bank of North Dakota	Housing Finance	University System	Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds
LIABILITIES							
Current Liabilities:							
Accounts Payable		622,000	17,432,187	2,082,393	4,853,507	24,990,087	1,042,363
Accrued Payroll		-	8,628,381	-	518,313	9,146,694	1,197,156
Securities Lending Collateral		-	-	275,839,175	4,674,304	280,513,479	1,179,107
Interest Payable		13,318,000	51,374	-	381,876	13,751,250	7,059
Intergovernmental Payable		1,267,000	131,275	-	1,427,088	2,825,363	600
Due to Other Funds		13,138,000	11,613,542	90,727	41,752,424	66,594,693	2,248,305
Due to Fiduciary Funds		-	-	-	26,605	26,605	2,453
Due to Component Units		-	298,927	-	-	298,927	-
Contracts Payable		-	939,397	-	-	939,397	-
Other Deposits		-	7,333,618	-	-	7,333,618	-
Amounts Held in Custody for Others		5,473,000	-	-	833,087	6,306,087	-
Claims/Judgments Payable		-	-	70,000,000	558,406	70,558,406	2,420,299
Compensated Absences Payable		110,000	845,540	549,000	92,805	1,597,345	53,089
Notes Payable		-	917,738	-	-	917,738	289,673
Capital Leases Payable		-	4,904,808	-	29,384	4,934,192	24,711
Bonds Payable		8,870,000	5,474,540	-	205,000	14,549,540	-
Deferred Revenue		65,000	15,760,654	45,969,560	437,102	62,232,316	196,152
Other Current Liabilities		-	-	-	7,000	7,000	-
Total Current Liabilities		42,863,000	74,331,981	394,530,855	55,796,901	567,522,737	8,660,967
Noncurrent Liabilities:							
Intergovernmental Payable		1,885,000	1,332,638	-	6,682,195	9,899,833	-
Claims/Judgments Payable		-	-	534,100,000	142,173	534,242,173	2,638,658
Compensated Absences Payable		38,000	17,614,210	96,742	832,689	18,581,641	1,195,393
Notes Payable		-	8,539,917	-	-	8,539,917	143,729
Capital Leases Payable		-	29,144,183	-	52,089	29,196,272	54,377
Bonds Payable		576,662,000	117,217,364	-	127,106,507	820,985,871	5,961,076
Other Noncurrent Liabilities		-	467,396	-	3,354,780	3,822,176	-
Total Noncurrent Liabilities		578,585,000	174,315,708	534,196,742	138,170,433	1,425,267,883	9,993,233
Bank Related Liabilities:							
Interest Payable	285,000					285,000	
Due to Other Funds	16,850,000					16,850,000	
Federal Funds Purchased	170,097,000					170,097,000	
Reverse Repurchase Agreements	20,500,000					20,500,000	
Deposits Held for Other Funds	617,894,502					617,894,502	
Other Deposits	439,491,498					439,491,498	
Other Liabilities	8,521,000					8,521,000	
Long Term Liabilities:							
Due within one year	148,039,000					148,039,000	
Due in more than one year	377,756,000					377,756,000	
Total Bank Related Liabilities	1,799,434,000					1,799,434,000	
Total Liabilities	1,799,434,000	621,448,000	248,647,689	928,727,597	193,967,334	3,792,224,620	18,654,200
NET ASSETS							
Invested in Capital Assets, Net of Related Debt	4,809,000	35,000	439,983,819	12,105,588	42,288,593	499,222,000	56,536,881
Restricted for:							
Capital Projects	-	-	2,414,351	-	6,586	2,420,937	-
Debt Service	-	45,457,000	10,718,880	-	24,082,020	80,257,900	-
Loan Purposes	-	-	45,891,192	-	1,076,944	46,968,136	-
Pledged Assets	124,986,000	18,037,000	-	-	-	143,023,000	-
Unemployment Compensation	-	-	-	-	72,785,081	72,785,081	-
Endowment Funds-Nonexpendable	-	-	12,541,510	-	-	12,541,510	-
Endowment Funds-Expendable	-	-	8,888,957	-	-	8,888,957	-
Other	-	-	50,916	-	-	50,916	-
Unrestricted	23,930,000	7,538,000	117,785,170	446,646,093	113,694,940	709,594,203	2,916,927
Total Net Assets	$ 153,725,000	$ 71,067,000	$ 638,274,795	$ 458,751,681	$ 253,934,164	$ 1,575,752,640	$ 59,453,808

Reconciliation of the Proprietary Funds Statement of Net Assets to the Statement of Net Assets
June 30, 2004

Total Net Assets - Enterprise Funds	$ 1,575,752,640
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	2,182,973
Net Assets of Business-Type Activities	$ 1,577,935,613

STATE OF NORTH DAKOTA

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Bank of North Dakota	Housing Finance	University System	Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES							
Sales and Services	$ 11,474,000	$ 1,499,000	$ 41,112,550	$ 98,218,452	$ 184,288,123	$ 336,592,125	$ 59,259,451
Auxiliary Sales Pledged for Bonds	-	-	73,281,170	-	-	73,281,170	-
Tuition and Fees	-	-	151,024,776	-	-	151,024,776	-
Grants and Contributions	-	-	173,617,246	-	-	173,617,246	-
Royalties and Rents	-	-	-	-	11,970	11,970	-
Fines and Forfeits	-	-	-	864,601	-	864,601	-
Interest and Investment Income	77,075,000	37,828,000	-	-	13,333,703	128,236,703	-
Miscellaneous	-	-	1,365,786	-	26,106	1,391,892	88,703
Total Operating Revenues	88,549,000	39,327,000	440,401,528	99,083,053	197,659,902	865,020,483	59,348,154
OPERATING EXPENSES							
Cost of Sales and Services	-	-	34,374,369	-	89,281,198	123,655,567	965,818
Salaries and Benefits	7,648,000	1,796,000	408,190,474	11,150,352	4,546,510	433,331,336	14,605,597
Operating	8,600,000	4,927,000	154,630,394	4,922,861	20,420,415	193,500,670	27,518,985
Claims	-	-	-	105,131,905	49,715,730	154,847,635	2,916,715
Scholarships and Fellowships	-	-	19,413,864	-	-	19,413,864	-
Interest	41,755,000	29,615,000	-	-	2,349,329	73,719,329	-
Depreciation	940,000	21,000	33,870,398	515,556	3,765,673	39,112,627	8,108,308
Miscellaneous	-	-	-	-	5,111	5,111	-
Total Operating Expenses	58,943,000	36,359,000	650,479,499	121,720,674	170,083,966	1,037,586,139	54,115,423
Operating Income (Loss)	29,606,000	2,968,000	(210,077,971)	(22,637,621)	27,575,936	(172,565,656)	5,232,731
NONOPERATING REVENUES (EXPENSES)							
Grants and Contracts	-	-	178,588	-	303,681	482,269	-
Gifts	-	-	15,471,472	-	-	15,471,472	-
Interest and Investment Income	-	12,689,000	5,560,225	95,416,258	5,912,481	119,577,964	339,809
Interest Expense	-	(13,289,000)	(5,886,436)	(4,026,250)	(398,692)	(23,600,378)	(249,139)
Loss on Sale of Capital Assets	-	-	(1,336,258)	(32,106)	(5,028)	(1,373,392)	(705,509)
Other	-	-	3,866,529	-	(80,851)	3,785,678	(4,143)
Total Nonoperating Revenues (Expenses)	-	(600,000)	17,854,120	91,357,902	5,731,591	114,343,613	(618,982)
Income (Loss) Before Contributions and Transfers	29,606,000	2,368,000	(192,223,851)	68,720,281	33,307,527	(58,222,043)	4,613,749
Capital Grants and Contributions	-	-	9,405,153	-	-	9,405,153	-
Transfers In	-	-	216,149,823	-	6,283,825	222,433,648	791,917
Transfer Out	(25,284,000)	(49,000)	(6,059,350)	-	(35,698,512)	(67,090,862)	(355,753)
Change in Net Assets	4,322,000	2,319,000	27,271,775	68,720,281	3,892,840	106,525,896	5,049,913
Total Net Assets - Beginning of Year, as Adjusted	149,403,000	68,748,000	611,003,020	390,031,400	250,041,324	1,469,226,744	54,403,895
Total Net Assets - End of Year	$ 153,725,000	$ 71,067,000	$ 638,274,795	$ 458,751,681	$ 253,934,164	$ 1,575,752,640	$ 59,453,808

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, 2004

Net Change in Net Assets-Total Enterprise Funds	$ 106,525,896
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 income	1,049,926
Change in Net Assets of Business-Type Activities	$ 107,575,822

The Accompanying Notes are an Integral Part of the Financial Statements

(Continued on Next Page)

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Bank of North Dakota	Housing Finance	University System	Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds
Cash Flows from Operating Activities:							
Receipts from Customers and Users	$ 11,160,000	$ 191,196,000	$ 112,818,312	$ 110,298,129	$ 370,077,016	$ 795,549,457	$ 59,098,713
Receipts from Tuition and Fees	-	-	152,495,218	-	-	152,495,218	-
Interest Income on Loans	-	-	-	-	500,580	500,580	-
Receipts from Loan Principal Repayments	-	-	8,385,652	-	15,797,466	24,183,118	-
Receipts from Federal and Local Agencies	-	-	5,585,261	-	-	5,585,261	10
Receipts from Other Funds	-	-	-	-	89	89	1,445,663
Receipts from Grants and Contracts	-	-	163,245,154	-	-	163,245,154	-
Receipts from Others	-	-	1,901,162	1,730,924	167,700	3,799,786	2,472
Payments for Loan Funds	-	-	(10,137,759)	-	(13,392,634)	(23,530,393)	-
Payments for Scholarships and Fellowships	-	-	(19,413,864)	-	-	(19,413,864)	-
Payments to Suppliers	(7,241,000)	(103,988,000)	(187,879,256)	(2,952,389)	(319,544,717)	(621,605,362)	(27,456,740)
Payments to Employees	(7,663,000)	(1,793,000)	(406,850,472)	(8,460,068)	(10,228,777)	(434,995,317)	(13,644,090)
Claim Payments	-	-	-	(85,595,326)	(38,782,122)	(124,377,448)	(2,489,185)
Payments to Others	-	(1,601,000)	-	(8,021,295)	(94,182)	(9,716,477)	(1,316,534)
Net Cash Provided by (Used for) Operating Activities	(3,744,000)	83,814,000	(179,850,592)	6,999,975	4,500,419	(88,280,198)	15,640,309
Cash Flows from Noncapital Financing Activities:							
Proceeds from Bonds	-	101,634,000	-	-	-	101,634,000	-
Proceeds from Sale of Notes and Other Borrowings	1,210,000,000	-	-	-	11,800,000	1,221,800,000	-
Principal Payments - Bonds	-	-	-	-	(1,000,000)	(1,000,000)	-
Principal Payments - Notes and Other Borrowings	(1,105,270,000)	(177,594,000)	-	-	(13,300,000)	(1,296,164,000)	-
Interest Payments - Bonds	-	(33,115,000)	-	-	(1,750,000)	(34,865,000)	-
Interest Payments - Notes and Other Borrowings	(24,112,000)	-	-	-	(431,789)	(24,543,789)	(34,683)
Payment of Bond Issue Costs	-	(990,000)	-	-	-	(990,000)	-
Transfers In	-	-	-	-	6,283,825	6,283,825	791,917
Transfers Out	(34,337,000)	(49,000)	(6,059,350)	-	(7,869,001)	(48,314,351)	(355,753)
Net Increase in Non-Interest Bearing Deposits	5,163,000	-	-	-	-	5,163,000	-
Net Decrease in Interest Bearing Deposits	(18,571,000)	-	-	-	-	(18,571,000)	-
Payments of Interest on Deposits	(16,209,000)	-	-	-	-	(16,209,000)	-
Interest Paid on Federal Funds and Reverse Repurchase Agreements	(2,802,000)	-	-	-	-	(2,802,000)	-
Net Decrease in Federal Funds and Reverse Repurchase Agreements	(106,091,000)	-	-	-	-	(106,091,000)	-
Principal Payments on Due To Other Funds	-	-	(720,800)	-	(859,664)	(1,580,464)	-
Grants and Gifts Received for Other than Capital Purposes	-	-	16,181,315	-	303,681	16,484,996	-
State Appropriations	-	-	206,534,562	-	-	206,534,562	-
Agency Fund Cash Increase	-	-	910,233	-	-	910,233	-
Grants Given for Other than Capital Purposes	-	-	(1,001,848)	-	-	(1,001,848)	-
Disbursements for Loans and Loan Purchases	-	-	-	-	(703,538)	(703,538)	-
Other	-	-	3,516,702	-	(404,762)	3,111,940	207
Net Cash Provided by (Used for) Noncapital Financing Activities	(92,229,000)	(110,114,000)	219,360,814	-	(7,931,248)	9,086,566	401,688
Cash Flows from Capital and Related Financing Activities:							
Acquisition and Construction of Capital Assets	(608,000)	-	(77,769,136)	(414,224)	(1,490,722)	(80,282,082)	(15,834,522)
Proceeds from Sale of Capital Assets	-	-	756,787	50	17,115	773,952	1,516,623
Proceeds from Bonds	-	-	-	-	-	-	5,961,076
Proceeds from Sale of Notes and Other Borrowings	-	-	44,718,830	-	-	44,718,830	433,402
Principal Payments - Bonds	-	-	-	-	(210,000)	(210,000)	-
Principal Payments - Notes and Other Borrowings	-	-	(13,216,076)	-	(2,139,245)	(15,355,321)	(1,607,092)
Interest Payments - Bonds	-	-	-	-	(83,597)	(83,597)	-
Interest Payments - Notes and Other Borrowings	-	-	(5,508,951)	-	(6,406)	(5,515,357)	(384,453)
Capital Appropriations	-	-	4,919,358	-	-	4,919,358	-
Payment on Capital Leases	-	-	-	-	(36,791)	(36,791)	(11,933)
Interest Payments - Capital Leases	-	-	-	-	-	-	(4,541)
Capital Grants and Gifts Received	-	-	10,091,380	-	-	10,091,380	-
Insurance Proceeds	-	-	1,405,064	-	-	1,405,064	-
Net Cash Used for Capital and Related Financing Activities	(608,000)	-	(34,602,744)	(414,174)	(3,949,646)	(39,574,564)	(9,931,440)
Cash Flows from Investing Activities:							
Proceeds from Sale and Maturities of Investment Securities	288,047,000	264,000	69,003,654	16,502,809	102,454,186	476,271,649	-
Purchase of Investment Securities	(341,067,000)	-	(90,279,525)	(21,767,114)	(106,180,803)	(559,294,442)	(3,436,975)
Interest and Dividends on Investments	11,432,000	(600,000)	4,844,703	-	5,681,645	21,358,348	370,820
Proceeds from Sale of Other Real Estate	621,000	-		-	-	621,000	-
Net Decrease in Loans	(66,827,000)	-	-	-	-	(66,827,000)	-
Disbursements for Loans and Loan Purchases	-	-	-	-	(1,175,000)	(1,175,000)	-
Receipt of Loan Principal Repayments	-	-	-	-	1,991,932	1,991,932	-
Proceeds from Collection of Loans and Notes Receivable	-	-		-	1,964,660	1,964,660	-
Loan Income Received	72,448,000	-	-	-	758,469	73,206,469	-
Net Cash Provided by (Used for) Investing Activities	(35,346,000)	(336,000)	(16,431,168)	(5,264,305)	5,495,089	(51,882,384)	(3,066,155)

Statement of Cash Flows
Proprietary Funds (Continued)
For the Fiscal Year Ended June 30, 2004

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Bank of North Dakota	Housing Finance	University System	Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds
Net Change In Cash:							
Net Increase (Decrease) in Cash and Cash Equivalents	(131,927,000)	(26,636,000)	(11,523,690)	1,321,496	(1,885,386)	(170,650,580)	3,044,402
Cash and Cash Equivalents at June 30, 2003	408,594,000	173,777,000	86,433,393	426,746	96,189,416	765,420,555	6,811,595
Cash and Cash Equivalents at June 30, 2004	$ 276,667,000	$ 147,141,000	$ 74,909,703	$ 1,748,242	$ 94,304,030	$ 594,769,975	$ 9,855,997
Reconciliation:							
Current:							
Cash Deposits at the Bank of North Dakota	$ -	$ 1,451,000	$ 56,767,546	$ 1,748,242	$ 29,813,163	$ 89,779,951	$ 8,204,218
Cash and Cash Equivalents	276,667,000	35,000	4,767,609	-	58,213,623	339,683,232	3,750
Restricted Cash Deposits at the Bank of North Dakota	-	5,473,000	-	-	6,019,901	11,492,901	1,648,029
Restricted Cash and Cash Equivalents	-	140,182,000	-	-	-	140,182,000	-
Noncurrent:							
Restricted Cash Deposits At The Bank of North Dakota	-	-	9,562,767	-	-	9,562,767	-
Restricted Cash and Cash Equivalents	-	-	3,811,781	-	257,343	4,069,124	-
Cash and Cash Equivalents	$ 276,667,000	$ 147,141,000	$ 74,909,703	$ 1,748,242	$ 94,304,030	$ 594,769,975	$ 9,855,997
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used for) Operating Activities:							
Operating Income (Loss)	$ 29,606,000	$ 2,968,000	$ (210,077,971)	$ (22,637,621)	$ 27,575,936	$ (172,565,656)	$ 5,232,731
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:							
Depreciation	940,000	21,000	33,870,398	515,556	3,765,673	39,112,627	8,108,308
Amortization\Accretion	(59,000)	1,485,000	-	-	492,000	1,918,000	-
Reclassification of Interest Revenue\Expense	(39,742,000)	(2,554,000)	-	-	(10,890,898)	(53,186,898)	-
Gain on Sale of Student Loans	(96,000)	-	-	-	-	(96,000)	-
Gain on Sale of Real Estate	(69,000)	-		-	-	(69,000)	-
Net Increase in Fair Value of Investments	4,422,000	2,405,000	-	-	-	6,827,000	-
Interest Received on Program Loans	-	32,616,000	-	-	9,377,000	41,993,000	-
Disbursements for Loans and Loan Purchases	-	(101,936,000)	-	-	(60,224,000)	(162,160,000)	-
Receipt of Loan Principal Repayments	-	150,145,000	-	-	37,871,000	188,016,000	-
Provision for Losses	2,000,000	-	-	-	559,000	2,559,000	-
Premiums Collected	-	-	-	-	126,339,150	126,339,150	-
Premiums Paid	-	-	-	-	(126,339,150)	(126,339,150)	-
Other	-	(1,205,000)	(198,593)	-	31,000	(1,372,593)	1,320
Change in Assets and Liabilities:							
(Increase) Decrease in Accounts Receivable	-	(20,000)	(1,078,208)	(11,428)	(4,028,564)	(5,138,200)	40,801
(Increase) Decrease in Interest Receivable	-	-	-	-	77,657	77,657	(4,134)
(Increase) Decrease in Due From	(237,000)	37,000	-	39,021	(91,414)	(252,393)	606,813
Decrease in Due From Fiduciary Funds	-	-	-	-	22,419	22,419	-
(Increase) Decrease in Intergovernmental Receivable	-	7,000	(4,378,705)	-	974,218	(3,397,487)	(44,806)
(Increase) Decrease in Notes Receivable	-	-	(856,035)	-	619,475	(236,560)	-
(Increase) Decrease in Prepaid Items	-	(17,000)	-	31,298	(324,987)	(310,689)	8,099
(Increase) Decrease in Inventories	-	-	(372,862)	-	(1,944,557)	(2,317,419)	6,075
(Increase) Decrease in Other Assets	143,000	-	576,123	-	(4,330)	714,793	-
Increase (Decrease) in Accounts Payable	-	69,000	85,314	(624,392)	1,228,265	758,187	185,158
Increase In Interest Payable	-	-		-	-	-	6,094
Increase (Decrease) in Claims\Judgments Payable	-	-	-	26,600,000	(1,116,384)	25,483,616	729,939
Increase (Decrease) in Intergovernmental Payable	-	11,000	-	-	(589,144)	(578,144)	600
Increase in Accrued Payroll	-	-	166,760	-	75,549	242,309	54,478
Increase in Compensated Absences Payable	-	-	1,173,243	52,983	79,206	1,305,432	55,172
Increase (Decrease) in Amounts Held for Others	-	(221,000)	-	-	46,398	(174,602)	-
Decrease in Other Deposits	-	-	(479,309)	-	-	(479,309)	-
Increase (Decrease) in Due To Other Funds	(2,000)	16,000	-	34,902	159,349	208,251	1,120,698
Increase (Decrease) in Deferred Revenue	-	(13,000)	1,719,253	2,999,656	373,717	5,079,626	(467,037)
Increase (Decrease) in Other Liabilities	(650,000)	-	-	-	386,835	(263,165)	-
Total Adjustments	(33,350,000)	80,846,000	30,227,379	29,637,596	(23,075,517)	84,285,458	10,407,578
Net Cash Provided by (Used for) Operating Activities	$ (3,744,000)	$ 83,814,000	$ (179,850,592)	$ 6,999,975	$ 4,500,419	$ (88,280,198)	$ 15,640,309
Noncash Transactions:							
Net Increase (Decrease) in Fair Value of Investments	$ -	$ -	$ -	$ 59,516,744	$ 363,910	$ 59,880,654	$ (54,091)
Real estate and Property Owned Acquired in Exchange for Loans	3,568,000	-		-	-	3,568,000	-
Change in Securities Lending Collateral	-	-	-	145,636,762	2,049,946	147,686,708	911,104
Disposal of Equipment Under Capital Lease	-	-		32,106	-	32,106	-
Interest on Investments	-	-	-	31,720,779	-	31,720,779	-
Amortization of Bond Discount	-	-	-	-	8,754	8,754	-
Amortization of Bond Issuance Costs	-	-	-	-	3,335	3,335	-
Acquisition of Equipment Under Capital Lease	-	-	-	-	-	-	91,021
Assets Acquired Through Capital Lease	-	-	7,319,770	-	-	7,319,770	-
Assets Acquired Through Special Assessments	-	-	111,401	-	-	111,401	-
Expenses Paid by Capital Lease	-	-	43,333	-	-	43,333	-
Gifts of Capital Assets	-	-	2,706,474	-	-	2,706,474	-
Total Noncash Transactions	$ 3,568,000	$ -	$ 10,180,978	$ 236,906,391	$ 2,425,945	$ 253,081,314	$ 948,034

STATE OF NORTH DAKOTA

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private Purpose Trust Funds	Agency Funds
ASSETS				
Cash Deposits at the Bank of ND	$ 10,899,669	$ 121,818	$ 107,056	$ 10,128,428
Cash and Cash Equivalents	-	-	343,766	2,214,914
Receivables:				
Contributions Receivable	9,851,732	-	-	-
Accounts Receivable-Net	446,355	-	1,388,311	5,602,648
Taxes Receivable-Net	-	-	-	10,113,907
Interest Receivable - Net	9,321,153	90,066	-	175
Due from Other Funds	38,673	-	12	175
Due from Fiduciary Funds	114,976	-	-	-
Total Receivables	19,772,889	90,066	1,388,323	15,716,905
Investments, at Fair Value:				
Investments at the Bank of ND	20,520,550	368,051	18,602	8,069,758
Equity Pool	1,690,704,421	23,802,484	-	-
Fixed Income	10,219,583	-	34,804	-
Fixed Income Pool	691,364,641	19,673,226	-	2,408,793
Cash and Cash Pool	59,093,473	288,847	-	-
Real Estate Pool	170,224,891	1,432,146	-	-
Private Equity	118,961,967	575,441	-	-
Annuities	155,016	-	-	-
Mutual Funds	25,504,313	-	168,422,559	-
Total Investments	2,786,748,855	46,140,195	168,475,965	10,478,551
Invested Securities Lending Collateral	178,647,461	5,235,676	-	-
Capital Assets (Net of Depreciation)	23,656	-	-	-
Other Assets	37,575	-	-	38,841
Total Assets	2,996,130,105	51,587,755	170,315,110	$ 38,577,639
LIABILITIES				
Accounts Payable	2,674,444	33,509	1,339,606	-
Accrued Payroll	66,260	-	-	-
Securities Lending Collateral	178,647,461	5,235,676	-	-
Intergovernmental Payable	-	-	-	22,821,204
Due to Other Funds	178,130	-	-	-
Due to Fiduciary Funds	114,976	-	-	-
Amounts Held in Custody for Others	-	-	-	15,756,435
Deferred Revenue	35,547	-	-	-
Compensated Absences Payable	75,289	-	-	-
Capital Leases Payable	6,752	-	-	-
Total Liabilities	181,798,859	5,269,185	1,339,606	$ 38,577,639
NET ASSETS				
Net Assets Held in Trust for:				
Pension Benefits	2,813,259,883	-	-	
Other Employee Benefits	1,071,363	-	-	
External Investment Pool Participants	-	46,318,570	-	
Other Purposes	-	-	168,975,504	
Total Net Assets Held in Trust	$ 2,814,331,246	$ 46,318,570	$ 168,975,504	

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STATE OF NORTH DAKOTA

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2004

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private Purpose Trust Funds
ADDITIONS			
Contributions:			
Employer	$ 55,565,840	$ -	$ -
Employee	61,185,410	-	-
From Participants	-	-	93,638,019
Transfers from Other Funds	227,274	-	-
Transfers from Other Plans	3,857,713	-	-
Donations	-	-	22,212
Total Contributions	120,836,237	-	93,660,231
Investment Income:			
Net Increase in Fair Value of Investments	357,975,089	4,704,518	20,317,129
Interest and Dividends	73,093,535	1,212,809	2,125,030
Less Investment Expense	9,192,997	132,204	-
Net Investment Income	421,875,627	5,785,123	22,442,159
Securities Lending Activity:			
Securities Lending Income	1,773,342	44,754	-
Less Securities Lending Expense	1,285,627	36,488	-
Net Securities Lending Income	487,715	8,266	-
Repurchase Service Credit	3,633,050	-	-
Miscellaneous Income	459,808	-	-
Total Additions	547,292,437	5,793,389	116,102,390
DEDUCTIONS			
Benefits Paid to Participants	135,261,327	-	-
Refunds	9,494,659	-	-
Prefunded Credit Applied	4,063,395	-	-
Transfers to Other Plans	244,861	-	-
Payments in Accordance with Trust Agreements	-	-	32,634,159
Administrative Expenses	3,019,560	-	-
Total Deductions	152,083,802	-	32,634,159
Purchase of Units at Net Asset Value of $1.00 Per Unit	-	1,000,000	-
Change in Net Assets Held in Trust for:			
Pension Benefits	395,150,193	-	-
Other Employee Benefits	58,442	-	-
External Investment Pool Participants	-	6,793,389	-
Other Purposes	-	-	83,468,231
Net Assets--Beginning of Year	2,419,122,611	39,525,181	85,507,273
Net Assets--End of Year	$ 2,814,331,246	$ 46,318,570	$ 168,975,504

STATE OF NORTH DAKOTA

Combining Statement of Net Assets
Component Units - Proprietary Funds
June 30, 2004

	BSC Foundation	CHAND	MISU Development Foundation	Municipal Bond Bank	ND Development Fund
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 193,079	$ 2,179,597	$ 119,308	$ 2,429,000	$ 1,464,383
Investments	-	-	-	-	11,550,000
Accounts Receivable - Net	538,110	-	33,109	-	-
Interest Receivable - Net	-	-	-	-	122,222
Due from Primary Government	-	-	-	-	-
Inventory	-	-	-	-	-
Loans and Notes Receivable - Net	-	-	-	-	2,289,072
Other Current Assets	59,038	-	1,570	-	-
Restricted Cash and Cash Equivalents	-	-	-	1,781,000	-
Restricted Investments	-	-	-	16,240,000	-
Restricted Interest Receivable-Net	-	-	-	3,352,000	-
Total Current Assets	790,227	2,179,597	153,987	23,802,000	15,425,677
Noncurrent Assets:					
Restricted Cash and Cash Equivalent	-	-	-	-	-
Investments	6,679,864	-	10,300,021	-	1,700,541
Restricted Investments	3,944,215	-	-	305,489,000	-
Due from Primary Government	-	-	-	-	-
Loans and Notes Receivable - Net	-	-	-	-	3,604,935
Unamortized Bond Issuance Costs	-	-	-	1,403,000	-
Other Noncurrent Assets	2,407,437	-	-	-	-
Capital Assets:					
Land and Construction in Progress	1,200,000	-	-	-	-
Infrastructure - Net	-	-	-	-	-
Buildings and Equipment -Net	129,583	-	-	-	4,271
Total Noncurrent Assets	14,361,099	-	10,300,021	306,892,000	5,309,747
Total Assets	15,151,326	2,179,597	10,454,008	330,694,000	20,735,424
LIABILITIES					
Current Liabilities:					
Accounts Payable	167,316	88,106	16,363	60,000	15,154
Interest Payable	-	-	-	1,568,000	-
Intergovernmental Payable	-	-	-	-	-
Due to Primary Government	33,668	-	-	-	-
Claims/Judgments Payable	-	1,525,000	-	-	-
Notes Payable	-	-	9,070	-	-
Capital Leases Payable	-	-	-	-	-
Bonds Payable	-	-	-	7,625,000	-
Deferred Revenue	-	198,198	-	-	-
Other Current Liabilities	-	-	-	-	-
Total Current Liabilities	200,984	1,811,304	25,433	9,253,000	15,154
Noncurrent Liabilities:					
Intergovernmental Payable	-	-	-	309,000	-
Notes Payable	-	-	21,385	6,460,000	-
Capital Leases Payable	-	-	-	-	-
Bonds Payable	-	-	-	151,276,000	-
Other Noncurrent Liabilities	1,586,700	-	62,018	-	-
Total Noncurrent Liabilities	1,586,700	-	83,403	158,045,000	-
Total Liabilities	1,787,684	1,811,304	108,836	167,298,000	15,154
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	1,329,583	-	-	-	4,271
Restricted for:					
Debt Service	-	-	-	71,638,000	-
Loan Purposes	-	-	-	89,334,000	-
Other	10,889,285	-	8,406,849	-	-
Unrestricted	1,144,774	368,293	1,938,323	2,424,000	20,715,999
Total Net Assets	$ 13,363,642	$ 368,293	$ 10,345,172	$ 163,396,000	$ 20,720,270

The Accompanying Notes are an Intergral Part of the Financial Statements

NDSU Development Foundation	NDSU Research and Technology Park	RE Arena Inc. UND Arena Services, Inc. & Affiliates	UND Aerospace Foundation	UND Alumni Association and UND Foundation	Non-Major	Total
$ 269,588	$ 422,382	$ 861,092	$ 787,419	$ 597,351	$ 4,200,689	$ 13,523,888
-	-	-	-	-	-	11,550,000
359,035	282,432	1,923,541	601,963	2,551,985	496,760	6,786,935
-	-	-	-	-	-	122,222
-	-	-	-	298,927	-	298,927
-	-	502,637	119,501	-	-	622,138
-	-	-	-	-	-	2,289,072
495,890	77,816	1,873,855	33,041	13,182	381,639	2,936,031
-	-	-	-	-	-	1,781,000
-	-	-	-	-	-	16,240,000
-	-	-	-	-	-	3,352,000
1,124,513	782,630	5,161,125	1,541,924	3,461,445	5,079,088	59,502,213
5,191,539	1,257,916	2,978,841	-	-	-	9,428,296
73,702,347	-	-	567,381	84,607,005	21,323,942	198,881,101
4,928,950	-	-	-	36,970,730	792,311	352,125,206
-	-	-	1,967,627	8,153,551	-	10,121,178
-	-	-	-	-	-	3,604,935
-	-	39,357	-	-	-	1,442,357
95,356	246,167	-	-	1,970,061	170,181	4,889,202
925,866	-	4,768,427	967,649	-	241,625	8,103,567
-	510,257	-	39,617	-	-	549,874
3,511,457	38,209	101,207,397	6,821,590	3,472,546	821,230	116,006,283
88,355,515	2,052,549	108,994,022	10,363,864	135,173,893	23,349,289	705,151,999
89,480,028	2,835,179	114,155,147	11,905,788	138,635,338	28,428,377	764,654,212
1,420,974	1,641	869,882	803,016	399,362	916,143	4,757,957
-	-	-	-	-	-	1,568,000
-	22,000	-	-	-	-	22,000
205,425	-	260,078	48,056	536,698	304,960	1,388,885
-	-	-	-	-	-	1,525,000
3,002,830	-	-	608,012	159,814	89,430	3,869,156
-	-	-	32,373	-	-	32,373
77,723	-	250,000	-	332,622	-	8,285,345
368,874	-	3,680,267	468,744	-	-	4,716,083
514,125	-	-	-	-	750	514,875
5,589,951	23,641	5,060,227	1,960,201	1,428,496	1,311,283	26,679,674
-	398,375	-	-	-	-	707,375
25,673	-	-	3,601,743	713,551	944,186	11,766,538
-	-	-	1,967,627	-	-	1,967,627
1,551,629	-	7,250,000	-	12,605,668	-	172,683,297
4,354,148	-	-	-	16,021,171	560,824	22,584,861
5,931,450	398,375	7,250,000	5,569,370	29,340,390	1,505,010	209,709,698
11,521,401	422,016	12,310,227	7,529,571	30,768,886	2,816,293	236,389,372
4,437,323	128,091	98,725,824	3,619,101	3,472,546	879,239	112,595,978
-	-	-	-	-	-	71,638,000
-	-	-	-	-	-	89,334,000
72,196,561	1,632,677	2,978,841	-	91,233,464	21,557,064	208,894,741
1,324,743	652,395	140,255	757,116	13,160,442	3,175,781	45,802,121
$ 77,958,627	$ 2,413,163	$ 101,844,920	$ 4,376,217	$ 107,866,452	$ 25,612,084	$ 528,264,840

The Accompanying Notes are an Intergral Part of the Financial Statements

Combining Statement of Activities
Component Units-Proprietary Funds
For the Fiscal Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue
BSC Foundation	$ 728,338	$ 195,419	$ 3,704,856	$ 3,171,937
CHAND	8,370,255	9,050,020	4,450	684,215
MISU Development Foundation	987,117	-	1,541,119	554,002
Municipal Bond Bank	9,348,000	984,000	32,105,000	23,741,000
ND Development Fund	2,861,044	661,803	117,499	(2,081,742)
NDSU Development Foundation	8,006,742	658,247	15,458,943	8,110,448
NDSU Research and Technology Park	253,163	2,289,503	20,944	2,057,284
RE Arena, Inc., UND Areana Services & Affiliates	7,920,707	5,628,329	103,500,000	101,207,622
UND Areospace Foundation	5,983,665	6,544,314	17,837	578,486
UND Alumni Association & UND Foundation	10,008,103	1,251,939	14,885,447	6,129,283
Nonmajor Component Units	6,642,909	705,621	7,085,306	# 1,148,018
Total Component Units	$ 61,110,043	$ 27,969,195	$ 178,441,401	$ 145,300,553

General Revenues Payments from State of North Dakota	Additions to Permanent Endowments	Change in Net Assets	Net Assets Beginning of Year	Net Assets End of Year
$ -	$ 1,239,362	$ 4,411,299	$ 8,952,343	$ 13,363,642
-	-	684,215	(315,922)	368,293
-	455,050	1,009,052	9,336,120	10,345,172
-	-	23,741,000	139,655,000	163,396,000
1,550,000	-	(531,742)	21,252,012	20,720,270
-	4,098,764	12,209,212	65,749,415	77,958,627
-	-	2,057,284	355,879	2,413,163
-	-	101,207,622	637,298	101,844,920
-	-	578,486	3,797,731	4,376,217
-	3,923,317	10,052,600	97,813,852	107,866,452
-	335,083	1,483,101	24,128,983	25,612,084
$ 1,550,000	$ 10,051,576	$ 156,902,129	$ 371,362,711	$ 528,264,840

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NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

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, 2004, and their report dated August 5, 2004, 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 nonprofit 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 **NDSU Research Foundation** is considered a blended component unit. Although it is a legally separate, nonprofit 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, 2004, and their report dated September 30, 2004, 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.

MAJOR COMPONENT UNITS

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, 2003, and their report dated February 24, 2004, 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, 2003, and their report dated January 30, 2004, 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, 2004, and their report dated August 13, 2004, 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, 2004, and their report dated September 30, 2004, 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, 2004, and their report dated September 15, 2004, has been previously issued under separate cover.

The **Bismarck State College Foundation** is a legally separate, tax-exempt organization providing support and recognition to BSC through a variety of programs. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college. The Foundation is managed by a 75-member board of directors comprised of leading citizens, both alumni and friends of the college, as well as seven ex-officio members that are officers/employees of BSC. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated August 15, 2004, has been previously issued under separate cover.

Minot State University Development Foundation was incorporated in 1978 exclusively for the benefit of Minot State University (MiSU). Its purpose is to establish, promote and stimulate voluntary financial support for the benefit of the university, especially in the building of endowment and in addressing the long-term priorities of the university. The Foundation is managed by a board of directors comprising 13 voting members, two of whom are ex-officio appointments from the Board of Regents and the Alumni Association, and three ex-officio members who are employees of MiSU. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated October 15, 2004, has been previously issued under separate cover.

North Dakota State University Development Foundation is an incorporated, nonprofit organization developed solely for the benefit of NDSU. The Foundation is approved by the IRS as a charitable, tax-exempt organization and designated by the university as the repository for private giving to the university. Their purpose is to raise, manage, and disburse contributions for the benefit of NDSU. The Foundation is managed by a 61-member board of trustees comprised of leading citizens, both alumni and friends of the university, as well as three ex-officio members: the president of NDSU and the president and vice president of the Alumni Association. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated November 30, 2004, has been previously issued under separate cover.

Alumni Association of the University of North Dakota and UND Foundation - The Alumni Association of the University of North Dakota was incorporated in 1915 for the purpose of (1) keeping classmates in contact with each other, (2) keeping graduates and former students informed of happenings at UND, and (3) involving the graduates, former students, and special friends in the ongoing growth and development of UND. UND Foundation was incorporated in 1978 to replace the Alumni Association Development Fund and is the umbrella organization for alumni and private support for the total University of North Dakota. These two legally separate nonprofit corporations have the same board of directors and the same executive vice president, but different board presidents and vice presidents. The board of directors consists of 21 voting members who are alumni of UND and three ex-officio members that are officers of UND. The Alumni Association and the Foundation were audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated October 1, 2004, has been previously issued under separate cover.

RE Arena, Inc., UND Arena Services, Inc., Arena Holdings Charitable LLC and Affiliates are related organizations with common board of directors and management organized in 2003 for the benefit of UND. These organizations operate and maintain a multipurpose sports and entertainment arena in Grand Forks, ND. The arena is used primarily for UND athletics and activities. UND Sports Facilities, Inc. is the sole member of Arena Holdings Charitable LLC. RE Arena, Inc. conducts the day-to-day operations of the arena as an agent for Arena Holdings. Affiliates of RE Arena market products and services and operate the 2005 World Juniors Hockey Tournament. UND Arena Services, Inc. is the legal manager of Arena Holdings. These organizations were audited by other independent auditors for the fiscal year ended May 31, 2004, and their combined report dated November 15, 2004, has been previously issued under separate cover.

NONMAJOR COMPONENT UNITS

Dickinson State University Foundation, Inc. was organized in 1952 as a nonprofit corporation to provide an avenue through which alumni and friends of the university may contribute financially to the university. Gifts, grants, and bequests to the Foundation benefit present and future students by providing scholarship assistance and the funding of special projects not available through other funding sources. The Foundation is managed by a 26-member board of directors comprised of leading citizens, both alumni and friends of DSU, as well as two ex-officio members that are officers/employees of DSU. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated August 15, 2004, has been previously issued under separate cover.

Lake Region Community College Foundation was established in 1959 to provide a permanent structure through which support for Lake Region State College could be channeled. The work and the resources of the Foundation are managed by a 27-member board of directors elected by the Foundation membership to serve three-year terms. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated October 15, 2004, has been previously issued under separate cover.

Mayville State University Foundation was established to act primarily as a fund-raising organization to supplement the resources that are available to Mayville State University (MaSU). The Foundation is managed by a 29-member board of directors comprised of leading citizens, both alumni and friends of the university, as well as three ex-officio members that are officers/employees of MaSU. The **Comet Athletic Club**, a legally separate nonprofit organization, operates as an entity within the Foundation. The Club's purpose is to promote, support, and encourage interest and participation in MaSU sports. Their financial activity is reflected in the Foundation's financial statements.

Minot State University-Bottineau Development Foundation and Logrollers are separate legal entities that were established to act primarily as fund-raising organizations to supplement the resources that are available to MiSU-B. The Foundation and Logrollers are managed by the same eight-member board of directors comprised of leading citizens, both alumni and friends of the college, as well as one ex-officio member that is an officer of MiSU-B. However, each entity has separate committees that direct each organization's activities. The Foundation and Logrollers were audited by other independent auditors for the fiscal year ended June 30, 2004, and their combined report dated October 15, 2004, has been previously issued under separate cover.

North Dakota State College of Science Foundation was established to act primarily as a fund-raising organization to supplement the resources that are available to NDSCS. The Foundation is managed by a 13-member board of directors comprised of leading citizens, both alumni and friends of the college, as well as three ex-officio members that are officers/employees of NDSCS. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated October 31, 2004, has been previously issued under separate cover.

Valley City State University Foundation was established to support Valley City State University by involving alumni and friends of the university in activities and private giving that meet the university's needs and advance its welfare. The Foundation is managed by a 14-member board of directors comprised of leading citizens, both alumni and friends of the university, and one director each from the Alumni Association, V-500, Booster Board and Regents, as well as two ex-officio members that are officers of VCSU.

Williston State College Foundation was established to act primarily as a fund-raising organization to supplement the resources that are available to WSC. The Foundation is managed by an 11-member board of directors comprised of leading citizens, both alumni and friends of the college. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2004, and their report dated November 1, 2004, has been previously issued under separate cover.

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

Building Authority
600 E. Boulevard Ave., 14th 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
1735 NDSU Research Park Drive
Fargo, ND 58105-5014

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

Municipal Bond Bank
700 East Main Avenue
Bismarck, ND 58501

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

North Dakota State University Research and Technology Park, Inc.
1735 NDSU Research Park Drive
Fargo, ND 58105-5014

University of North Dakota Aerospace Foundation
PO Box 9023
Grand Forks, ND 58202-9023

Bismarck State College Foundation
PO Box 5587
Bismarck, ND 58506-5587

Minot State University Development Foundation
500 University Avenue West
Minot, ND 58707

North Dakota State University Development Foundation
PO Box 5144
Fargo, ND 58105

Alumni Association of the University of North Dakota
PO Box 8157
Grand Forks, ND 58202

Ralph Engelstad Arena, Inc., UND Arena Services, Inc., Arena Holdings Charitable LLC and Affiliates
One Ralph Engelstad Arena Drive
Grand Forks, ND 58203

Dickinson State University Foundation, Inc.
Dickinson State University
Dickinson, ND 58601

Lake Region Community College Foundation
1801 College Drive North
Devils Lake, ND 58301-1598

Mayville State University Foundation
330 3rd Street NE
Mayville, ND 58257

Minot State University-Bottineau Development Foundation and Logrollers
105 Simrall Boulevard
Bottineau, ND 58318

North Dakota State College of Science Foundation
800 Sixth Street North
Wahpeton, ND 58076-0002

Valley City State University Foundation
101 College Street SW
Valley City, ND 58072

Williston State College Foundation
PO Box 1286
Williston, ND 58802-1286

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 liabilities 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 Workforce Safety & Insurance 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, ND Association of Counties, and City of Fargo Fargodome 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 2004, the first year of the 2003-2005 biennium, there were general and federal fund supplemental appropriations of $97,079,415.

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, 2004.

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 $1,700,541 at June 30, 2004. 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-eight days; however, the average term of loans for the Land Department is fifty-five days.

Cash open collateral is invested in a short-term investment pool, the Core USA Collateral Section, which had an interest sensitivity of twenty-four days as of this statement date. Cash collateral may also be invested separately in *"term loans,"* in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower.

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

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

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

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

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 AND PREPAID ITEMS

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. Inventories consist of food, books, and other merchandise held for resale in auxiliaries and unrestricted physical plant supplies.

Federal fund inventories of commodities and vaccines totaling $2,930,523 are recorded as inventory and deferred revenue on the Government-wide Statement of Net Assets.

The Department of Human Services has approximately $3.0 million in food stamp inventory, which is included in the Federal Fund Inventory.

Prepaid items reflect payments for costs applicable to future accounting periods.

Other government fund inventories and prepaid items 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 statewide 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, Automobiles, and Equipment	3-20

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 is 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 estimated cost of sick leave as a liability after an employee has been employed by the State for six consecutive years.

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 government-wide financial statements, revenues are reported by source and 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 PRINCIPLE

The State has implemented the Governmental Accounting Standards Board’s Technical Bulletin No. 2004-1, “Tobacco Settlement Recognition and Financial Reporting Entity Issues.” In addition to requirements not applicable to the State, the Technical Bulletin establishes an accrual period for governments to recognize tobacco settlement revenues based on the tobacco companies’ agreement. The effect on the State of implementing this standard is to accrue additional receivables and revenue for estimated tobacco settlement payments for the period January through June 30.

The State has also implemented the Governmental Accounting Standards Board’s Statement No. 39, "Determining Whether Certain Organizations Are Component Units," which is effective for fiscal year June 30, 2004. This statement requires organizations that are separate from the State, and receive or hold resources that are almost entirely for the direct benefit of the State or its component units, be evaluated for inclusion in the State's financial statement as a potential component unit.

The North Dakota State University System's colleges and universities have foundations that are quantitatively significant; therefore, the foundations' resources and activities are reported in these financial statements as component units.

NOTE 2 – RESTATEMENTS

Certain restatements have been made to beginning fund equity for a change in accounting principle discussed previously and for correction of errors. The following changes to beginning fund equity, as previously reported, are summarized in the following table (expressed in thousands):

	Government-wide Governmental Activities	Government-wide Business-type Activities	School Permanent Trust Fund	Nonmajor Governmental Funds	University System
June 30, 2003, fund balances/net assets, as previously reported	$ 2,196,547	$ 1,470,175	$ 587,356	$ 451,262	$ 610,818
Prior period adjustments:					
Change in accounting principles:					
Tobacco settlement	11,536	-	5,191	6,345	-
Correction of errors	(2,269)	185	-	(1,722)	185
June 30, 2003, fund balances/net assets, as restated	$ 2,205,814	$ 1,470,360	$ 592,547	$ 455,885	$ 611,003

	Internal Service Funds	Major Component Units
June 30, 2003, fund balances/net assets, as previously reported	$ 54,951	$ 139,339
Prior period adjustments:		
Changes in accounting principles:		
GASB Statement No. 39	-	207,895
Correction of errors	(547)	-
June 30, 2003, fund balances/net assets, as restated	$ 54,404	$ 347,234

CORRECTION OF ERRORS

The beginning net assets of the Government-wide Business-type Activities and University System were restated by $185,276. There was an error in calculating depreciation and capitalizing special assessments, $(12,474), and a bond payment paid from agency funds in fiscal year 2003, $197,750.

The beginning net assets of the Government-wide Governmental Activities and Commodity Promotion Fund, a nonmajor governmental fund, were restated by $1,722,020. There was an error in recording accounts payable for legal costs of ongoing litigation.

The beginning net assets of the Government-wide Governmental Activities and Risk Management Fund, an internal service fund, were restated by $546,910. There was a $116,279 error for equipment purchased in fiscal year 2003 not capitalized, and contributions received in fiscal year 2003 not correctly reported as deferred revenue $(663,189).

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, 2004. 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	Category 2	Category 3	Total Bank Balance	Carrying Amount
Cash Deposits	$ 29,197	$ 951	$ 177,758	$ 207,906	$ 348,929
Certificates of Deposit					
Recorded as Investments	3,111	-	205	3,316	3,316
Total	$ 32,308	$ 951	$ 177,963	$ 211,222	$ 352,245

Major Component Units:

	Category 1	Category 2	Category 3	Total Bank Balance	Carrying Amount
Cash Deposits	$ 3,755	$ -	$ 21,267	$ 25,022	$ 23,896
Certificates of Deposit					
Recorded as Investments	2,010	-	-	2,010	2,010
Total	$ 5,765	$ -	$ 21,267	$ 27,032	$ 25,906

Included in the internal receivable amount in the governmental activities column in the Statement of Net Assets is $450,173,821 of Cash and Investments at the Bank of North Dakota for governmental activities. The internal payable amount in the business-type activities column includes $297,270,498 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, Workforce Safety & Insurance 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 held by the counterparty or their trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments, with securities which are held by the counterparty or their trust department or agent, but not in the State's name. The amounts are expressed in thousands:

Primary Government:	Category			
	1	2	3	Fair Value
Equity Securities				
Not on Securities Loan	$ 1,198,032	$ 915	$ 9,977	$ 1,208,924
On Securities Loan	10,108	-	-	10,108
Bonds and Notes				
Not on Securities Loan	834,492	-	32,196	866,688
On Securities Loan	6,741	-	-	6,741
U.S. Government & Agency Issues				
Not on Securities Loan	519,333	222	-	519,555
On Securities Loan	63,067	-	-	63,067
	$ 2,631,773	$ 1,137	$ 42,173	
Investments in Real Estate Pool				179,963
Investments in Unemployment Compensation Pool				54,818
Guaranteed Investment Contract				85,966
Annuities				155
Mutual Funds				1,545,715
Private Equity				119,537
Non-Security Investments				2,000
Held By Brokers/Dealers				4,406
Investments Held By Broker-Dealer Under Securities Loans With Cash Collateral:				
Equity Securities				109,609
Bonds and Notes				127,318
U.S. Government & Agency Issues				281,023
Securities Lending Short-Term Collateral Investment Pool				527,316
Totals				$ 5,712,909

Major Component Units:	Category 1	Category 2	Category 3	Fair Value
Equity Securities	$ 400	$ -	$ 365	$ 765
Bonds and Notes	9,643	-	1,495	11,138
U.S. Government & Agency Issues	106	-	-	106
Obligations of State and Political Subdivisions	1,852	175	171	2,198
	$ 12,001	$ 175	$ 2,031	
Guaranteed Investment Contract				98,971
Non-Security Investments				196,346
Held By Brokers/Dealers				190,994
Investments in Real Estate				15,240
Totals				$ 515,758

There were no violations of statutory authority or contractual provisions for investments during the year ended June 30, 2004.

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, 2004, the State had reverse repurchase agreements of $20,500,000 included in securities lending collateral on the statement of net assets. The highest month end balance for the previous year was $37,000,000, with an average daily balance of $14,216,000. The weighted average interest rate as of year end was .80 percent. The weighted average interest rate paid during the year was .99 percent. The fair value of these securities at June 30, 2004, was $20,500,000.

D. RECEIVABLES

Receivables at June 30, 2004, consist of the following (expressed in thousands):

	General	Federal	School Permanent Trust Fund	Other Governmental Funds	Bank of North Dakota	Housing Finance	University System
Receivables:							
Accounts	$ 3,640	$ 5,759	$ 5,191	$ 28,619	$ -	$ 504	$ 12,891
Less Allowance	(465)	-	-	(7,531)	-	-	(855)
Taxes	134,395	-	220	50,328	-	-	-
Less Allowance	(9,823)	-	-	(5,985)	-	-	-
Interest	3	-	4,670	1,839	15,105	2,771	10
Less Allowance	-	-	-	(624)	-	-	-
Current Loans and Notes	115	-	839	75,846	224,853	9,851	6,197
Less Allowance	(20)	-	-	(4,288)	-	-	(460)
Noncurrent Loans and Notes	-	-	23,181	-	1,121,596	493,315	40,442
Less Allowance	-	-	-	-	(25,334)	-	(3,009)
Net Receivables	$ 127,845	$ 5,759	$ 34,101	$ 138,204	$ 1,336,220	$ 506,441	$ 55,216

	Workforce Safety & Insurance	Other Enterprise Funds	Internal Service Funds	Fiduciary Funds	Major Component Units	Total
Receivables (continued):						
Accounts	$ 23,388	$ 42,263	$ 61	$ 7,437	$ 6,290	$ 136,043
Less Allowance	(4,500)	(5,027)	-	-	-	(18,378)
Taxes	-	-	-	10,535	-	195,478
Less Allowance	-	-	-	(421)	-	(16,229)
Interest	7,619	5,780	53	9,411	3,474	50,735
Less Allowance	-	-	-	-	-	(624)
Current Loans and Notes	-	39,475	-	-	2,289	359,465
Less Allowance	-	(23)	-	-	-	(4,791)
Noncurrent Loans and Notes	-	142,886	-	-	10,166	1,831,586
Less Allowance	-	(1,639)	-	-	(6,561)	(36,543)
Net Receivables	$ 26,507	$ 223,715	$ 114	$ 26,962	$ 15,658	$ 2,496,742

E. INTERFUND ACCOUNTS AND TRANSFERS

DUE FROM OTHER FUNDS/DUE TO OTHER FUNDS

Interfund balances at June 30, 2004, consist of the following (expressed in thousands):

Due To General Fund From:	
Federal Fund	$ 53,997
Nonmajor Governmental Funds	7,945
Nonmajor Enterprise Funds	26,259
All Others	1,852
Total Due To General Fund	$ 90,053

Due To Federal Fund From:	
General Fund	$ 3,120
Nonmajor Governmental Funds	7,333
All Others	1,849
Total Due To Federal Fund	$ 12,302

Due To Internal Service Funds From:	
Nonmajor Governmental Funds	$ 2,472
All Others	1,754
Total Due To Internal Service Funds	$ 4,226

Due To School Permanent Trust Fund From:	
Nonmajor Enterprise Funds	$ 4,364
All Others	1,190
Total Due To School Permanent Trust Fund	$ 5,554

Included in the Nonmajor Enterprise Funds is an advance from the Developmentally Disabled Fund for $2,983,227. This is not expected to be repaid within one year.

Due To Nonmajor Governmental Funds From:	
General Fund	$ 2,966
Federal Fund	17,501
All Others	2,310
Total Due To Nonmajor Governmental Funds	$ 22,777

Due To Bank of North Dakota From:	
General Fund	$ 4,775
University System	10,985
Housing Finance	17,977
Nonmajor Enterprise Funds	13,025
All Others	150
Total Due To Bank of North Dakota	$ 46,912

$10,164,854 from the University System and $13,107,000 from the Mill and Elevator are the result of loans made by the bank. The University System is not expected to be repaid within one year, and the Mill and Elevator is a short-term loan.

Due To University System From:	
General Fund	$ 3,946
Nonmajor Governmental Funds	2,573
All Others	352
Total Due To University System	$ 6,871

Due To All Other Funds From:	
All Other	$ 417

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, 2004.

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

Due From's		$ 189,112
Differences:		
Bank of ND/General Fund	16,785	
Housing Finance/Bank of ND	(4,886)	
Bank of ND/Mill & Elevator	(3,500)	
University System/Bank of ND	71	
Internal Service Funds/Bank of ND	3,958	
Job Service/Bank of ND	434	
Student Loan Trust/Bank of ND	(8)	
Developmentally Disabled Loan Fund/ School Permanent Trust Fund	(950)	
Emergency Management/Bank of ND	(3,442)	
Guaranteed Student Loan/Bank of ND	453	
Bank of ND/Governmental Agencies	(124)	
Total Differences		8,791
Due To's		$ 197,903

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, 2004, follows (expressed in thousands):

	Transfers In					
	General	Federal	Non-major Governmental	University System	Non-major Enterprise	Total
Transfers Out						
General	$ -	$ 16	$ 11,239	$ 208,957	$ 1,346	$ 221,558
Federal	1	-	29,927	-	-	29,928
School Permanent Trust Fund	-	-	30,789	1,499	-	32,288
Non-major Governmental	38,154	106	31,933	5,338	1,033	76,564
Bank of North Dakota	24,909	-	75	-	300	25,284
Housing Finance	-	-	25	-	24	49
University System	-	34	6,025	-	-	6,059
Non-major Enterprise	31,194	-	381	356	4,123	36,054
Total	$ 94,258	$ 156	$ 110,394	$ 216,150	$ 6,826	$ 427,784

(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, 2004, transfers of excess profits of $30.0 million were made from the Bank of North Dakota as well as legislatively-mandated transfers of $26.3 million, $18.0 million, and $1.5 million from Student Loan Trust, North Dakota Health Care Trust Fund and Bonding Fund, respectively, to the General Fund.

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

Transfers In		$ 430,705
Differences:		
General Fund/Bank of ND	(5,091)	
General Fund/Developmentally Disabled Loan Fund	2,004	
Human Services/ Developmentally Disabled Loan Fund	379	
Industrial Commission/Bank of ND	37	
Beginning Farmer/Ag PACE	(250)	
Total Differences		(2,921)
Transfers Out		$ 427,784

The above timing differences of $2,920,859 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, 2003	Increases	Decreases	Balance June 30, 2004
Governmental Activities:				
Capital Assets Not Being Depreciated				
Land	$ 39,973	$ 3,396	$ (89)	$ 43,280
Construction in Progress	174,396	90,558	(57,886)	207,068
Total Capital Assets Not Being Depreciated	214,369	93,954	(57,975)	250,348
Capital Assets Being Depreciated:				
Buildings and Improvements	337,303	18,731	(1,932)	354,102
Equipment	189,058	20,946	(19,462)	190,542
Infrastructure	2,834,637	66,739	(118)	2,901,258
Total Capital Assets Being Depreciated	3,360,998	106,416	(21,512)	3,445,902
Less Accumulated Depreciation for:				
Buildings and Improvements	(141,569)	(8,226)	1,623	(148,172)
Equipment	(97,960)	(15,249)	14,671	(98,538)
Infrastructure	(2,176,534)	(122,713)	78	(2,299,169)
Total Accumulated Deprecation	(2,416,063)	(146,188)	16,372	(2,545,879)
Total Capital Assets Being Depreciated, Net	944,935	(39,772)	(5,140)	900,023
Governmental Activities Capital Assets, Net	$ 1,159,304	$ 54,182	$ (63,115)	$ 1,150,371

Description	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Business-Type Activities:				
Capital Assets Not Being Depreciated				
Land	$ 16,989	$ 1,583	$ (7)	$ 18,565
Construction in Progress	35,623	26,713	(31,280)	31,056
Total Capital Assets Not Being Depreciated	52,612	28,296	(31,287)	49,621
Capital Assets Being Depreciated:				
Buildings and Improvements	626,121	62,524	(704)	687,941
Equipment	296,529	28,445	(9,253)	315,721
Infrastructure	135,849	2,879	(623)	138,105
Total Capital Assets Being Depreciated	1,058,499	93,848	(10,580)	1,141,767
Less Accumulated Depreciation for:				
Buildings and Improvements	(294,281)	(15,852)	484	(309,649)
Equipment	(180,406)	(19,890)	7,262	(193,034)
Infrastructure	(45,008)	(3,554)	400	(48,162)
Total Accumulated Deprecation	(519,695)	(39,296)	8,146	(550,845)
Total Capital Assets Being Depreciated, Net	538,804	54,552	(2,434)	590,922
Business-Type Activities Capital Assets, Net	$ 591,416	$ 82,848	$ (33,721)	$ 640,543

Description	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Major Component Units:				
Capital Assets Not Being Depreciated				
Land	$ 2,241	$ 1,228	$ (375)	$ 3,094
Construction in Progress	49	4,768	(49)	4,768
Total Capital Assets Not Being Depreciated	2,290	5,996	(424)	7,862
Capital Assets Being Depreciated:				
Buildings and Improvements	3,581	103,480	-	107,061
Equipment	13,069	2,051	(232)	14,888
Infrastructure	1,100	65	(508)	657
Total Capital Assets Being Depreciated	17,750	105,596	(740)	122,606
Less Accumulated Depreciation for:				
Buildings and Improvements	(406)	(2,776)	-	(3,182)
Equipment	(2,231)	(1,427)	76	(3,582)
Infrastructure	(64)	(43)	-	(107)
Total Accumulated Deprecation	(2,701)	(4,246)	76	(6,871)
Total Capital Assets Being Depreciated, Net	15,049	101,350	(664)	115,735
Business-Type Activities Capital Assets, Net	$ 17,339	$ 107,346	$ (1,088)	$ 123,597

Beginning capital asset balances were adjusted for certain reclassifications.

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

Governmental Activities:	
General Government	$ 3,446
Education	296
Health and Human Services	6,337
Regulatory	123
Public Safety & Corrections	4,923
Agriculture and Commerce	121
Natural Resources	3,681
Transportation	127,261
Total Governmental Activities Depreciation Expense	$ 146,188

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

Project Description:

Governmental Activities	Amount Authorized	Amount Expended Through June 30, 2004	Balance Authorized
Corrections	$ 3,031	$ 525	$ 2,506
Job Service	437	437	-
Adjutant General	3,653	669	2,984
Department of Transportation	211,602	188,681	22,921
Human Services	2,838	1,901	937
Game and Fish	972	32	940
Health Department	5,884	4,120	1,764
ConnectND Software System	19,940	10,703	9,237
Total Governmental Activities	$ 248,357	$ 207,068	$ 41,289

Business-Type Activities	Amount Authorized	Amount Expended Through June 30, 2004	Balance Authorized
Mill and Elevator	$ 895	$ 292	603
University System	98,855	30,764	68,091
Total Business-Type Activities	$ 99,750	$ 31,056	$ 68,694

Major Component Units	Amount Authorized	Amount Expended Through June 30, 2004	Balance Authorized
RE Arena, Inc.	$ 7,800	$ 4,768	$ 3,032

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, 2004, amounted to $9,038,047 for governmental activities and $6,050,111 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, 2004, for all fund types are as follows (expressed in thousands):

Year Ending June 30	Governmental Activities	Business-type Activities
2005	$ 7,031	$ 5,180
2006	1,792	2,339
2007	1,195	1,825
2008	762	920
2009	496	361
2010-2014	1,342	969
2015-2019	119	-
Total Minimum Lease Payments	$ 12,737	$ 11,594

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 below lists the future minimum lease payments under these capital leases and the present value of the net minimum lease payments at June 30, 2004 (expressed in thousands):

Year Ending June 30	Governmental Activities	Business-type Activities	Fiduciary Funds	Major Component Units
2005	$ 436	$ 6,468	$ 4	$ 126
2006	423	5,612	2	126
2007	326	3,882	1	126
2008	31	3,583	-	126
2009	1	3,578	-	126
2010-2014	-	10,169	-	632
2015-2019	-	5,335	-	632
2020-2024	-	5,228	-	632
2025-2029	-	2,124	-	632
2030-2034	-	-	-	632
Total Minimum Lease Payments	1,217	45,979	7	3,790
Less: Amount Representing Interest	(85)	(11,849)	-	(1,790)
Present Value of Future Minimum Lease Payments	$ 1,132	$ 34,130	$ 7	$ 2,000

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, 2004, is as follows (expressed in thousands):

	Governmental Activities	Business-Type Activities	Major Component Units
Infrastructure	$ -	$ 1,160	$ -
Buildings	-	36,998	-
Equipment	1,809	22,101	2,000
Less: Accumulated Depreciation	(552)	(10,481)	-
Total	$ 1,257	$ 49,778	$ 2,000

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, 2004, 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 2002 Series C Bonds have interest payable semiannually on February 15 and August 15 of each year. The 1998 Series A, B, and C Bonds, the 2000 Series A Bonds, the 2001 Series A Bonds, the 2002 Series A, B and D Bonds, and the 2003 Series A, B, and C 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, 2004, 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 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 from the 1999 Legislative Session to issue bonds to finance various flood control and pipeline projects throughout the state of North Dakota. Authorized and unissued bonds totaled $60,257,958 at June 30, 2004. Water development projects that will benefit from the financing are as follows:

Statewide Water Development Projects	$ 60,000,000
Southwest Pipeline Project	257,958

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

Interest on the 2001 Series Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on December 1, 2011, are not subject to optional redemption prior to maturity, except under extraordinary circumstances.

Student Loan Trust

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 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 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 B Bonds at 100% of the principal amount plus accrued interest to date of redemption.

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 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 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 B Bonds at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption. 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 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 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 early redemption of the 1998 Series 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 to the State of North Dakota Student Loan Revenue Bonds Second General Bond 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.

Interest is payable semiannually on June 1 and December 1 of each year. The 2004 Series A Bonds are variable rate bonds. The rate of interest is determined based on the one-month LIBOR plus .7%. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the variable rate bonds are outlined in Section 2.4 of the Second Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution. The Series 2004 Bonds are subject to redemption prior to maturity at the option of the Commission from any source of funds, in whole or in part, on any date 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.

Major 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 6/30/04
Primary Government			
Governmental:			
Building Authority	2005-2023	2.00 – 5.60	$ 91,451
Lignite Research	2005-2006	5.75	2,860
Water Commission	2005-2042	2.50 – 6.00	46,112
Information Technology Department	2006-2014	4.28	5,961
Proprietary:			
State Fair	2005-2011	3.25 – 4.60	1,924
Student Loan Trust	2006-2036	1.27 – 7.25	125,388
Housing Finance:			
Multi-Family	2005-2024	5.05 – 6.85	10,018
Single-Family	2005-2036	1.45 – 7.00	575,514
University System:			
VCSU—Valley City	2005-2033	4.30 – 7.25	3,737
Williston State College	2005-2019	0 – 4.75	1,299
Lake Region State College	2005-2017	3.00 – 5.125	1,050
UND—Grand Forks	2005-2034	0 – 4.80	43,771
NDSU—Fargo	2005-2032	0 – 5.60	46,817
NDSCS—Wahpeton	2005-2016	0 – 5.50	2,437
MiSU–Minot	2005-2013	3.00 – 4.75	4,266
MiSU—Bottineau	2005-2012	4.30 – 6.90	192
MaSU—Mayville	2005-2018	3.00 – 5.38	3,277
DSU—Dickinson	2005-2019	4.30 – 5.90	1,208
BSC—Bismarck	2005-2009	4.00 – 6.10	438
NDUS – Univ. Sys. State Office	2006-2014	4.28	14,200
Total Revenue Bonds Payable— Primary Government			$ 981,920
Major Component Units			
Proprietary:			
Municipal Bond Bank	2005-2028	2.00 – 10.00	$ 158,901
NDSU Development Foundation	2005-2019	5.19	1,630
Arena Holdings Charitable LLC	2005-2031	2.50 – 3.93	7,500
UND Foundation	2005-2027	2.02 –5.95	12,938
Total Revenue Bonds Payable— Major Component Units			$ 180,969

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
2005	$ 7,960	$ 6,880
2006	10,621	6,542
2007	9,041	6,089
2008	10,264	5,659
2009	10,195	5,187
2010-2014	40,954	19,350
2015-2019	32,316	10,454
2020-2024	17,720	3,482
2025-2029	3,021	1,383
2030-2034	1,592	847
2035-2039	1,816	424
2040-2044	740	80
Bond Premium	1,018	(1,018)
Deferred Amount On Refunding	(874)	874
Total	$ 146,384	$ 66,233

Business-type Activities

Fiscal Year	Principal	Interest
2005	$ 14,550	$ 34,826
2006	62,577	34,955
2007	19,875	33,570
2008	20,118	32,703
2009	20,908	31,835
2010-2014	116,639	143,871
2015-2019	106,045	116,064
2020-2024	114,855	88,752
2025-2029	173,855	52,466
2030-2034	97,050	17,245
2035-2039	89,589	1,747
Less Bond Discount	(263)	263
Deferred Amount On Refinancing	(90)	90
Accrued Interest At Maturity On Zero Coupon Bonds	(172)	172
Total	$ 835,536	$ 588,559

Major Component Units

Fiscal Year	Principal	Interest
2005	$ 9,020	$ 7,913
2006	9,786	7,682
2007	10,063	7,187
2008	10,286	6,675
2009	10,480	6,197
2010-2014	53,503	23,916
2015-2019	50,608	12,054
2020-2024	22,313	3,038
2025-2029	4,409	416
2030-2034	305	10
Bond Premium	196	(196)
Total	$ 180,969	$ 74,892

2. NOTES PAYABLE

The following is a schedule of notes payable outstanding at June 30, 2004 (expressed in thousands):

Fund Type/Fund	Maturities	Interest Rates	Balance 6/30/04
Primary Government			
Governmental:			
Job Service North Dakota	2006	3.57-5.68	$ 651
Information Technology Department	2004	4.18-6.64	434
Department of Corrections	2005 – 2015	4.59	462
Department of Human Services	2005 – 2014	4.24	3,909
Proprietary:			
Bank of North Dakota--Short Term (1)	2005	1.04	125,000
Bank of North Dakota--Long Term	2005 - 2022	2.98 – 7.35	400,795
University Systems	2005-2019	4.09-5.52	9,458

Major Component Units

Municipal Bond Bank (2)	2019	2.84	6,460
UND Aerospace Foundation	2005-2009	3.425-4.00	4,210
MiSU Development Foundation	2005-2008	6.00	30
NDSU Development Foundation	2005-2013	2.77 – 4.25	3,029
UND Foundation	2005-2012	1.98 – 4.31	873

(1) The Bank of North Dakota issued short-term debt to fund loans on a short-term basis.
(2) 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
2005	$ 993	$ 256
2006	816	195
2007	363	160
2008	395	142
2009	415	124
2010 – 2014	2,453	328
2015 – 2019	21	-
Total	$ 5,456	$ 1,205

Business-type Activities

Fiscal Year	Principal	Interest
2005	$ 148,957	$ 22,809
2006	64,904	20,834
2007	24,538	17,912
2008	15,960	16,873
2009	96,306	12,054
2010-2014	103,826	41,834
2015-2019	56,162	19,858
2020-2024	24,600	3,658
Total	$ 535,253	$ 155,832

Major Component Units

Fiscal Year	Principal	Interest
2005	$ 3,780	$ 330
2006	641	295
2007	1,352	247
2008	1,826	213
2009	400	152
2010-2014	1,738	890
2015-2019	4,120	339
2020-2024	745	10
Total	$ 14,602	$ 2,476

Changes in General Long-Term Liabilities

Changes in Long-Term Liabilities for the year ended June 30, 2004, are summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Notes Payable	$ 5,671	$ 4,804	$ (5,020)	$ 5,455	$ 992
Bonds Payable	146,795	7,461	(7,872)	146,384	7,960
Capital Leases Payable	2,240	277	(1,385)	1,132	404
Intergovernmental Payable	617	72	(21)	668	41
Compensated Absences	28,382	18,780	(18,476)	28,686	1,367
Claims/Judgments Payable	5,863	2,587	(2,391)	6,059	3,180
Total Long-Term Liabilities	$ 189,568	$ 33,981	$ (35,165)	$ 188,384	$ 13,944

Business-Type Activities:					
Notes Payable—Short-Term	$ 25,000	$ 1,190,000	$(1,090,000)	$ 125,000	$ 125,000
Notes Payable—Long-Term	402,683	23,567	(15,997)	410,253	23,957
Bonds Payable	886,185	145,388	(196,038)	835,535	14,550
Capital Leases Payable	31,798	9,318	(6,986)	34,130	4,934
Intergovernmental Payable	12,610	12,036	(13,582)	11,064	1,164
Compensated Absences	18,879	2,474	(1,174)	20,179	1,597
Claims/Judgments Payable	579,317	134,883	(109,399)	604,801	70,558
Total Long-Term Liabilities	$ 1,956,472	$ 1,517,666	$(1,433,176)	$ 2,040,962	$ 241,760
Major Component Units:					
Notes Payable	$ 15,281	$ 4,000	$ (4,679)	$ 14,602	$ 3,780
Bonds Payable	149,608	60,645	(29,284)	180,969	8,285
Capital Leases Payable	-	2,000	-	2,000	32
Intergovernmental Payable	1,405	83	(759)	729	22
Total Long-Term Liabilities	$ 166,294	$ 66,728	$ (34,722)	$ 198,300	$ 12,119

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, $1,248,482 of internal service fund compensated absences and $5,058,957 of claims and judgments are included in the above amounts. Other governmental activities compensated absences generally have been liquidated by the General Fund (57%), the Highway Fund (16%), the Federal Fund (20%), 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

Building Authority

On July 18, 2002, the Building 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. 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 fifteen years by $561,000 and resulted in an economic gain of $478,000. As of June 30, 2004, $13,840,000 of bonds outstanding is considered defeased and the liability for those bonds is not reflected on the State's financial statements.

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, 2004, $6,900,000 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 statement of net assets. The principal amount outstanding as of June 30, 2004, of the original bonds refunded by the advance refunding of 1998 totaled $350,000.

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, 2004, of the original bonds refunded (considered defeased) by the advance refunding total $100,000.

University of North Dakota

On January 1, 1998, the University of North Dakota issued $22.6 million of Housing and Auxiliary Facilities Improvement and Refunding Revenue Bonds (Series 1998 A) with an average interest rate of 4.70%. These bonds were used to advance refund $20.4 million of outstanding 1988 Series A and B Housing and Auxiliary Facilities Refunding Revenue Bonds (with an average interest rate of 7.50%) and to provide $450,000 for parking lot construction at the Rural Technology Center. The principal amount outstanding as of June 30, 2004, of the original bonds refunded by the advanced refunding of 1998 totaled $15,005,000.

Housing and Auxiliary Facilities 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, 2004, of the original bonds refunded by the advance refunding of 1975 totaled $555,000.

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 statement of net assets.

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 1991 North Dakota Legislature, 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, 2004, of the defeased certificates totals $2,375,000.

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 statement of net assets. The principal amount outstanding as of June 30, 2004, of the original bonds refunded by the advance refunding total $1,045,000.

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 State's financial statements. The project costs for the parking lot and related improvements were set at $1,000,000. The principal amount outstanding as of June 30, 2004, of the original bonds refunded is $1,335,000.

Component Units

Municipal Bond Bank Bonds

On December 16, 2003, the Bond Bank issued $20,455,000 of revenue bonds (Series 2003 B SRF Bonds) with an average interest rate of 4.71 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, 2003, $19,740,000 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 $2,129,000. 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 14 years by $1,066,000 and resulted in an economic gain of $842,000.

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 $5,802,248 at June 30, 2004. These amounts are reported in the Government-wide and Proprietary Fund Type financial statements as an intergovernmental payable.

NOTE 4 - 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, the National Guard Security Officers and Firefighters, and as of August 1, 2004, peace officers and correctional officers employed by political subdivisions. 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, 2004, the number of participating local political subdivisions in PERS was:

Cities and Park Districts	68
Counties	44
School Districts	100
Other	57
Total Participating Local Political Subdivisions	269

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/Law Enforcement) 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 three years of service for the Main System and National Guard/Law Enforcement, 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. 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 average monthly salary, using the highest 36 months out of the last 120 months of service, 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/Law Enforcement, 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 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 3.5% of final average monthly salary multiplied by the first 10 years of service, plus 2.80% of final average monthly salary times the second 10 years of service, plus 1.25% of final average monthly 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 National Guard/Law Enforcement at normal retirement age (55) is equal to 2.00 percent of their average monthly salary, using the highest 36 months out of the last 120 months of service, for each year of service.

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/Law Enforcement is set by the Board at 8.33% for the National Guard, 8.31% for Law Enforcement with previous service, and 6.43% for Law Enforcement without previous service. The required contributions are determined using an entry age normal actuarial funding method.

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/Law Enforcement] 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 administered by PERS. The plan is established under NDCC 52-11-01 with benefit provisions established through the plan document, as amended. This plan document, as amended, is authorized by the Plan Administrator, who is the Executive Director of the agency.

On August 1, 2003, the administrative authority and the net assets of the Retirement Plan for Employees of Job Service North Dakota were transferred from the agency to the Public Employees Retirement System Board. This action was based on the passage of House Bill 1064 by the Fifty-eighth Legislative Assembly of North Dakota. The Retirement Plan for Employees of Job Service has an Actuarial Valuation Report produced annually. Requests to obtain or review this report should be addressed to the Executive Director, NDPERS, 400 East Broadway, Suite 505, 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 their 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 they died and elected the Contingent Annuitant Option with 55% of their retirement benefit continued to their 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 the frozen initial liability actuarial cost method. Benefit and contribution provisions of the JSND are administered in accordance with chapter 52-11 of the North Dakota Century Code. Effective July 1, 1999, the "scheduled contribution" will be zero as long as the Plan's actuarial value of assets exceeds the actuarial present value of projected benefits.

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, 2004, the number of participating employer units in TFFR was:

Type	Number
Special Education Units	19
Vocational Education Units	4
Public School Districts	211
County Superintendents	15
Other	17
Total	266

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, ten- or twenty-year term certain annuity, partial lump sum option, 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.

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:	5,634	90	213	5,373
Special Prior Service Retirees:	74	-	-	-
Terminated Employees:				
Vested	986	2	5	1,346
Nonvested	3,133	3	-	175
Total Terminated Employees	4,119	5	5	1,521
Active Employees:				
Vested	13,402	65	60	8,658
Nonvested	4,234	67	-	1,168
Total Active Employees	17,636	132	60	9,826
Date of Annual Valuation	July 1, 2004	July 1, 2004	July 1, 2004	July 1, 2004

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 and NDHPRS 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. 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.

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.

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, 2004	July 1, 2004	July 1, 2004
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.

** As of July 1, 2004, 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, 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)%
July 1, 2003	1,166.5	1,188.8	22.3	98.1%	479.5	4.7%
July 1, 2004	1,196.5	1,272.9	76.4	94.0%	501.0	15.3%
NDHPRS						
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%
July 1, 2003	39.6	42.4	2.8	93.4%	5.4	51.9%
July 1, 2004	40.0	44.5	4.5	89.9%	5.4	83.3%
JSND						
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%
July 1, 2003	66.0	N/A	-	N/A	2.9	0.0%
July 1, 2004	67.5	N/A	-	N/A	2.5	0.0%
TFFR						
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%
July 1, 2003	1,438.4	1,690.3	251.9	85.1%	367.9	68.5%
July 1, 2004	1,445.6	1,800.4	354.8	80.3%	376.5	94.2%

*The Frozen Initial Liability method does not directly identify an Actuarial Accrued Liability.

D. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Employer contribution rates for PERS and NDHPRS 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 (3) the amount necessary to provide for operating expenses. Contribution rates for the Job Service Retirement Plan are established in the plan document, as amended, actuarially determined using the frozen initial liability actuarial cost method.

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.

The following schedule presents, by retirement system, annual required contributions and the percentage contributed:

Schedule of Employer Contributions

	Annual Required Contribution	Percentage Contributed
PERS		
2002	$ 16,811,296	100.0%
2003	20,644,235	93.0%
2004	26,704,376	74.0%
TFFR		
2002	$ 27,243,542	100.0%
2003	28,850,725	100.0%
2004	29,635,584	86.7%

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, 2004:

	NDHPRS	JSND
Annual required contributions	$ 940,629	$ -
Interest on net pension obligations	(71,944)	(133,787)
Adjustment to annual required contributions	62,763	137,546
Annual pension costs	931,448	3,759
Contributions made	844,241	-
Increase in net pension obligations	87,207	3,759
Net pension obligations, beginning of year	(899,304)	(1,672,335)
(Assets in excess of) net pension obligations, end of year	$ (812,097)	$ (1,668,576)

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			
2002	$ 591,235	138%	(806,653)
2003	748,658	111%	(899,304)
2004	940,629	90%	(812,097)
JSND			
2002	$ 3,776	0%	(1,676,102)
2003	3,767	0%	(1,672,335)
2004	3,759	0%	(1,668,576)

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, 2004.

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 $498,224 and $483,713 respectively, for the fiscal year ended June 30, 2004.

The Board, or vendors contracted by the Board, have exclusive authority to invest and manage the assets of the Defined Contribution Retirement 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, 2004:

Fidelity Managed Income Portfolio Mutual Fund	21.57%
Fidelity Growth Company Mutual Fund	13.51%
Fidelity Freedom 2020 Mutual Fund	10.63%
Fidelity Equity Income	7.30%
Fidelity Spartan U.S. Equity Index	6.60%
PIMCO Total Return Admin. Mutual Fund	5.00%
Fidelity Diversified International Mutual Fund	7.14%

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 employees as defined by the Board of Higher Education in its approved TIAA-CREF retirement resolution. All benefits vest immediately to the participant. Further information can be obtained by writing to TIAA-CREF, Denver Regional Office, 1700 Broadway, Suite 770, Denver, Colorado 80290 or by calling 800-842-2009.

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 are made on a tax-deferred basis 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 $17,962,691 to TIAA-CREF during the fiscal year ending June 30, 2004.

NOTE 5 - POST-RETIREMENT BENEFITS

The Retiree Health Insurance Credit 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 for employees of 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 Insurance Credit 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 one percent of covered compensation in order to extend this benefit to judges retired under NDCC 27-17. The employer contribution for non-teaching employees of the Office of the Superintendent of Public Instruction is 3.1 percent of covered compensation beginning in the month following the transfer under chapter 54-92-02.13 of the North Dakota Century Code and continuing thereafter for a period of eight years. Job Service North Dakota reimburses the Retiree Health Insurance Credit Fund monthly for credit received by members of the retirement program for employees of 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 Insurance Credit 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 for employees of 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 $207,779 for the period ending June 30, 2004. The number of employees from Job Service using the credit was 154 at June 30, 2004. 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, 2004. 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 employee’s contribution rates expressed as a percent of covered payroll, and the dollar effect on the actuarial accrued liability:

	As a Percentage of Covered Payroll	Dollar Effect
Changes in plan experience during the year	(.01)%	$ (51,852)

Employer contributions totaling $4,854,949 were made for the year ended June 30, 2004. The actuarially required employer contribution of $5,139,793 for the year ended June 30, 2004, is 0.99 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, 2004, the cost of benefits incurred for the fund was $4,063,395.

Employee membership is as follows:

Retirees receiving benefit	3,607
Active participants	18,017
Total Membership	21,624

According to the Projected Unit Credit Cost Method, the actuarial accrued liability and the unfunded actuarial accrued liability of the Retiree Health Insurance Credit Fund are as follows:

Actuarial accrued liability	$ 74,589,006
Net assets available for benefits, at actuarial value	(28,949,717)
"Unfunded" accrued liability	$ 45,639,287

The fair value of the net assets available for benefits at June 30, 2004, is $30,163,400.

NOTE 6 - 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	$ 11,684
Other Jurisdictions	2,605
Total Value	$ 14,289

NOTE 7 - PERS UNIFORM GROUP INSURANCE PROGRAM

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. This amount will be determined as of June 30, 2005. The System has entered into a similar contract with BCBS for the 2003-2005 biennium. The accumulated surplus and other invested funds in the amount of $3,267,756 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.

NOTE 8 - SEGMENT INFORMATION

North Dakota Housing Finance Agency maintains three separate funds which account for general agency operations and provide loans to finance construction of rental residential housing and single-family ownership. The three funds are accounted for in a single fund, but investors in the multi-family and home ownership bonds rely solely on the revenue generated by the mortgage loans and assets acquired for repayment. Segment information for the year ended June 30, 2004, was as follows (expressed in thousands):

	Multi-family Bond Funds	Home-Ownership Bond Funds
Condensed Statement of Net Assets		
Current assets – other	$ 2,194	$ 154,914
Noncurrent assets – other	8,372	499,315
Total Assets	10,566	654,229
Current liabilities – other	478	27,206
Noncurrent liabilities – other	9,703	581,951
Total Liabilities	10,181	609,157
Net assets – restricted	385	45,072
Total Net Assets	$ 385	$ 45,072
Condensed Statement of Revenues, Expenses and Change in Fund Net Assets		
Operating revenues	$ 663	$ 36,661
Operating expenses	667	33,797
Operating income (loss)	(4)	2,864
Change in net assets	(4)	2,864
Total net assets, beginning of year	389	39,825
Total net assets, end of year	385	45,072

	Multi-family Bond Funds	Home-Ownership Bond Funds
Condensed Statement of Cash Flows		
Net cash from operating activities	2,390	79,686
Net cash used for noncapital financing activities	(889)	(106,685)
Net cash from investing activities	246	1
Net change in cash and cash equivalents	1,747	(26,998)
Cash and cash equivalents, beginning of year	403	165,030
Cash and cash equivalents, end of year	2,150	138,032

NOTE 9 - MAJOR COMPONENT UNIT TRANSACTIONS

NORTH DAKOTA STATE UNIVERSITY AND NDSU RESEARCH AND TECHNOLOGY PARK, INC.

On December 30, 1999, North Dakota State University, through the State of North Dakota and North Dakota State Board of Higher Education, entered into a ground lease, whereby the NDSU Research and Technology Park, Inc. leases 40 acres of land for $1 per year for the next seventy-five years.

On November 1, 2000, NDSU Research and Technology Park, Inc. (RTP) entered into a $6.5 million lease agreement with the City of Fargo to finance the construction of laboratory and research facilities and all equipment and furnishings located on Lot 1, Block 2, Research and Technology Park First Addition to the City of Fargo (Research Building #1). Article IV, Section 4.12 of that agreement assigned to NDSU all of NDSU Research and Technology Park's obligations under the lease, including but not limited to the payment of all basic rent and additional rent, maintenance of all insurance required under the lease, and restrictions of use of the project set forth in the lease. Under the terms of Exhibit B, Assignment of Lease to the aforementioned lease agreement, ". . . that upon payment of all the Bonds, title to the Facility will revert to the Company." (Company is defined in the lease as NDSU Research and Technology Park, Inc.) Because of the lease assignment, NDSU accounted for this as a capital lease in fiscal year 2002. Beginning in fiscal year 2003, NDSU converted the classification of the debt to bonds payable.

ON August 1, 2002, essentially the same legal and financial structure used to construct Research Building #1 was used to construct a second research building. The new lease agreement was for $20,450,000. NDSU is reporting the related assets and debt in its fiscal year 2004 financial statements.

The audited financial statements for fiscal years 2003 and 2004 of the RTP report these transactions as an operating lease and report the related capital assets and related debt as assets and debt of RTP. Since the RTP is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and debt for Research Buildings 1 and 2, fiscal year 2004 beginning balances are restated and an elimination entry is made to ending balances in the component unit's consolidating financial statements to avoid duplication.

NDSU and RTP have entered into an operating agreement, whereby NDSU leases Research Building #1 for an annual rent of $628,943 and Research Building #2 for $165,370 (through June 2005, then annual rent of $1,525,963 through July 2013) plus utilities and insurance. Total payments under these agreements in fiscal year 2004 were approximately $1,047,405. These agreements are subject to funding and legislative appropriations. A receivable from NDSU for $282,432 is recorded at June 30, 2004, for amounts due under these agreements.

NORTH DAKOTA STATE UNIVERSITY AND NDSU DEVELOPMENT FOUNDATION

NDSU Equine Science Center

Effective January 1, 2003, NDSU and the NDSU Development Foundation entered into a ten-year lease agreement with an option for an additional ten-year term to facilitate the building of an Equine Science Center. Under the agreement, NDSU will pay rent to NDSU Development Foundation for use of the premises. The amount of the rent is tied to the debt service retirement plus necessary insurance and taxes incurred by the Development Foundation. NDSU paid the Development Foundation $178,576 in fiscal year 2004 and has a payable of $11,678 at June 30, 2004, under this agreement.

As of June 30, 2004, construction of the facility was complete, and the facility is included in capital assets and the debt is included in long-term liabilities on the financial reports of the NDSU Development Foundation. NDSU has also recorded a capital asset and a capital lease payable of $4,355,000 as of June 30, 2004. Since the Development Foundation is a discretely presented component unit of the North Dakota University System, and the component unit and the University System are reporting the same assets and debt for the Equine Center, an elimination entry is made to ending balances in the component unit's consolidating financial statements to avoid duplication.

UNIVERSITY OF NORTH DAKOTA AND UND AEROSPACE FOUNDATION

The Foundation reimbursed UND for salaries, building rent, aircraft rental, and goods and services under an operating agreement aggregating approximately $2,225,579 in fiscal year 2004. This operating agreement has no specific term and is intended to memorialize various operating agreements, rate structures, duties, and obligations each party has to the other. The Foundation also reimbursed UND for air service and hangar, CRJ, 360-degree tower, and aircraft rental of $941,356. These expense reimbursements represent actual costs incurred.

UNIVERSITY OF NORTH DAKOTA AND RE ARENA, INC.

RE Arena, Inc. manages, operates, and maintains an arena known as the Ralph Engelstad Arena, which was constructed in 2001 for the benefit of UND athletics. On July 1, 2003, UND and RE Arena, Inc., entered into a usage agreement with regards to the arena that sets forth facility usage, fees and services, and net income disposition. This agreement expired on June 30, 2004, but a similar agreement was signed effective July 1, 2004. In accordance with this agreement, UND will control all ticket revenue from UND athletic events held in the arena, UND and RE Arena, Inc. will jointly utilized UND marketing staff, and UND agrees to pay RE Arena, Inc. a stated amount of the ticket revenue from hockey, football, and men's and women's basketball events. Revenue and expenses from all other UND events held at the arena will be negotiated on an event-by-event basis. Per this agreement, UND paid approximately $1.37 million to RE Arena, Inc. in fiscal year 2004 for event ticket revenue. Also per the agreement, RE Arena, Inc. will annually fund a reserve for extraordinary repairs, maintenance, and building improvements in an amount up to $350,000. And, on an annual basis, RE Arena, Inc. will remit to UND the net income after adding back depreciation, amortization, the funded reserve and capital expenditures for the fiscal year.

In addition, RE Arena, Inc. may contract with UND for materials and personnel in the service and utility areas and will reimburse UND based on separate agreements. As of June 30, 2004, RE Arena, Inc. has a payable to UND of $260,078 for these expenditures.

UNIVERSITY OF NORTH DAKOTA AND UNIVERSITY OF NORTH DAKOTA FOUNDATION

The University of North Dakota Foundation issued through Wells Fargo Brokerage Services, LLC, tax-exempt lease revenue bonds on October 24, 2003, of $4,400,000 to finance the land purchase and construction of the Minot Family Practice Center. The center is a component of the School of Medicine & Health Sciences at UND. Interest only is due on a semi-annual basis at a variable rate of interest with a maturity date of December 15, 2018. The initial interest rate was 1.95 percent. Effective June 15, 2004, the interest rate was reset at 2.02 percent. The Foundation may pay down principal in increments of $100,000 on interest payment dates without penalty. A total of $100,000 in principal was retired in fiscal year 2004.

On July 1, 2002, UND Foundation issued lease revenue bonds of $8,595,000 on behalf of UND to 1) finance the construction of an office building for EERC, 2) renovate the current EERC building, 3) finance capitalized interest, and 4) pay cost of issuance of the bonds. UND and UND Foundation also entered into a lease agreement on July 1, 2002, whereby the foundation leases certain property to UND and UND will pay the Foundation basic rents which will be sufficient to cover principal and interest on the lease revenue bonds when due. The bonds bear an interest rate of 2 to 5.13 percent and mature in 2027. The lease revenue bond has a balance of $8,370,000 at June 30, 2004. The Foundation's financial statements include this transaction as a receivable from UND and a long-term liability. UND's financial statements include the capitalized asset and a long-term liability due to UND Foundation.

UND leases office space to the UND Foundation at a cost of $1 per year and provides some administrative services, computer services, utilities and maintenance at no cost as a partial in-kind reimbursement for services rendered by the Foundation. Lease on the office, dated November 1, 1979, has a term of five years remaining. At June 30, 2004, due to timing of receipts and payments, the UND Foundation recorded a payable of $536,698 to UND, which was paid in full in July.

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	$	237,582
Financial standby letters of credit		124,636
	$	362,218

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 $28,864,000 at June 30, 2004. 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 $32,866,000 at June 30, 2004.

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 $26,721,000 at December 31, 2003.

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 $661,700 as of December 31, 2003.

NOTE 11 - INTEREST RATE SWAP

NORTH DAKOTA HOUSING FINANCE AGENCY

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance, the Agency entered into several interest rate swaps in connection with various variable-rate housing bond series. The intention of these swaps was to effectively change the Agency's interest rate on the bonds to a fixed rate.

The bonds and the related swap agreements have a stated maturity date, and the swap's notional amounts match the amount of variable-rate bonds. Under the swaps, the Agency pays the counterparty a fixed payment and receives a variable payment computed as a percent of the London Interbank Offered Rate (LIBOR) plus a fixed percentage. On the other hand, the bond's variable-rate coupons are determined by the remarketing agent. If, for any reason, the remarketing agent fails to act, the rate shall be the lesser of (i) the TBMA (Bond Market Association) Index plus 0.25% or (ii) the Maximum rate as defined within the applicable series resolution. The Agency did not disburse any funds to enter into these swap agreements.

As of June 30, 2004, the Agency is exposed to credit risk on the swaps that have a positive fair value, which total $468,309. Of the swaps with negative fair value, the Agency is not exposed to credit risk. However, the swap exposes the Agency to basis risk should the relationship between LIBOR and TBMA converge, changing the synthetic rate on the bonds. The swap counterparty has guaranteed all payments and is rated AA+/AA-/AA by Moody's Investor Services, Standard & Poor's, and Fitch, respectively. To mitigate potential credit risk, the counterparty has entered into a Credit Support Agreement with Citigroup Global Marketing as a credit enhancement.

Due to the difference among the variable rate indices, the swaps had a net negative fair value of $1,109,537 as of June 30, 2004. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic fixed interest rate. Because the coupons on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. All valuations are as of the valuation date indicated. Mid-Market or indicative unwind valuations may be derived from broker quotations or from proprietary models that take into consideration estimates about relevant present and future market conditions as well as the size and liquidity of the position and any related actual or potential hedging transactions. Valuations based on other models or different assumptions may yield different results.

As noted above, the swap exposes the Agency to basis risk should the relationship between LIBOR and the actual variable rates converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate and the synthetic rate as of June 30, 2004. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated if counterparty's credit quality rating falls below "A3" as issued by Moody's Investors Service or "A-" as issued by Fitch Ratings or Standard & Poor's. The swap may be terminated at any time by the Agency or the counterparty with 30 days' written notice up to limits specified in the swap agreement. If the swap or swaps were terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Agency would be liable to the counterparty for payment equal to the swap's fair value, but in the event the fair value is positive, the counterparty would be liable to the Agency.

1.	Bond Series	2002 B	2002 B	2003 A	2003 A
2.	Issuance Date	8/28/02	8/28/02	5/14/03	5/14/03
3	Maturity Date	1/1/34	7/1/11	7/1/34	1/1/12
4.	Notional Amount	$ 17,595,000	$ 6,120,000	$ 14,120,000	$ 8,355,000
5.	Variable-rate Bonds	$ 17,595,000	$ 6,120,000	$ 14,120,000	$ 8,355,000
6.	Fixed Rate	4.470%	2.940%	4.035%	2.463%
7.	LIBOR Percentage	68.70%	70.60%	62.50%	62.50%
8.	Additional Percentage	0.00%	0.00%	0.44%	0.44%
9.	Bonds Variable-rate	1.10000%	1.10000%	1.11000%	1.11000%
10.	Fair Value	$ (645,453)	$ (91,308)	$ 103,749	$ 111,455
11.	Percentage of LIBOR	0.94033%	0.96634%	1.29547%	1.29547%
12.	Synthetic Rate	4.62967%	3.07366%	3.84953%	2.27538%
13.	Actual Synthetic Rate	4.70040%	3.15130%	3.89757%	2.32603%

1.	Bond Series	2003 B	2003 B	2004 B	2004 B
2.	Issuance Date	8/27/03	8/27/03	4/1/04	4/1/04
3	Maturity Date	1/1/12	7/1/34	1/1/13	7/1/35
4.	Notional Amount	$ 8,190,000	$14,205,000	$ 11,735,000	$12,990,000
5.	Variable-rate Bonds	$ 8,190,000	$14,205,000	$ 11,735,000	$12,990,000
6.	Fixed Rate	3.155%	4.530%	2.620%	3.980%
7.	LIBOR Percentage	64.00%	64.00%	63.00%	63.00%
8.	Additional Percentage	0.365%	0.365%	0.34%	0.34%
9.	Bonds Variable-rate	1.11000%	1.11000%	1.11000%	1.11000%
10.	Fair Value	$ (124,603)	$ (716,482)	$ 180,483	$ 72,622
11.	Percentage of LIBOR	1.24100%	1.24100%	1.20231%	1.20231%
12.	Synthetic Rate	3.02400%	4.39900%	2.52769%	3.88769%
13.	Actual Synthetic Rate	3.11563%	4.49063%	2.66663%	4.02663%

Using rates as of June 30, 2004, debt service requirements of the variable-rate debt and new swap payments are as follows. Interest calculations were based on rates as of June 30, 2004. As rates vary, variable-rate bond interest payments and net swap payments will vary. (Expressed in thousands.)

Fiscal Year Ending June 30	Variable-Rate Bond Principal	Variable-Rate Bond Interest	Interest Rate Swap, Net	Total
2005	$ 1,750	$ 1,023	$ 2,362	$ 5,135
2006	3,395	992	2,316	6,703
2007	4,995	940	2,242	8,177
2008	5,410	880	2,157	8,447
2009	5,165	822	2,074	8,061
2010-2014	14,080	3,458	9,449	26,987
2015-2019	-	3,261	9,180	12,441
2020-2024	1,335	3,252	9,154	13,741
2025-2029	22,955	2,536	7,124	32,615
2030-2034	29,040	1,058	2,956	33,054
2035-2039	5,580	15	39	5,634
	$ 93,705	$ 18,237	$ 49,053	$ 160,995

NOTE 12 – 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 13 – 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.

WORKFORCE SAFETY & INSURANCE

Workforce Safety & Insurance (WSI), an Enterprise Fund, is a State insurance fund and a "no fault" insurance system, covering the State's employers and employees. WSI is financed by premiums assessed to employers. The rate of such premiums is periodically adjusted to assure the solvency of WSI. The premiums are available primarily for the payment of claims to employees injured in the course of employment. During fiscal year 2003, a total of $105,131,905 in claims was recognized. Incurred but not reported claims of $604,100,000 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, 2003, and June 30, 2004:

Fiscal Year	Beginning Balance	Current Year Claims and Changes In Estimates	Claims Payments	Ending Balance
2003	$ 2,537,631	$ 1,210,045	$ 765,415	$ 2,982,261
2004	2,982,261	547,972	769,932	2,760,301

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 Workforce Safety & Insurance, providing excess insurance for claims which exceed the $100,000 cap. WCP pays separately for this coverage. Since the inception of WCP on July 1, 2001, five claims exceeded coverage by $315,854.

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 Workforce Safety & Insurance 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 Workforce Safety & Insurance. 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, 2004:

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2003	$ 491,170	$ 1,864,658	$ 1,009,070	$ 1,346,758
2004	1,346,758	2,368,743	1,416,845	2,298,656

NOTE 14 – PUBLIC ENTITY RISK POOLS

A. GENERAL

FIRE AND TORNADO AND BONDING FUND

The Fire and Tornado Fund provides property insurance to state agencies, political subdivisions, the International Peace Garden and the winter show. The Fire and Tornado Fund has issued 1,087 policies to participating entities for a total building and content coverage of $5.7 billion. The Bonding Fund is used to provide fidelity bonding of public employees and officials. The Fund has issued 2,922 policies to participating entities. The total coverage for the Bonding Fund is $580.7 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.

WORKFORCE SAFETY & INSURANCE

Workforce Safety & Insurance (WSI), an Enterprise Fund, is a state insurance fund and a "no fault" insurance system covering the State's employers and employees. At June 30, 2004, coverage extended to the following employers:

Annual Premium	
$125 - $5,000	16,366
$5,001 - $50,000	2,507
$50,001 - $100,000	211
Over $100,000	156
Total Employers	19,240

WSI 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 WSI are accounted for on the accrual basis. Liability for incurred but not reported and incomplete claims and claims expense is estimated by WSI's actuary. The estimate is developed by WSI's actuary, taking into consideration past experience of WSI in paying claims, and general conditions of the environment in which WSI 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. WSI 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, 2004, the actuary presented an estimate in the form of a range to emphasize the uncertainty for the estimated liability of WSI. These ranges are as follows (expressed in thousands):

	Low	Expected Value	High
Full Value Basis (undiscounted)	$ 990,000	$ 1,098,000	$ 1,265,000
Discounted at 6% rate	*	604,100	695,000

*Not computed by actuary.

WSI has adjusted the estimated liability for unpaid loss and loss adjustment expense to the actuary's six percent discounted expected value of $604.1 million at June 30, 2004.

The June 30, 2003, liability of $577.5 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.

WSI did not incur any acquisition costs which should have been capitalized at June 30, 2004.

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		Workforce Safety & Ins	
	2004	2003	2004	2003	2004	2003
Unpaid claims and claims adjustment expenses at the beginning of the year	$ 1,451	$ 7,069	$ 366	$ 126	$ 577,500	$ 500,800
Incurred claims and claims adjustment expenses:						
Provision for current fiscal year	135	(2,523)	254	259	102,850	92,605
Change in provision for prior fiscal year	-	-	-	-	31,645	133,442
Payments and claims and adjustment expenses attributable to:						
Current fiscal year insured events	227	3,974	85	107	(20,379)	(18,586)
Prior fiscal years' insured events	(1,451)	(7,069)	(366)	(126)	(65,216)	(60,761)
Total Payments	(1,224)	(3,095)	(281)	(19)	(85,595)	(79,347)
Change in provision for discount	-	-	-	-	(22,300)	(70,000)
Total unpaid claims and claims adjustment expenses at the end of the year	$ 362	$ 1,451	$ 339	$ 366	$ 604,100	$ 577,500

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, 2004, realized gains and losses available for distribution in the current year totaled $8,971,463 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 2003 North Dakota Legislature passed Senate Bill 2022, which included the statewide water development goals. In connection with these goals, the bill provides that a line of credit-contingent appropriation be made. If determined necessary by the State Water Commission, the Bank of North Dakota shall extend a line of credit, not to exceed $25,000,000 or so much of the sum as may be necessary, to the State Water Commission for the purpose of interim financing until bonds are issued under NDCC chapters 61-02 and 61-02.1 for the biennium beginning July 1, 2003, and ending June 30, 2005. As of December 31, 2003, Bank of North Dakota has not funded and has not committed to fund any amount under the line of credit.

The 2003 North Dakota Legislature passed House Bill 1321, which provides that the Bank of North Dakota may guarantee the loan of money by banks, credit unions, lending institutions that are part of the farm credit system, and savings and loan associations in this state to eligible persons for the purchase of agricultural real estate or the restructuring of agricultural real estate loans, provided the transactions do not exceed a loan-to-value ratio of 80%, and further provided that no single loan exceeds $400,000. The Bank of North Dakota may have no more than $5,000,000 in outstanding loan guarantees under this program. The Bank of North Dakota may guarantee up to 75% of the amount of principal due the lender. The guarantee term may not exceed five years. As of December 31, 2003, the Bank of North Dakota has not guaranteed or committed to guarantee any loans under this program.

The 2001 North Dakota Legislature passed Senate Bill 2349, 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, 2003, the Bank has provided guarantees totaling $1,346,000 and has guarantee commitments of $32,000 included in commitments to extend credit.

STUDENT LOAN TRUST

The 2003 North Dakota Legislature also passed Senate Bill 2335, which permits the Bank of North Dakota to request from the Commission a transfer from the Trust to reimburse the Bank of North Dakota for any losses incurred from investments in North Dakota alternative and venture capital investments and early-stage capital funds up to $5,000,000. As of June 30, 2004, approximately $75,000 has been funded.

PACE FUNDS

The 2003 North Dakota Legislature passed House Bill 1021, Section 9, which provides that the Bank of North Dakota shall transfer $800,000 from the Agricultural PACE Fund to the main NDSU research center. The transfer may not be made until $1,000,000 of federal funds and $1,000,000 of special funds from private contributions have been collected for the establishment of a beef systems center of excellence.

RETIREMENT AND INVESTMENT OFFICE (RIO)

The North Dakota Retirement and Investment Office has entered into two contracts to implement a new pension administration software system for the North Dakota Teachers' Fund for Retirement. The contracts commenced March 1, 2004, and terminate June 30, 2005, and September 30, 2005. The approximate costs under these contracts for implementation of the new software is $1,707,875. RIO has budgeted $2.0 million for the implementation of this system. Other costs of the system not under contract include support from the Information Technology Department and other miscellaneous costs totaling $292,125. Fees paid under these contracts total $480,864 as of June 30, 2004.

INDUSTRIAL COMMISSION

In September of 2001, the Industrial Commission, as part of the Lignite Research, Marketing and Development Program—Vision 21, entered into a contract with Montana-Dakota Utilities/Westmoreland Power, Inc. (MDU) for a total of $10,000,000. The contract authorizes payments over a period of years based on completion of the required research and the construction of a new lignite-fired power plant in North Dakota. Payments made on the contract total $1,125,000. The contract contains a provision for payback to the Industrial Commission of $4.5 million over twenty years if new power plants are built and become operational. Total commitments under the contract would be reduced by $7,650,000 if the power plant is 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 $464,226 have been made. On June 18, 2003, the Commission approved the issuance of a Phase II feasibility matching contract in the amount of $687,500. The Phase II contract is currently being negotiated.

The Commission also has various significant commitments at June 30, 2004, for the purchase of various types of services and other goods totaling $3,801,778.

MILL AND ELEVATOR

The Mill has entered into futures contracts for spring wheat to lock in a price for a future delivery or settlement period. These contracts are entered into to protect the Mill against price fluctuations of the commodity and are not reflected on the face of the financial statements. The price protection is needed to cover any long or short positions compared to flour sales. All trades are completed using two different national brokerage firms on the Minneapolis Grain Exchange. The following table shows the Mill's futures positions at June 30, 2004. One contract equals 5,000 bushels.

Futures Positions:

Month	Contracts Long	Contracts Short	Avg. Price	Fair Value
September	9	-	$ 3.883	$ 3.885
December	-	202	4.158	3.970

As of June 30, 2004, the Mill had commitments to purchase 1,671,247 bushels of spring wheat and 121,387 bushels of durum.

STATE COURTS

As of June 30, 2004, the state courts had significant commitments of $1,995,708. 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, 2004, Job Service has commitments to pay $558,336 for purchase orders and contracts awarded for goods and services to be provided in future periods.

BUILDING AUTHORITY

The Authority has committed funds to complete various construction and modernization programs at June 30, 2004, totaling $14,428,000.

The Legislature authorized the Authority to issue bonds for the State Historical Society to renovate historic site interpretive centers if they decide to proceed with the project prior to June 30, 2005. The amount authorized for financing this project is $2,000,000.

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.

INFORMATION TECHNOLOGY DEPARTMENT

ITD has entered into a contract with Maximus to facilitate the implementation of PeopleSoft software for the ConnectND project. Remaining estimated payments for the 2003-2005 biennium are $3,905,250.

DEPARTMENT OF HUMAN SERVICES

As of June 30, 2004, the Department of Human Services had significant commitments for the purchase of various types of services totaling $27,105,631.

PUBLIC SERVICE COMMISSION

As of June 30, 2004, the Public Service Commission had significant commitments of $1,042,643. This amount consists primarily of contractor charges associated with the Abandoned Mine Lands.

AERONAUTICS COMMISSION

As of June 30, 2004, the Aeronautics Commission had significant commitments of $1,152,000. This amount consists of grants to political subdivisions for maintenance and improvements of their airports.

DAIRY PRODUCTS PROMOTION COMMISSION

As of June 30, 2004, the Dairy Products Commission had significant commitments of $225,000. 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, 2004, the North Dakota Soybean Council had significant commitments of $659,160. This amount mainly consists of grants for the research and development of soybeans.

STATE WATER COMMISSION

As of June 30, 2004, the State Water Commission had long-term commitments of $68,647,572 for various water projects.

NORTH DAKOTA DEPARTMENT OF TRANSPORTATION

At June 30, 2004, the North Dakota Department of Transportation (Special Revenue Fund) had non-construction contract commitments of approximately $10.6 million of which $8.1 million represents federal programs which are cost reimbursable.

Construction commitments at June 30, 2004, totaled approximately $173.6 million, of which $146.0 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
BSC	$ 148	$ 57	$ 91
DSU	4,790	1,373	3,417
MaSU	3,531	3,010	521
MiSU	88	-	88
MiSU-B	111	53	58
NDSCS	421	95	326
NDSU	9,249	719	8,530
UND	18,636	14,702	3,934
VCSU	2,612	1,973	639
WSC	5,625	5,564	61

NORTH DAKOTA DEVELOPMENT FUND

The board of directors has approved equity investments, loans, grants, and guaranty of collections at June 30, 2004, for which funds have not been disbursed or written agreements entered into in the amount of $4,619,000.

OTHER CONSTRUCTION COMMITMENTS

Health Department	$ 1,085
Human Services	937
Corrections	455
Adjutant General	2,984
Game and Fish	40
Transportation	22,654

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 zero. Litigation that is reasonably possible to result in an unfavorable outcome is estimated at $100,000 to $10,000,000.

The estimated gain in all the litigation brought by the State in which a gain is probable is estimated at $4,552,154. 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, 2004, in which the settlement had not been paid as of June 30, 2004.

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, 2002, was completed in March of 2003. As a result of this audit, approximately $300,000 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 2003-2004 single audit will be issued sometime in March 2005. 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, 2004, the Agency began the process for the issuance of 2004 Series C Housing Finance Program Bonds. The 2004 Series C bond issuance will be in the amount of $60,000,000. The 1993 AB Multi-Family bond issue of $1,783,000 was repaid on July 1, 2004.

HEALTH DEPARTMENT

The State reached an agreement in July 2004 with Burlington Northern and Santa Fe Railway Company (BNSF) to settle the lawsuit relating to the fuel contamination in downtown Mandan, North Dakota. The agreement, which was approved by the Mandan City Commission, settled claims by the North Dakota Department of Health and the City of Mandan alleging violations of North Dakota's hazardous waste and water pollution laws.

Under the settlement, BNSF agrees to pay $29 million, of which $26.5 million will be placed in trust, and transfer property to the City of Mandan valued at $1.25 million. The settlement addresses BNSF's continued responsibility for the contamination in the Mandan Railyard and the State's right to bring future enforcement actions for any new contamination.

The financial reporting implications of the trust funds have not been determined.

WORKFORCE SAFETY & INSURANCE

At its November 17, 2004, quarterly meeting, the Workforce Safety & Insurance (WSI) board of directors unanimously approved a five percent discount for WSI's unpaid loss and loss adjusting expense liability. This is a reduction from the current rate of six percent.

The change was applied prospectively and resulted in a $55.1 million increase in the liability and expense accounts.

WATER COMMISSION

Subsequent to June 30, 2004, the Commission issued the remaining authorized but unissued 2003 A Series Bonds for the Southwest Pipeline, totaling $257,958.

MUNICIPAL BOND BANK

Subsequent to year end, the Industrial Commission approved the issuance of two separate bond series: (1) $11,790,000 State Revolving Fund Program Bonds, Series 2004 A; and (2) $880,000 Capital Financing Program Bonds, Series 2004 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. The interest rates vary on these bonds from 2.00% to 4.75%, with maturity ranging from October 1, 2004, to October 1, 2021.

STUDENT LOAN TRUST

On July 1, 2004, the Trust purchased $2,194,000 of student loans from the Bank of North Dakota.

NORTH DAKOTA STATE UNIVERSITY

In August 2004, NDSU issued $10.3 million in revenue bonds to finance the construction of the Bison Court Apartments. The revenue bonds will be repaid with auxiliary revenues.

NOTE 19 – NEW PRONOUNCEMENT

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This statement addresses common deposit and investment risks related to credit risks, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also should be disclosed. This statement is effective for financial periods beginning after June 15, 2004. The State is planning to implement the new reporting requirements for the fiscal year 2004-05 financial statements.

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<u>APPENDIX D</u>

General Information Concerning the Office of Management and Budget

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GENERAL INFORMATION

The 1941 Legislative Assembly appointed a governmental survey commission to study the field of governmental reorganization, and make recommendations. Among the recommendations was a single agency to handle the state's fiscal affairs. That study was reviewed by directive of the 1957 legislative assembly. The 1959 legislative assembly established the department of accounts and purchases to become operative in 1961. In 1981 the agency became the Office of Management and Budget. The director is appointed by and serves at the will of the Governor. As agency head, the director is vested with control and supervision of the fiscal administration of the executive branch of State government.

Within the Office of Management and Budget are six divisions:
(1) Administration
(2) Fiscal Management
(3) Human Resource Management Services
(4) Central Services
(5) Facility Management
(6) Risk Management

Functions of office divisions are the following:

(a) The Administration Division provides management and support to the divisions within the Office of Management and Budget. Other duties include review of state agency management and organizational structure, and frequent comparison of projected and actual state revenues and expenditures.

(b) The Fiscal Management Division is responsible for budget preparation and the monitoring of spending after legislative appropriations are made, preparation of the revenue forecasts, processing state financial transactions, including agency payrolls, and preparing the statewide Comprehensive Annual Financial Report (CAFR).

(c) The Human Resource Management Services Division provides services relating to establishing and maintaining a unified system of human resource management for the classified service.

(d) The Central Services Division operates a central purchasing service, maintains a central supply section, serves as the state's distribution point for federal surplus property and clearinghouse for state-owned surplus property, and operates a central printing service.

(e) The Facility Management Division was created July 1, 1991 with the elimination of the director of institutions office. The division manages the physical plant operations, provides capitol tours, operates the central mail bureau, and coordinates event scheduling for all of the buildings located on the 132-acre capitol complex. The division is also responsible for providing space management services for the state agencies located on the capitol complex through its state planner.

(f) The Risk Management Division was established in 1995 in response to a North Dakota Supreme Court decision that eliminated the state's sovereign immunity for tort claims. The division's objectives are to implement proactive loss control practices to address the state's exposures to loss, and to appropriately administer claims and lawsuits. The 2001 Legislative Assembly established the risk management workers compensation program and assigned the division the duty of administering the single workers' compensation account that consolidated 143 state agency accounts, and authorized a $100,000 deductible per claim and a cross agency return-to-work program.

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APPENDIX E

General Information Concerning the Office of the Attorney General

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GENERAL INFORMATION

The Attorney General is one of twelve statewide elected offices in North Dakota, and was established in the 1889 State constitution. The Office is headed by the Attorney General, an independently elected constitutional officer, and is comprised of several divisions of highly specialized staff and attorneys.

The Office of Attorney General acts as the State's "law firm." The office has approximately 30 attorneys divided into five divisions: State and Local Government, Criminal and Regulatory, Consumer Protection and Antitrust, Natural Resources and Indian Affairs, and Civil Litigation. The Attorney General's office represents the State in all legal matters, civil and criminal, where the State is named as a party or the State may have an interest in the outcome of the litigation. The office provides legal services and opinions to State legislators, State officials, constitutional officers, and 66 State agencies, boards and commissions. The office enforces the Open Meetings and Open Records laws, and issues opinions in response to complaints that a public entity has violated those laws. By law, the Attorney General and his staff cannot provide legal advice or assistance to members of the public or private businesses.

In addition to its role as the State's lawyer, the Office of Attorney General has several divisions with regulatory or investigative functions:

- The Bureau of Criminal Investigation (BCI) assists local governments in criminal and drug enforcement investigations, maintains the criminal history and sex offender registration systems, and provides training for law enforcement officials.
- The Fire Marshal's Office conducts fire safety training and inspections, controls hazardous materials incidents, and investigates fires.
- The Lottery division is responsible for the day-to-day operation of the Lottery and its games.
- The Gaming division regulates charitable gaming, and ensures compliance with tribal-state casino gaming compacts. The Licensing section regulates and issues certain wholesale, retail, and distributor licenses.
- The Crime Laboratory analyzes samples from drug and alcohol related criminal cases, and evidence from crime scenes.

The Attorney General serves on numerous boards and commissions, including the Board of University and School Lands, Industrial Commission (which oversees all state-owned industries), ND Commission on Drug and Alcohol Abuse, ND PERS Board, Judicial Council, and Pardon Advisory Board.

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APPENDIX F

General Information Concerning the North Dakota State Board of Higher Education, Its Facilities and Programs

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GENERAL INFORMATION

The North Dakota State Board of Higher Education was established by an initiated measure approved by the voters of North Dakota in 1938 which added Article 54 to the State Constitution. Annually, the Governor nominates a Board member from a list of three names which have been selected by action of four of the following five persons: the President of North Dakota Educational Association, the Chief Justice of the Supreme Court, the Superintendent of Public Instruction, the President Pro Tempore of the Senate, and the Speaker of the House of Representatives, and with the consent of a majority of members-elect of the Senate, serves a four-year term. Members can be reappointed and serve a maximum of two four-year terms. (This method of selecting members of the Board was amended by a vote of the people during the 1996 General Election.) Prior to 1997 a Board member served a seven-year term. The Board is made up of eight voting members and one non-voting faculty representative; seven voting members selected by the method outlined above and one student voting member. The student member is appointed by the Governor from a list of names recommended by the Executive Board of the North Dakota Student Association for a term of one year. The faculty representative is appointed annually by the Council of College Faculties. The State Constitution provides the Board with broad powers and specifies that the Board retains any powers it does not specifically delegate to the campuses. The Board discharges its constitutional responsibilities through policies adopted by the Board and administrative rules and regulations established at various levels.

The North Dakota State Board of Higher Education is the governing body for North Dakota's eleven publicly-supported colleges and universities, which include two research universities, four regional universities, five two-year institutions and related entities which include the Extension Service, Research Stations, Medical School and the State Forest Service. The Commissioner of Higher Education serves as the chief executive officer of the Board. The Commissioner is the Chancellor and chief executive officer of the University System. The Chancellor chairs a cabinet consisting of the presidents and vice chancellors to advise him or her regarding matters affecting the University System. The Chancellor is assisted by three vice chancellors: the Vice Chancellor for Academic and Student Affairs, the Vice Chancellor for Administrative Affairs and the Vice Chancellor for Strategic Planning. Following is a brief biographical sketch of each of these key administrators.

Robert L. Potts became chancellor of the North Dakota University System ("NDUS") on July 1, 2004. He is CEO of the NDUS, which includes 11 colleges and universities and serves about 42,000 students. Chancellor Potts had served for 14 and one-half years as president of the University of North Alabama and for six years as general counsel of the University of Alabama System. Chancellor Potts is a commissioner for the Western Interstate Commission on Higher Education and a member of the North Dakota Commerce Cabinet. He was appointed by Gov. John Hoeven to serve on the Midwestern Higher Education Commission. Chancellor Potts currently serves on the board of directors of the American Association of State Colleges and Universities and is immediate past chair of the Alabama Council of College and University Presidents. He previously served on the boards of trustees at Alabama State University and Oakwood College in Alabama. He has taught at Boston University, the University of Alabama and University of North Alabama. Chancellor Potts attended Newbold College in England and graduated cum laude from Southern Adventist University in Tennessee. He received a juris doctor degree from the University of Alabama School of Law. After clerking for the U.S. District Court chief judge for the Northern District of Alabama, Chancellor Potts received a master of laws degree from Harvard University. Before entering higher education on a full-time basis in 1984, Chancellor Potts practiced law in Florence, Alabama, where educational issues were a significant part of his practice. He has lectured widely on legal and education topics and is the author of several published articles.
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Dr. Michel Hillman was appointed Vice Chancellor for Academic Affairs for the North Dakota University System in June 1996. He previously was the Director of Academic Affairs for the South Dakota Board of Regents, a position he held since 1987. His other experience includes serving as a Research Officer in the South Dakota system of higher education, an Evaluation Specialist for the Division of Law Enforcement Assistance in Pierre, South Dakota, and an Adjunct Professor of Psychology at the University of South Dakota. He received his bachelor's degree in psychology from Slippery Rock State College in Pennsylvania, his master's degree in experimental psychology from Indiana University of Pennsylvania, and his Ph.D. degree in experimental psychology from the University of South Dakota in Vermillion.

Laura Glatt was appointed the Vice Chancellor for Administrative Affairs in July 1995. A native of Bismarck, North Dakota, she earned a B.S. in accounting from the University of Mary in 1983 and a master's in Management from the University of Mary in 1996. She is a certified public accountant. Prior to joining the University staff in 1989, she served as a management and fiscal analyst in the North Dakota Office of Management and Budget, served as Controller for the State Treasurer's office and Cashier for the State Tax Department.

Eddie Dunn was named the Vice Chancellor for Strategic Planning in July 1999. A native of LaMoure, North Dakota, he obtained his Bachelor's and Master's degrees from North Dakota State University where he later became an associate professor of agricultural economics and was also Coordinator for the University's Faculty Development Institute. He later served as an economic development specialist with the Cooperative Extension Service and the Agricultural Experiment Station at North Dakota State University. In 1980-81, he served as Program Leader for Economic Development with the Federal Extension Service for the U.S. Department of Agriculture in Washington, D.C. Prior to joining the University System, Eddie was Vice President for Programs and Economic Development for the Greater North Dakota Association. In addition to serving as Vice Chancellor for Strategic Planning, Eddie is also the Executive Director of the College Technical Education Council, a position he has held since January of 1993.

CAMPUSES AND FACILITIES

Below are brief descriptions of selected institutions of higher education in the state.

Dickinson State University (DSU) is a regional four-year institution, located in the western part of North Dakota offering majors and minors in both two-and four-year degree programs to 1,907 full-time equivalent (FTE) students in the Fall of 2004. The university, originally founded to educate teachers, has expanded its role to include the liberal arts, fine arts, business, sciences, health services, agriculture, computer science and pre-professional programs. DSU employs 195 FTE personnel and has a $24 million operating budget for the fiscal year beginning July 1, 2005.

Minot State University (MiSU) is a comprehensive, mid-size university offering 50 undergraduate degrees and nine master's degree programs. Current enrollment is 3,250 FTE students. Programs are offered in five colleges: Education and Human Services, Business, Arts and Sciences, Nursing and the Graduate School. MiSU has a campus center in Bottineau. MiSU and its Bottineau campus (MiSU-BC) employs 450 FTE personnel and has a $46 million operating budget for the fiscal year beginning July 1, 2005 for MiSU and MiSU-BC.

MiSU-BC offers 27 vocational-technical programs or options leading to certificates, diplomas, certifications of completion, or Associate of Applied Science degrees in the following areas of interest: Business, Medical/Allied Health, Computer/Information Technology, Natural Resources, and Education. It also offers two-year transfer programs leading to an Associate in Arts or an Associate in Science in areas of interest including: Business, Medical, Science/Math/Technology, Natural Resources, Education, and Social Sciences/Humanities. Average enrollment for the fall semester is 443 students. Select MiSU-Bottineau programs are also offered online, on the Minot campus and at the Minot Air Force Base.

The North Dakota State College of Science (NDSCS) is a comprehensive, associate degree granting college founded on a tradition of quality and integrity – serving slightly more than 2,100 FTE students. The College provides educational programs and services which serve the needs of individuals preparing for careers in the applied sciences/technologies. It serves the businesses and industries of North Dakota by working with employers on the design and delivery of customized training programs.

The NDSCS employs 325 FTE personnel. The operating budget for the fiscal year beginning July 1, 2005 is $35 million and is used, in part, to maintain roughly 1.2 million square feet of facilities.

The University of North Dakota (UND) is a co-educational institution located in Grand Forks, a city with a population of approximately 49,000. The campus is in the center of the Red River Valley, one of the richest farming areas in the world. With over 11,000 FTE students, UND is the largest post-secondary institution in the four-state region of the Dakotas, Montana, and Wyoming.

The University's 170 undergraduate, graduate and professional programs are offered, including a School of Law and Medicine. Major research components include the Energy and Environmental Research Center, Center for Aerospace Sciences and Human Nutrition Laboratory. The University also operates a graduate center in Bismarck.

The campus itself includes nearly 570 acres and 5.2 million square feet of space and has approximately 2,700 FTE employees. The University's and related entities budget from all sources for the fiscal year beginning July 1, 2005 is $119 million, of which about one-quarter was expected to come from the State Treasury.

North Dakota State University (NDSU), North Dakota's land-grant institution, was founded in 1862. It is located in the Red River Valley in eastern North Dakota, in the city of Fargo. There are approximately 10,000 FTE students enrolled in the fully accredited colleges of Agriculture, Business Administration, Engineering and Architecture, Home Economics, Humanities and Social Sciences, Science and Mathematics, Pharmacy and University Studies, the School of Education and the Graduate School.

The main campus includes approximately 85 buildings with 3.4 million square feet of space. NDSU also oversees the operations of the State Forest Service, Extension Service, Upper Great Plains Transportation Institute, Northern Crops Institute and the Main Research Station and its eight branches. North Dakota State University and related entities employ over 2,200 full-time equivalent employees with an annual operating budget from all sources of $256 million for the fiscal year beginning July 1, 2005 for the University and related entities.

ACADEMIC INFORMATION

The North Dakota Board of Higher Education currently operates under an open door admission policy. Current requirements are: (1) the applicant must be a high school graduate or have successfully completed the GED test, and (2) for undergraduate admission, the applicant must submit the scores from either the ACT or SAT, with a limited number of exceptions. The institutions may limit admission to selected undergraduate and graduate programs based on considerations other than high school records, test scores, residence academic records and transfer records. Examples of such considerations may include, but are not limited to, the following: facility or instructional equipment limitations; number of qualified faculty or support staff; and financial resources. In April, 1990, the State Board of Higher Education adopted new admission requirements for its four-year institutions. The new requirements became effective the summer term of 1993. The following high school courses constitute the new minimum admission requirements:

4 units of English
3 units of mathematics, algebra I or above
3 units of lab science, including at least 2 in biology, chemistry, physics, or physical science
3 units of social studies, excluding consumer education, cooperative marketing, orientation to social science, and marriage/family.

In addition, two units of a single classical or modern language, including American Sign Language and Native American languages and the completion of algebra II (advanced algebra), are strongly recommended. Again, institutions may limit admission to selected undergraduate and graduate programs based on other criteria, including scholastic achievement.

TUITION AND FEES

Academic Year	DSU	MiSU-B	NDSCS	NDSU	UND
2005-06	$4,153	$3,201	$3,268*	$5,263	$5,327
2004-05	3,798	2,937	3,074*	4,774	4,828
2003-04	3,139	2,554	2,402	3,965	4,156
2002-03	2,798	2,295	2,120	3,506	3,662
2001-02	2,463	2,089	1,930	3,272	3,261
2000-01	2,378	1,958	1,850	3,010	3,088
1999-00	2,302	1,918	1,809	2,886	2,956
1998-99	2,196	1,868	1,761	2,730	2,830
1997-98	2,096	1,848	1,761	2,566	2,677
1996-97	1,970	1,805	1,755	2,410	2,528
1995-96	1,856	1,757	1,701	2,310	2,428

Note: Tuition and fees for full-time undergraduate resident students.
* Based on 15 credit hours per semester.

FALL FTE STUDENT ENROLLMENT

Academic Year	DSU	MiSU-B	NDSCS	NDSU	UND
2004-05	1,907	419	2,129	10,073	11,185
2003-04	1,867	443	2,177	9,701	11,073
2002-03	1,818	447	2,112	9,368	10,458
2001-02	1,637	389	2,106	9,056	9,906
2000-01	1,592	394	2,276	8,469	9,302
1999-00	1,535	467	2,139	8,253	8,911
1998-99	1,484	410	2,219	8,142	8,684
1997-98	1,470	389	2,271	8,079	8,725
1996-97	1,459	369	2,340	8,190	9,221
1995-96	1,373	337	2,259	8,196	9,390

INFORMATION REGARDING CERTAIN RESEARCH FACILITIES

Main Station (NDSU Fargo) offers fundamental research in all basic sciences providing a foundation for research center field-testing, evaluation of crop varieties adaptable to the Red River Valley (including soybean, dry edible bean, small grains, corn and sugarbeet); animal research (including dairy, beef, sheep, swine and equine); diagnostic and testing services, technology development, marketing and the economics of production; economics of natural resource use and human ecology.

The Main Station of the North Dakota Agricultural Experiment Station is located in the northwest corner of Fargo, with research land and buildings on the north and west edges of the North Dakota State University campus.

Approximately 2,300 acres accommodate 500 employees in the departments of Agribusiness and Applied Economics, Agricultural and Biosystems Engineering, Animal and Range Science, Cereal and Food Sciences, Entomology, Plant Pathology, Plant Sciences, Soil Science and Veterinary and Microbiological Sciences.

Scientists based at the Main Station do research under local conditions and work with Experiment Station and Extension staff throughout the state. Nearly 400 acres of Main Station land is intensely cultivated and maintained in orderly research plots. These experiments are carefully designed and replicated to simulate large-scale farming enterprises in order to test new varieties of plants and experimental ways of raising them more efficiently and effectively.

Livestock research investigates livestock growth, reproduction and health and includes dairy, beef, equine, swine and sheep.

Special emphasis is given to several aspects of rural life and North Dakota population changes.

Fundamental research in all basic sciences, providing the foundation for research center field testing, includes:

- Evaluation of crop varieties adaptable for the Red River Valley, including soybean, dry edible bean, small grains, corn and sugarbeet.
- Animal research including dairy, beef, sheep, swine and equine.
- Diagnostic and testing services.
- Technology development.
- Marketing and the economics of production.
- Economics of natural resource use.
- Human ecology

The **Central Grasslands Research Extension Center** (CGREC), located in Streeter, was established in 1977 by the passage of HB 1528. The legislated mandate in HB1528 was "*....to fulfill those research needs which cannot be accomplished at any presently existing experimental facility, because of peculiar types of grasses, soils, precipitation, and climate, there is hereby established a centrally located North Dakota Grasslands Research Station within an area bounded by the Missouri River on the west and the James River on the east"*. This area, known as the Coteau area of North Dakota, extends from Divide and Burke Counties in northwestern North Dakota in a southeasterly direction through Dickey County. This area contains 5 million acres (40%) of the state's rangeland where 42% of the state's livestock is raised on 38% of the state's farms.

CGREC provides grassland ecosystem research in a region impacted by glacial stagnation. The Center evaluates changes in rangeland ecosystems due to changes in management and climate as well as impact of grazing intensity on native range species composition, soils, economics, hydrology and livestock performance.

Significance of Grassland Research to North Dakota

- Livestock is the second largest agricultural industry in the State and 42% of the State's livestock are raised in the Coteau area. Long-term research at the CGREC has shown that seeding marginal-highly erodible land to grass and grazing it with beef cattle can return an average profit of $42.51 per acre versus $4.28 per acre for the same type of land producing a small grain crop.

- Grasslands of the Great Plains region are important to the economic well being of the livestock industry of the Midwest. There are 13 million acres of rangeland in the State. Increased profitability of only $1.00 per acre could achieve $13 million annually for the State's livestock industry. Thirteen million acres of rangelands equate to approximately 6.5 million animal unit months (AUMs) of grazing in the State per year. Long term research evaluating grazing systems shows that 1.5 to 2.0 acres of good to excellent condition rangeland in North Dakota are needed to adequately maintain a cow and her calf for one month (one animal unit month (AUM) at an average conservative cost of $80 per AUM. This translates to approximately $520 million that is spent annually in communities and businesses throughout the State.

The **North Central Research Extension Center** is located one mile south of Minot on U.S. 83. The 1200-acre research center was established in 1945 for agricultural field research and pure seed increase. Today, it specializes in crop research and Extension education activities, and in foundation seed production. The surrounding area includes the largest durum wheat producing counties in the State. Forty percent of the nation's durum is produced in counties served by the Center. The Center is located on the border of North Dakota's two most prominent soil and vegetation regions - the dark brown soils of the semi-arid grassland in the west, and the black soils of central North Dakota's subhumid grassland.

With gently rolling land and 16.5 inches of annual precipitation, the Center's main research efforts involve grain variety evaluation, weed control, tillage and fertilizer tests. Research is conducted on small grains, oilseeds, row crops, legumes, forages and other specialty crops. Production is evaluated for no-till and conventional tillage cropping systems.

New research programs include: profitability of crop rotation for durum, spring wheat and barley in north-central North Dakota. Included are sunflower, canola, dry bean, crambe, lentil, dry pea, and mustard. Nitrogen and sulfur fertility needs of small grains, dry bean and canola, commercialization of dry pea production and harvest, row spacing and plant population for sunflower and corn production, the timing of fungicide applications for canola, chickpea and small-grain disease protection. More than 1,400 owned, rented and contracted acres are planted for foundation seed production. This recently increased from 600 acres in response to producer needs. Extension programs were added to the existing research site in 1976 to cover 10 surrounding counties and Fort Berthold. A considerable amount of research and extension educational programs comes from a small number of experts at the North Central Research Extension Center.

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APPENDIX G

General Information Concerning the Department of Corrections and Rehabilitation

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GENERAL INFORMATION

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

The Mission for the Department is:

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

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

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

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

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

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

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

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

The James River Correctional Center (JRCC) at Jamestown is designed to hold medium security male inmates. The JRCC is located on the North Dakota State Hospital Grounds. It consists of ten buildings.

The Missouri River Correctional Center (MRCC) in southwest Bismarck houses minimum-security male inmates. The facility has a single housing unit with twelve male dormitories.

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

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

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

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

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

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

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<u>APPENDIX H</u>

General Information Concerning the State Historical Society

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GENERAL INFORMATION

The State Historical Society of North Dakota's mission is to identify, preserve, interpret and promote the heritage of North Dakota and its people. The Historical Society is governed by the State Historical Board which consists of seven members appointed by the Governor and five ex-official members. The Society has a staff of 54 full-time employees and 20 part-time employees. There are two state museums – North Dakota Heritage Center located in Bismarck which is also the headquarters of the State Historical Society and the Pembina State Museum located in Pembina, North Dakota. The Society is also responsible for 56 historic sites, including nine staffed during the visitor season (May 16 – September 15). The staffed historic sites are Camp Hancock (Bismarck); Chateau de Mores (Medora); Former Governors' Mansion (Bismarck); Fort Abercrombie (Abercrombie); Fort Buford (near Williston); Fort Clark Trading Post (near Washburn); Fort Totten (near Devils Lake); Gringras Trading Post (Walhalla); and Whitestone Hill Battlefield (near Kulm).

The Society maintains the State Archives and Historical Research Library which consists of 115,000 books and periodicals; 10,000 maps; 150,000 photographic images; 1,650 historical manuscript collections; 2,800 archival records series; 1,400 titles of newspapers; 1,200 recorded oral histories; 3.5 million feet of film and extensive genealogical resources. Also included in the Society's collections are 50,000 history, natural history and ethnology artifacts; and 1.5 million archeological items. These are preserved for use in exhibitions and research and are accessible to the public.

The Society provides many educational activities such as youth, family and school programs, field tours, *History Alive*! Museum theater, *Dakota Folk*s folklife demonstrations, film and lecture series, gallery docent demonstrations, for-credit teacher worships, Suitcase Exhibits for North Dakota (SEND) Program for students and others learners of all ages, and the Traveling Interpretive Exhibit Services (TIES) Program which features 19 exhibits that reach 135,000 people annually throughout North Dakota.

The Society also publishes a quarterly journal, *North Dakota History*: *Journal of the Northern Plains*; and a quarterly newsletter, *Plains Talk*.

By administering a federal historic preservation grant program, the State Historical Society serves as the State Historic Preservation Office and has the responsibility to identify, evaluate and protect historic properties in North Dakota. Services include evaluating architectural and archeological properties, providing assistance to historic property owners, nominating properties to the National Register of Historic Places and State Historic Sites Registry, administering the Preservation Tax Credit Program, reviewing the impact of federally-related projects on historic properties, and providing information about historic preservation and restoration.

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APPENDIX I

General Information Concerning the Parks and Recreation Department

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GENERAL INFORMATION

The North Dakota Parks and Recreation Department is an executive branch agency responsible for administration of the state park system comprised of 18 sites totaling approximately 20,000 acres. Before 1965, all state parks were under the jurisdiction of the State Historical Society of North Dakota. In 1965, the North Dakota Park Service and the State Outdoor Recreation Agency were established as separate entities. In 1977, the State Outdoor Recreation Agency was joined with the Park Service into the North Dakota Parks and Recreation Department. The Department's director serves at the pleasure of the Governor.

The North Dakota Parks and Recreation Department consists of four divisions, including:

The Administrative Division, which includes support services such as accounting, information technology and public information.

The State Parks Division, which includes management of 16 state parks and recreation areas and a number of small recreational areas and roadside stops. The state parks and recreation areas include Icelandic State Park, Turtle River State Park, Lake Metigoshe State Park, Fort Ransom State Park, Beaver Lake State Park, Grahams Island State Park, Shelvers Grove State Recreation Area, Black Tiger Bay State Recreation Area, Fort Stevenson State Park, Lewis and Clark State Park, Lake Sakakawea State Park, Cross Ranch State Park, Fort Abraham Lincoln State Park, Little Missouri State Park, Sully Creek State Recreation Area and Doyle Memorial State Park, the Campground Hosts program, Campsite Reservations program, and the Friends of Recreation and Parks (F.O.R. Parks).

The Planning and Natural Resources Division, which includes park planning and development, capital construction and programs associated with North Dakota's Natural Areas and Nature Preserve Act.

The Recreation Division, which includes oversight of the Prairie Rose State Games, all-terrain vehicle safety program, snowmobile safety and trails program, and recreation trails program and federal recreation grant programs.

In addition to managing a system of 16 state parks and recreation areas, the Department serves as the lead agency for a number of different outdoor recreation and park-related programs include the Little Missouri Scenic River Commission.

The Nature Preserves and Natural Areas Program, mandated in 1975, required the Department to establish a system of natural areas and nature preserves for public use and to promote the protection of natural areas throughout the state. Nature preserves include the Gunlogson Nature Preserve, Pembina County; Head of the Mountain Nature Reserve, Sargent County; Sentinel Butte, Golden Valley County; H. R. Morgan State Nature Preserve, Ransom County; and Cross Ranch Nature Preserve in Oliver County. The Department also provides leadership and coordination for establishing and maintaining a system of state and federal multi-use recreation trails across North Dakota.

The Department uses funds collected from snowmobile registration fees to develop trails and offer safety courses. Youth, ages 12 to 16, must pass the Department's safety course before operating a snowmobile on public land. Similar funds collected from all-terrain vehicle registration fees are used to develop trails and safety programs. Young people, ages 12 to 16, are by law required to complete the all-terrain vehicle safety course approved by the Department before driving on land other than that of their parent or guardian.

The Department staffing level is 46.5 full-time equivalent employees and budget authority is $21,000,000.

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APPENDIX J

Form of Legal Opinion

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Cook Wegner & Wike PLLP

Attorneys at Law

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

*Also Licensed in South Dakota and Minnesota

September 28, 2005

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

Re: **$____________**

NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT BONDS
2005 SERIES A

We have acted as bond counsel to the Industrial Commission of North Dakota, acting as the North Dakota Building Authority, (the "**Issuer**") in connection with the issuance by the Issuer of $___________North Dakota Building Authority, Facilities Improvement Bonds, 2005 Series A, dated September 28, 2005, (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 Senate Bill 2023 adopted by the Fifty-ninth Legislative Assembly of the State of North Dakota (together the "**Act**"), a General Authorization Resolution, dated August 23, 2005, of the Issuer 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 Issuer and the Bank of North Dakota, as Trustee. The Issuer and various agencies and instrumentalities of the State of North Dakota (the "**Agencies**") have entered into Loan Agreements, dated as of the date of delivery of the Bonds (the "**Loan Agreements**"), regarding the projects being financed by application of the proceeds from the sale of the Bonds. Under the Loan Agreements, the Agencies have covenanted to make loan payments, subject to biennial appropriation, (the "**Loan Payments**") to the Issuer to be used to pay their proportionate share of the principal of, premium, if any, and interest when due on the Bonds (the "**Debt Service**"). Under the Indenture, the Issuer 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.

Regarding questions of fact material to our opinion, we have relied upon representations of the Issuer and the Agencies contained in the Indenture and the Loan Agreements 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 Agencies, without undertaking to verify the same by independent investigation.

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

1. The Issuer 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 Agreements and to issue the Bonds.

2. The Indenture has been duly adopted, authorized, executed, and delivered by the Issuer, and is a valid and binding obligation of the Issuer enforceable against the Issuer. The Indenture creates a valid lien on the Loan Payments and other funds pledged by the Indenture to the payment of Debt Service on the Bonds.

811 East Interstate Avenue, Suite B ? Bismarck, ND 58503-1136
701-255-1008 ? Fax 701-255-6325 ? 1-888-417-5213 ? Email cww@cwwbondlaw.com

3. The Bonds have been duly authorized and executed by the Issuer and are valid and binding limited obligations of the Issuer, payable solely from the Loan Payments and other funds 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 Issuer and the Agencies 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 Issuer and the Agencies 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 that such opinion is specifically stated in the Official Statement, including the section entitled Tax Matters), 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 Bonds 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

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APPENDIX K

Form of Undertaking to Provide Continuing Disclosure

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NORTH DAKOTA BUILDING AUTHORITY BONDS
2005 SERIES A -- $_____________

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 dated as of _______________, 2005 (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 2005, to the Trustee and to each then existing NRMSIR and the SID, if any, or to DisclosureUSA.[1] 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.

[1] Any filing under this Undertaking may be made solely by transmitting such filing to DisclosureUSA unless the U.S. Securities and Exchange Commission has withdrawn the interpretive advice in its letter dated September 7, 2004.

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.

"Agencies" mean the Office of Management and Budget, the Office of the Attorney General, the North Dakota State Board of Higher Education, the Department of Corrections and Rehabilitation, the State Historical Society and the Parks and Recreation 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 and the Agencies provided at least annually, of the type included in those sections of the final official statement with respect to the Bonds attached thereto as Appendix C and Appendix A pages A-5 through A-12 which Annual Financial Information may, but is not required to, include Audited Financial Statements.

"Audited Financial Statements" mean 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.

"DisclosureUSA" means the central post office website "www.disclosureusa.org" operated by the Municipal Advisory Council of Texas and authorized for use by issuers of municipal securities by the U.S. Securities and Exchange Commission on September 7, 2004.

"Material Event" means any of the following events, if material, with respect to the Bonds:

(a) Principal and interest payment delinquencies;

(b) Non-payment related defaults;

(c) Unscheduled draws on debt service reserves reflecting financial difficulties;

(d) Unscheduled draws on credit enhancements reflecting financial difficulties;

(e) Substitution of credit or liquidity providers, or their failure to perform;

(f) Adverse tax opinions or events affecting the tax-exempt status of the security;

(g) Modifications to rights of security holders;

(h) Bond calls (other than sinking fund redemptions);

(i) Defeasances;

(j) Release, substitution, or sale of property securing repayment of the securities; and

(k) Rating changes.

"Material Event Notice" means written or electronic notice of a Material Event.

"MSRB" means the Municipal Securities Rulemaking Board located at 1150 18th Street NW, Suite 400, Washington, DC 20036.

"NRMSIR" means a nationally recognized municipal securities information repository, as recognized from time to time by the Securities and Exchange Commission for the purposes referred to in the Rule, and which list is available on the Internet at www.sec.gov/info/municipal/nrmsir.htm.

"SID" means a state information depository as operated or designated by the State as such for the purposes referred to in the Rule. As of the date hereof there is no SID.

Section 5. Unless otherwise required by law and subject to technical and economic feasibility, the Authority and the Trustee shall employ such methods of information transmission as shall be requested or recommended by the designated recipients of the Authority's information.

Section 6. The continuing obligation hereunder of the Authority to provide Annual Financial Information, Audited Financial Statements, if any, and Material Event Notices shall terminate immediately once the Bonds no longer are Outstanding. Any provision hereof shall be null and void in the event that the Authority delivers to the Trustee an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this Undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; provided that the Authority shall have provided notice of such delivery and the cancellation hereof to each then existing NRMSIR and the SID, if any.

Section 7.

A. In the event of a failure of the Authority to provide to the Repositories the Annual Financial Information as required by this Undertaking, the registered holder or holders of beneficial interest in any Bonds may take only such actions as may be necessary to cause the Authority to comply with its obligations to provide Annual Financial Information under this Undertaking.

B. Notwithstanding the foregoing, no registered holder or holders of a beneficial interest in the Bonds shall have the right to challenge the content or adequacy of the information provided hereto by mandamus, specific performance or other equitable proceedings unless the registered holder or holders of beneficial interest in the Bonds representing at least 25% aggregate principal amount of outstanding Bonds shall join in such proceedings.

C. A default under this Undertaking shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Undertaking in the event of any failure of the Authority to comply with this Undertaking shall be an action to compel performance.

D. Notwithstanding any other provision in this Undertaking, neither the State, the Authority, or any officer, director, employee, or agent thereof shall be liable for any claims for monetary damages or attorneys' fees whatsoever for any breach of this Undertaking.

Section 8. Information may be obtained from an Authorized Officer, as designated in the Indenture. Additionally, the Authority may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Undertaking.

Section 9. The Trustee shall be entitled to the protections afforded to the Trustee in the Indenture with regard to the performance of any of the duties required of the Trustee by this Undertaking.

Section 10. Notwithstanding any other provision of this Undertaking, the Authority by resolution authorizing such amendment, may amend this Undertaking without the consent of the registered holders or holders of beneficial interests if an opinion of nationally recognized bond counsel is obtained by the Authority to the effect that such amendment, and giving effect thereto, will not adversely affect the compliance of this Undertaking with the Rule or materially impair the interest of registered holders or holders of beneficial interests; if:

A. The amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority or type of business conducted;

B. This Undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

C. The Annual Financial Information initially following the amendment containing the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

Dated this ____ day of ______________, 2005.

North Dakota Building Authority

By: ____________________________________
An Authorized Officer

Bank of North Dakota, as Trustee

By: ____________________________________
An Authorized Officer

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<u>APPENDIX L</u>

Specimen of Financial Guaranty Insurance Policy

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects, in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

____
President

Attest: ______________________________
Assistant Secretary

STD-R-7
01/05

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