NEW ISSUES: GLOBAL BOOK-ENTRY

NORTH DAKOTA BUILDING AUTHORITY

$2,355,000
Taxable Facilities Improvement Bonds (Recovery Zone Economic Development Bonds), 2010 Series A

$4,910,000
Facilities Improvement Bonds, 2010 Series B

Detailed information regarding these issues (collectively, the "Obligations" or "Bonds") is set forth herein.

The date of this Official Statement is December 16, 2010.

NEW ISSUE - Book-Entry Only

RATINGS: Moody's Investors Service, Inc.: "Aa2"
Standard & Poor's Ratings Group: "AA"
(See "RATINGS" herein)

In the opinion of Bond Counsel, according to existing North Dakota and federal laws, regulations, ruling and judicial decisions, and assuming compliance with certain covenants, as of their date of issuance, interest on the Bonds is taxable and included in gross income for purposes of federal income taxation. Interest on the Bonds is excluded from gross income for North Dakota income tax purposes. See "TAX MATTERS" herein.

NORTH DAKOTA BUILDING AUTHORITY

$2,355,000

TAXABLE FACILITIES IMPROVEMENT BONDS (RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS), 2010 SERIES A

(the "2010 Series A Bonds")

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

The 2010 Series A Bonds are issuable as fully registered bonds and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 2010 Series A Bonds. Purchases of 2010 Series A Bonds will be made in book-entry only form, in the principal amount of $5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC participants. Beneficial owners of the 2010 Series A Bonds will not receive physical delivery of bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the 2010 Series A Bonds. Interest is payable on June 1, 2011 and on each June 1 and December 1 thereafter. So long as DTC or its nominee is the registered owner of the 2010 Series A Bonds, payments of the principal or redemption price of and interest on the 2010 Series A Bonds will be made directly to DTC. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. See "THE BONDS--Book-Entry-Only System."

The 2010 Series A Bonds are subject to make-whole redemption and extraordinary optional redemption prior to maturity upon the occurrence of certain events as described under "THE 2010 SERIES A BONDS - Redemption" herein.

The 2010 Series A Bonds are being issued to finance a portion of the construction of a new facility for the Veterans' Home which will include skilled nursing and basic care facilities (the "2010 Series A Project"). The Industrial Commission of North Dakota, acting as the North Dakota Building Authority (the "Issuer"), will loan the proceeds of the 2010 Series A Bonds to the Veterans' Home pursuant to the loan agreement between the Issuer and the Veterans' Home (the "Loan Agreement I") under which the aggregate of the semiannual loan payments due under Loan Agreement I (the "2010 Series A Loan Payments") to be paid by the Veterans' Home will be sufficient in amount and payable at such times to pay principal of and interest on the 2010 Series A Bonds when due.

The 2010 Series A Bonds are issued under and are equally and ratably secured by the Trust Indenture (the "2010 Series A Indenture") between the Issuer and the Bank of North Dakota as trustee (the "Trustee"). The 2010 Series A Bonds are limited obligations of the Issuer payable solely from the revenues and receipts received pursuant to Loan Agreement I, 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 2010 Series A Bonds.

Loan Agreement I specifically provides that nothing therein shall be construed to require the North Dakota Legislative Assembly to appropriate any moneys to pay 2010 Series A Loan Payments thereunder and that the Veterans' Home shall not be obligated to pay such 2010 Series A Loan Payments except to the extent appropriated for each biennium. THE OBLIGATION OF THE VETERANS' HOME TO PAY 2010 SERIES A LOAN PAYMENTS, AS HEREIN DEFINED, UNDER LOAN AGREEMENT I IS SUBJECT TO BIENNIAL APPROPRIATIONS BY THE NORTH DAKOTA LEGISLATIVE ASSEMBLY AS PROVIDED IN THE LOAN AGREEMENT I. NEITHER THE OBLIGATION OF THE VETERANS' HOME TO PAY SUCH 2010 SERIES A 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 2010 SERIES A BONDS DOES NOT DIRECTLY OR CONTINGENTLY OBLIGATE THE VETERANS' HOME TO PAY 2010 SERIES A LOAN PAYMENTS BEYOND THAT APPROPRIATED FOR THE CURRENT BIENNIUM OF THE STATE. THE ISSUER HAS NO TAXING POWER. See "BONDOWNERS' RISKS" herein.

The 2010 Series A Bonds are offered when, as and if issued by the Issuer subject to the approving legal opinion of Cook Wegner PC, Bismarck, North Dakota, and Arntson & Stewart P.C., Fargo, North Dakota, Bond Counsel, as to validity. Certain legal matters will be passed upon for the Issuer by the Attorney General of the State of North Dakota. The 2010 Series A Bonds will be available for delivery at The Depository Trust Company in New York, New York on or about December 28, 2010.

Piper Jaffray & Co. has agreed to purchase the 2010 Series A Bonds from the Authority for the purchase price of **$2,331,567.75.**

The date of this Official Statement is December 16, 2010.

PIPER JAFFRAY & CO.

NEW ISSUE - Book-Entry Only

RATINGS: Moody's Investors Service, Inc.: "Aa2"
Standard & Poor's Ratings Group: "AA"
(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 2010 Series B 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 2010 Series B Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; however, interest on the 2010 Series B Bonds is included in computing adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. In addition, in the opinion of Bond Counsel, interest on the 2010 Series B Bonds is exempt from State of North Dakota income taxation. For further discussion, see "TAX MATTERS" herein.

NORTH DAKOTA BUILDING AUTHORITY

$4,910,000

FACILITIES IMPROVEMENT BONDS, 2010 SERIES B

(the "2010 Series B Bonds")

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

The 2010 Series B Bonds are issuable as fully registered bonds and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 2010 Series B Bonds. Purchases of 2010 Series B Bonds will be made in book-entry only form, in the principal amount of $5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC participants. Beneficial owners of the 2010 Series B Bonds will not receive physical delivery of bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the 2010 Series B Bonds. Interest is payable on June 1, 2011 and on each June 1 and December 1 thereafter. So long as DTC or its nominee is the registered owner of the 2010 Series B Bonds, payments of the principal or redemption price of and interest on the 2010 Series B Bonds will be made directly to DTC. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. See "THE BONDS--Book-Entry-Only System."

The 2010 Series B Bonds are subject to extraordinary optional redemption prior to maturity upon the occurrence of certain events as described under "THE 2010 SERIES B BONDS - Redemption" herein.

The 2010 Series B Bonds are being issued to finance a portion of the construction of a new facility for the Veterans' Home which will include skilled nursing and basic care facilities and to advance refund a portion of the $9,595,000 Lease Revenue Bonds, 2002 Series A (the "Series 2002 Bonds") issued by the Industrial Commission, acting as the North Dakota Building Authority (the "Issuer" or "Authority"), as described under "THE PROJECTS" herein. The Series 2002 Bonds were originally issued to finance the acquisition, improving, equipping or construction of certain facilities (the "2010 Series B Projects") (together with the 2010 Series A Project are referred to as the "Projects") for the North Dakota State Department of Health, and Job Service North Dakota. The North Dakota State Department of Health, Job Service North Dakota and the Veterans' Home are collectively referred to as the "Agencies". The Industrial Commission of North Dakota, acting as the North Dakota Building Authority (the "Issuer"), will loan the proceeds of the 2010 Series B Bonds to the Agencies pursuant to the loan agreements between the Issuer and the Veterans' Home (the "Loan Agreement I"), Job Service North Dakota (the "Loan Agreement II") and the North Dakota State Department of Health (the "Loan Agreement III") (collectively the "Loan Agreements") under which the aggregate of the semiannual loan payments due under the Loan Agreements (the "2010 Series B Loan Payments") (together with the 2010 Series A Loan payments are referred to as 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 2010 Series B Bonds when due.

The 2010 Series B Bonds are issued under and are equally and ratably secured by the Trust Indenture (the "2010 Series B Indenture") between the Issuer and the Bank of North Dakota as trustee (the "Trustee"). The 2010 Series B 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 2010 Series B Bonds.

The Loan Agreements specifically provide that nothing therein shall be construed to require the North Dakota Legislative Assembly to appropriate any moneys to pay 2010 Series B Loan Payments thereunder and that the Agencies shall not be obligated to pay such 2010 Series B Loan Payments except to the extent appropriated for each biennium. THE OBLIGATION OF THE AGENCIES TO PAY 2010 SERIES B LOAN PAYMENTS, AS HEREIN DEFINED, UNDER THE 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 2010 SERIES B 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 2010 SERIES B BONDS DOES NOT DIRECTLY OR CONTINGENTLY OBLIGATE THE AGENCIES TO PAY 2010 SERIES B LOAN PAYMENTS BEYOND THAT APPROPRIATED FOR THE CURRENT BIENNIUM OF THE STATE. THE ISSUER HAS NO TAXING POWER. See "BONDOWNERS' RISKS" herein.

The 2010 Series B Bonds are offered when, as and if issued by the Issuer subject to the approving legal opinion of Cook Wegner PC, Bismarck, North Dakota, and Arntson & Stewart P.C., 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 2010 Series B Bonds will be available for delivery at The Depository Trust Company in New York, New York on or about December 28, 2010.

Piper Jaffray & Co. has agreed to purchase the 2010 Series B Bonds from the Authority for the purchase price of **$4,978,242.22.**

The date of this Official Statement is December 16, 2010.

PIPER JAFFRAY & CO.

NORTH DAKOTA BUILDING AUTHORITY

$2,355,000
Taxable Facilities Improvement Bonds
(Recovery Zone Economic Development Bonds),
2010 Series A

MATURITY SCHEDULE

Maturity (December 1)	Principal Amount	Interest Rate	Yield	CUSIP
2016	$130,000	3.50%	3.50%	658905 CL6
2017	130,000	4.00%	4.00%	658905 CM4
2018	135,000	4.25%	4.25%	658905 CN2
2019	135,000	4.50%	4.50%	658905 CP7
2020	140,000	4.75%	4.75%	658905 CQ5

$775,000 5.75% Term Bond Due December 1, 2025 Priced to Yield 5.75% 658905 CV4
$910,000 6.25% Term Bond Due December 1, 2030 Priced to Yield 6.25% 658905 DA9

$4,910,000
Facilities Improvement Bonds, 2010 Series B

MATURITY SCHEDULE

Maturity (December 1)	Principal Amount	Interest Rate	Yield	CUSIP	Maturity (December 1)	Principal Amount	Interest Rate	Yield	CUSIP
2011	$170,000	2.00%	0.62%	658905 DB7	2017	$375,000	3.00%	2.61%	658905 DH4
2012	465,000	2.00%	0.90%	658905 DC5	2018	385,000	3.25%	2.95%	658905 DJ0
2013	465,000	2.00%	1.25%	658905 DD3	2019	405,000	3.50%	3.25%	658905 DK7
2014	485,000	2.00%	1.66%	658905 DE1	2020	420,000	4.00%	3.52%	658905 DL5
2015	490,000	2.25%	1.94%	658905 DF8	2021	435,000	4.00%	3.68%	658905 DM3
2016	365,000	2.50%	2.17%	658905 DG6	2022	450,000	4.00%	3.83%	658905 DN1

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" or "Authority"), the State of North Dakota (the "State") or the Financial Advisor to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing.

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

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

STATE OF NORTH DAKOTA

Governor .... John S. (Jack) Dalrymple III[1]
Lieutenant Governor .... Drew Wrigley[1]
Secretary of State .... Alvin A. Jaeger
Attorney General .... Wayne Stenehjem
Public Service Commissioner .... Tony Clark
Public Service Commissioner .... Kevin Cramer
Public Service Commissioner .... Brian Kalk
Agriculture Commissioner .... Doug Goehring
Tax Commissioner .... Cory Fong
State Auditor .... Robert R. Peterson
Insurance Commissioner .... Adam Hamm
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 S. (Jack) Dalrymple III[1] .... Chairman
Attorney General Wayne Stenehjem .... Member
Agriculture Commissioner Doug Goehring .... Member

AUTHORIZED OFFICERS

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

CO-BOND COUNSEL

Cook Wegner PC	Arntson & Stewart P.C.
Bismarck, North Dakota	Fargo, ND

FINANCIAL ADVISOR TO THE INDUSTRIAL COMMISSION
Public Financial Management, Inc.
Minneapolis, Minnesota

TRUSTEE, REGISTRAR, PAYING AGENT AND ESCROW AGENT
Bank of North Dakota
Bismarck, North Dakota

(1) On December 7, 2010, John S. (Jack) Dalrymple III succeeded John Hoeven as Governor and Drew Wrigley became Lieutenant Governor.

INTRODUCTION TO THE OFFICIAL STATEMENT

The following information is furnished solely to provide limited introductory information regarding the North Dakota Building Authority's (the "Issuer" or "Authority") $2,355,000 Taxable Facilities Improvement Bonds (Recovery Zone Economic Development Bonds), 2010 Series A (the "2010 Series A Bonds") and $4,910,000 Facilities Improvement Bonds, 2010 Series B (the "2010 Series B Bonds) (together, the "Bonds" or "Obligations"), 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: **2010 Series A Bonds:** The 2010 Series A Bonds are being issued to finance a portion of the construction of a new facility for the Veterans' Home which will include skilled nursing and basic care facilities.

2010 Series B Bonds: The 2010 Series A Bonds are being issued to finance a portion of the construction of a new facility for the Veterans' Home and to advance refund a portion of the Issuer's $9,595,000 Lease Revenue Bonds, 2002 Series A (the "Series 2002 Bonds" or "Refunded Bonds"). The maturities of the Series 2002 Bonds to be refunded are the December 1, 2012 through 2022 maturities (the "Refunding Bonds"). See "PLAN OF REFUNDING" herein.

Security: The Bonds are issued pursuant to Trust Indentures (the "2010 Series A Indenture" and the "2010 Series B Indenture", together, the "Indentures") dated as of December 1, 2010 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 dated as of December 1, 2010 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: **2010 Series A Bonds:** The 2010 Series A Bonds are subject to redemption prior to their respective maturity dates, at the option of the Issuer, from any moneys legally available therefor, in whole or in part, and if in part in such amounts and from such stated maturities as may be selected by the Issuer and within a maturity as described under "Redemption Provisions" herein, and at a redemption price equal to the "Make Whole Redemption Price"

2010 Series B Bonds: The 2010 Series B Bonds are not subject to optional redemption prior to maturity.

Extraordinary Optional Redemption: In the event of damage, destruction or condemnation of the Projects or a part 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 Agencies in the event the Agencies elect under the Loan Agreements or any Amended Loan Agreement to redeem the Bonds rather than repair or rebuild the affected Projects.

Denominations:	$5,000 or integral multiples thereof.
Record Date:	The fifteenth day of the month preceding each interest payment date.
Principal Payments:	**<u>2010 Series A Bonds:</u>** Due annually on December 1, 2016 through 2030.
	<u>2010 Series B Bonds:</u> Due annually on December 1, 2011 through 2022.
Interest Payments:	Semiannually on June 1 and December 1 of each year, commencing June 1, 2011.
Tax Status:	**<u>2010 Series A Bonds:</u>** The Issuer has elected to issue the 2010 Series A Bonds as Recovery Zone Economic Development Bonds under Sections 1400U-1 through 1400U-2 of the Internal Revenue Code of 1986, as amended. Interest on the 2010 Series A Bonds is included in gross income of the recipient for purposes of the United States income taxation. Interest on the 2010 Series A Bonds is excluded from gross income for North Dakota income tax purposes (other than the tax imposed on financial institutions by North Dakota Century Code, Chapter 57-35.3).
	<u>2010 Series B Bonds:</u> The 2010 Series B Bonds are generally exempt from federal and North Dakota income taxes (see "TAX MATTERS" herein). The 2010 Series B Bonds will not be designated qualified tax-exempt obligations under Section 265(b)(3) of the Code.

Professional Consultants:	*Bond Counsel:*	Cook Wegner PC Bismarck, North Dakota
		Arntson & Stewart P.C. Fargo, North Dakota
	Financial Advisor:	Public Financial Management, Inc. Minneapolis, Minnesota
	Trustee, Registrar, Paying Agent and Escrow 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 PC and Arntson & Stewart P.C., Bond Counsel, as to validity and tax exemption. The opinions will be substantially in the form set forth in Appendix E attached hereto.
Authority for Issuance:	The Bonds are being issued pursuant to Chapter 54-17.2 of the North Dakota Century Code.
Continuing Disclosure:	The Issuer has agreed for the benefit of 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 PC, Bismarck, North Dakota and Arntson & Stewart P.C., Fargo, North Dakota.
Delivery:	On or about December 28, 2010.

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 Indentures and certain costs of operating and maintaining the subject of the Projects.
	"Agencies"	The Veterans' Home, Job Service North Dakota and the North Dakota State Department of Health.
	"Indentures"	The Trust Indentures, including the 2010 Series A Indenture and the 2010 Series B Indenture, dated as of December 1, 2010 between the Issuer and the Bank of North Dakota, as trustee.
	"Loan Agreements"	Loan Agreement I, Loan Agreement II and Loan Agreement III dated as of December 1, 2010 between the Issuer and the Veterans' Home, Job Service North Dakota and the North Dakota State Department of Health, respectively.
	"Loan Payments"	Semiannual loan payments due under the Loan Agreements.
	"Projects"	Construction of a new facility for the Veterans' Home to be financed by the proceeds of the 2010 Series A Bonds and a portion of the 2010 Series B Bonds. The facilities, the acquisition, improving, equipping or construction of, which were financed by the proceeds of the Series 2002 Bonds, which are being refunded by a portion of the 2010 Series B 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 Indentures, 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.

OFFICIAL STATEMENT

NORTH DAKOTA BUILDING AUTHORITY

$2,355,000
TAXABLE FACILITIES IMPROVEMENT BONDS (RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS), 2010 SERIES A

$4,910,000
FACILITIES IMPROVEMENT BONDS, 2010 SERIES B

This Official Statement, including the cover page and Appendices hereto (the "Official Statement"), is furnished to prospective purchasers in connection with the sale and delivery by the Industrial Commission of North Dakota acting as the North Dakota Building Authority (the "Issuer" or "Authority") of $2,355,000 aggregate principal amount of Taxable Facilities Improvement Bonds (Recovery Zone Economic Development Bonds), 2010 Series A (the "2010 Series A Bonds") and $4,910,000 aggregate principal amount of Facilities Improvement Bonds, 2010 Series B (the "2010 Series B 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.

2010 Series A Bonds

The 2010 Series A 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, Senate Bill No. 2025 enacted by the Sixty-first Legislative Assembly and an authorizing resolution of the Issuer adopted on December 1, 2010 (the "General Authorization Resolution"). Proceeds of the 2010 Series A Bonds will be used to (i) finance a portion of the construction of a new facility for the Veterans' Home which will include skilled nursing and basic care facilities; (ii) provide moneys for deposit into the Reserve Fund established with respect to the 2010 Series A Bonds; (iii) provide moneys which, with the investment earnings thereon, will capitalize interest on the 2010 Series A Bonds; and (iv) pay a portion of the costs of issuance related to the 2010 Series A Bonds.

The Issuer has determined that it is in the best interest of the State to issue the 2010 Series A Bonds as "Recovery Zone Economic Development Bonds" authorized by the America Recovery and Reinvestment Tax Act of 2009, enacted February 17, 2009 ("ARRA") and to make an irrevocable election to apply Sections 1400U-1 through 1400U-2 of the Internal Revenue Code of 1986, as amended (the "Code"). As a result of this election, interest on the 2010 Series A Bonds will be includable in gross income of the beneficial owners thereof for federal income tax purposes and beneficial owners of the 2010 Series A Bonds will not be entitled to any federal tax credits as a result of either ownership of the 2010 Series A Bonds or receipt of any interest payments on the 2010 Series A Bonds.

With respect to the 2010 Series A Bonds, the Issuer will loan monies to the Agency for the 2010 Series A Project pursuant to a Loan Agreement dated as of December 1, 2010 (the "Loan Agreement I"). The 2010 Series A Bonds are issued under and are equally and ratably secured by the Trust Indenture (the "2010 Series A Indenture) dated as of December 1, 2010, by and between the Issuer and the Bank of North Dakota, as trustee (the "Trustee"). Pursuant to the 2010 Series A Indenture, the Issuer has pledged and assigned to the Trustee loan payments payable under the Loan Agreement I as security for the payment of the principal of and interest on the 2010 Series A Bonds.

Under the Loan Agreement I, the Agency has agreed to make semiannual loan payments ("2010 Series A Loan Payments"). The aggregate of the 2010 Series A Loan Payments payable under the Loan Agreement I will be sufficient to pay the principal of and interest on the 2010 Series A Bonds and a portion of the 2010 Series B 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 2010 Series A Loan Payments plus such additional amounts related to administrative matters under the Indentures and, if necessary, certain costs to operate and maintain the 2010 Series A Project (the "Additional Payment") as are required to be paid pursuant to the Loan Agreement I.

An Event of Nonappropriation will occur under the 2010 Series A Indenture if the Legislative Assembly fails to appropriate sufficient moneys for the payment of 2010 Series A Loan Payments under the Loan Agreement I. 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 2010 Series A 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 2010 Series A Indenture, and will entitle the Trustee to exercise the remedies available under the 2010 Series A Indenture.

The 2010 Series A Bonds are limited obligations of the Issuer payable solely from the revenues and receipts received pursuant to the Loan Agreement I, which are produced from biennial appropriations (if any) by the Legislative Assembly, other funds or amounts held by the Trustee as security for the 2010 Series A Bonds under the 2010 Series A Indenture and/or any other funds available and authorized by law. The Loan Agreement I specifically provides that nothing therein shall be construed to require the Legislative Assembly to appropriate any moneys to pay the 2010 Series A Loan Payments thereunder and that the Agency shall not be obligated to pay the 2010 Series A Loan Payments except to the extent appropriated for each biennium. THE OBLIGATION OF THE AGENCY TO PAY THE 2010 SERIES A LOAN PAYMENTS UNDER THE LOAN AGREEMENT I IS SUBJECT TO BIENNIAL APPROPRIATION BY THE LEGISLATIVE ASSEMBLY AS PROVIDED IN THE LOAN AGREEMENT I. NEITHER THE OBLIGATION OF THE AGENCY TO PAY THE 2010 SERIES A LOAN PAYMENTS NOR THE OBLIGATION OF THE ISSUER TO PAY THE 2010 SERIES A 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 2010 SERIES A BONDS DOES NOT DIRECTLY OR CONTINGENTLY OBLIGATE THE AGENCY TO PAY THE 2010 SERIES A 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 Agency has covenanted in the Loan Agreement I 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 Agreement I an amount fully sufficient to pay the 2010 Series A Loan Payments and a portion of the 2010 Series B 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 Projects, if any. For each biennium in which the Legislative Assembly appropriates funds to pay 2010 Series A Loan Payments, the State is legally committed to pay semiannually to the Trustee the specified 2010 Series A Loan Payments as described above. For information with respect to the Veterans' Home, see Appendix F.

2010 Series B Bonds

The 2010 Series B 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. 2025 enacted by the Sixty-first Legislative Assembly and an authorizing resolution of the Issuer adopted on December 1, 2010 (the "General Authorization Resolution"). Proceeds of the 2010 Series B Bonds, along with other available funds, will be used to (i) finance a portion of the construction of a new facility for the Veterans' Home (ii) advance refund the Refunded Bonds and (iii) pay certain costs and expenses associated with the issuance of the 2010 Series A Bonds and the 2010 Series B Bonds and the refunding of the Refunded Bonds. See "PLAN OF REFUNDING" herein.

With respect to the 2010 Series B Bonds, the Issuer will loan monies to the Agencies for the 2010 Series B Projects pursuant to Loan Agreements dated as of December 1, 2010. The 2010 Series B Bonds are issued under and are equally and ratably secured by the Trust Indenture (the "2010 Series B Indenture) dated as of December 1, 2010, by and between the Issuer and the Bank of North Dakota, as trustee (the "Trustee"). Pursuant to the 2010 Series B Indenture, the Issuer has pledged and assigned to the Trustee Loan Payments payable under the Loan Agreement as security for the payment of the principal of and interest on the 2010 Series B Bonds.

Under the Loan Agreements, the Agencies have agreed to make semiannual loan payments ("2010 Series B Loan Payments"). The aggregate of the 2010 Series B Loan Payments payable under the Loan Agreements will be sufficient to pay the principal of and interest on the 2010 Series B 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 2010 Series B Loan Payments plus such additional amounts related to administrative matters under the 2010 Series B 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 2010 Series B Indenture if the Legislative Assembly fails to appropriate sufficient moneys for the payment of 2010 Series B 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 2010 Series B 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 2010 Series B Indenture, and will entitle the Trustee to exercise the remedies available under the 2010 Series B Indenture.

The 2010 Series B 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 2010 Series B Bonds under the 2010 Series B 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 2010 Series B Loan Payments except to the extent appropriated for each biennium. THE OBLIGATION OF THE AGENCIES TO PAY THE 2010 SERIES B 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 2010 SERIES B LOAN PAYMENTS NOR THE OBLIGATION OF THE ISSUER TO PAY THE 2010 SERIES B 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 2010 SERIES B BONDS DOES NOT DIRECTLY OR CONTINGENTLY OBLIGATE THE AGENCIES TO PAY THE 2010 SERIES B 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 2010 Series B 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 2010 Series B 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 Projects, if any. For each biennium in which the Legislative Assembly appropriates funds to pay 2010 Series B Loan Payments, the State is legally committed to pay semiannually to the Trustee the specified 2010 Series B Loan Payments as described above. For information with respect to Job Service North Dakota, see Appendix D. For information with respect to the North Dakota State Department of Health, see Appendix E. For information with respect to the Veterans' Home, see Appendix F.

Capitalized terms used herein have the same meaning as ascribed to them in the Loan Agreements and the Indentures. 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. 2025, other funds or amounts held by the Trustee as security for the Bonds under the Indentures 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 Indentures 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 Indentures 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.

THE PROJECTS

Veterans Home

Scheduled to open in Spring 2011, a new state-of-the-art Veterans Home designed in the household/neighborhood concept. The new home, which will have 52 skilled nursing beds and 98 basic care beds, focuses on individual households designed for 12-13 residents. The facility will have 142 private rooms and 4 semi-private rooms, each room with its own private bathroom. The household centers around a large living room area, open kitchen and dining area.

Other features of the new home include:

- Geothermal heat
- Built in patient lifts for skilled nursing
- Family dining rooms

The Veterans' Home will be financed from the proceeds of the 2010 Series A Bonds and a portion of the 2010 Series B Bonds.

Plan of Refunding

The 2010 Series B Bonds will be issued, in part, to provide the moneys necessary, together with other legally available moneys, if any, to effect an advance refunding of the Refunded Bonds in order to realize debt service savings. The proceeds of the 2010 Series B Bonds, along with other available funds, will be used to (ii) refund the Refunded Bonds and (iii) pay certain costs and expenses associated with the issuance of the 2010 Series A Bonds and the 2010 Series B Bonds and the refunding of the Refunded Bonds.

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

Series	Maturity	Amount Outstanding	Redemption Date	Redemption Price	Refunded Par Amount
Series 2002A	2011	$ 945,000	N/A	N/A	N/A
	2012	335,000	12/1/2011	100%	$ 295,000
	2013	345,000	12/1/2011	100%	305,000
	2014	325,000	12/1/2011	100%	325,000
	2015	335,000	12/1/2011	100%	335,000
	2016	355,000	12/1/2011	100%	355,000
	2017	375,000	12/1/2011	100%	375,000
	2018	395,000	12/1/2011	100%	395,000
	2019	420,000	12/1/2011	100%	420,000
	2020	440,000	12/1/2011	100%	440,000
	2021	465,000	12/1/2011	100%	465,000
	2022	485,000	12/1/2011	100%	485,000
	Total	$5,220,000			$4,195,000

On the date of issue of the 2010 Series B Bonds, the Issuer shall deliver to the Escrow Agent for deposit in the Escrow Account immediately available funds aggregating $4,397,084.01 to be applied solely to the payment of interest on and redemption of the Refunded Bonds, as provided in the Escrow Agreement. Such funds will be sufficient to purchase Government Obligations (the "Escrowed Government Obligations") that will mature in principal amounts as such times and bear interest at a rate or rates so that sufficient moneys will be available from such maturing principal and interest and any cash balance (i) to pay interest on the Refunded Bonds from December 1, 2010 (i.e. the preceding Interest Payment Date for the Refunded Bonds) to December 1, 2011, the redemption date for the Refunded Bonds, and (ii) to pay the principal of the Refunded Bonds on December 1, 2011. The Escrowed Government Obligations will be pledged only to the payment of the Refunded Bonds and will not be available for the payment of the Bonds. The sufficiency of the Escrow Account to defease all interest and principal related to the Refunding Bonds will be verified.

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:	2010 Series A	2010 Series B
Principal Amount of Bonds	$2,355,000	$4,910,000
Premium	--	103,379
Cash Contribution from Refunded Bonds Debt Service Reserve Fund	--	543,291
Total Sources	$2,355,000	$5,556,670
Uses of Funds:		
Deposit to Project Account	$2,017,417	$ 557,536
Deposit to the Escrow Account	--	4,397,084
Deposit to the Reserve Fund	235,500	491,000
Deposit to the Bond Account	55,101	5,498
Underwriter's Discount	23,432	35,137
Costs of Issuance	23,550	63,653
Contingency	--	6,762
Total Uses	$2,355,000	$5,556,670

THE BONDS

General Provisions

2010 Series A Bonds

The 2010 Series A Bonds will be issued in the aggregate principal amount of $2,355,000, will be dated as of 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, 2011 and semiannually thereafter on June 1 and December 1 of each year (collectively, the "2010 Series A Bond Payment Dates"), and mature on the dates, all as set forth on the inside cover page of this Official Statement. The 2010 Series A 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 2010 Series A 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 2010 Series A Indenture, upon presentation and surrender thereof. Interest on the 2010 Series A Bonds will be paid to the person who is the registered owner thereof as of the close of business on the fifteenth day of the month next preceding such 2010 Series A Bond Payment Date (the "2010 Series A Record Date") and will be paid by moneys wired by the Trustee to DTC or its nominee, as registered owner of such 2010 Series A Bonds, which interest to be redistributed by DTC, or by any paying agent appointed by the Issuer as provided in the 2010 Series A Indenture, on each 2010 Series A Bond Payment Date notwithstanding the cancellation of such 2010 Series A Bond upon any exchange or transfer thereof subsequent to the 2010 Series A Record Date and prior to such 2010 Series A Bond Payment Date. The principal of, if any, and interest on the 2010 Series A Bonds will be paid in lawful money of the United States of America.

2010 Series B Bonds

The 2010 Series B Bonds will be issued in the aggregate principal amount of $4,910,000, will be dated as of 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, 2011 and semiannually thereafter on June 1 and December 1 of each year (collectively, the "2010 Series B Bond Payment Dates"), and
mature on the dates, all as set forth on the inside cover page of this Official Statement. The 2010 Series B 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 2010 Series B 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 2010 Series B Indenture, upon presentation and surrender thereof. Interest on the 2010 Series B Bonds will be paid to the person who is the registered owner thereof as of the close of business on the fifteenth day of the month next preceding such 2010 Series B Bond Payment Date (the "2010 Series B Record Date") and will be paid by moneys wired by the Trustee to DTC or its nominee, as registered owner of such 2010 Series B Bonds, which interest to be redistributed by DTC, or by any paying agent appointed by the Issuer as provided in the 2010 Series B Indenture, on each 2010 Series B Bond Payment Date notwithstanding the cancellation of such 2010 Series B Bond upon any exchange or transfer thereof subsequent to the 2010 Series B Record Date and prior to such 2010 Series B Bond Payment Date. The principal of, if any, and interest on the 2010 Series B 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 The Depository Trust Company entitled "SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY ONLY ISSUANCE." The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

The Depository Trust Company, New York, New York will act as securities depository for the Obligations. The Obligations will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity, specified on the cover page hereof, in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Bonds Exchange Act of 1934. DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over eighty-five countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. Bonds brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com.**

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

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

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

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

Principal of, redemption premium, if any, and interest payments on the Obligations will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Paying Agent, on payable date in accordance with their respective holding shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, nor its nominee, the Paying Agent, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Paying Agent, disbursement of such payments to

Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

NEITHER THE AUTHORITY NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE OBLIGATIONS UNDER THE RESOLUTION; (III) THE SELECTION BY DTC OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE OBLIGATIONS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE OBLIGATIONS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE OBLIGATIONS; OR (VI) ANY OTHER MATTER.

Redemption Provisions

2010 Series A Bonds

Optional Redemption. The 2010 Series A Bonds are subject to redemption prior to their respective maturity dates, at the option of the Issuer, from any moneys available therefor, in whole or in part, and if in part in such amounts and from such stated maturities as may be selected by the Issuer and within a maturity as described under "Selection of 2010 Series A Bonds to Be Redeemed" below, and at a redemption price equal to the "Make Whole Redemption Price"

The "Make-Whole Redemption Price" is equal to the greater of:

(a) the initial reoffering price of the 2010 Series A Bonds of the maturities set forth on the inside front cover of this Official Statement (but not less than 100%) of the principal amount of the 2010 Series A Bonds to be redeemed; or

(b) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the 2010 Series A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the 2010 Series A Bonds are to be redeemed, discounted to the date on which the 2010 Series A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 50 basis points (0.50%),

plus, in each case, accrued interest on the 2010 Series A Bonds to be redeemed to the redemption date.

The "Treasury Rate" is, with respect to any redemption date for a particular 2010 Series A Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity, excluding inflation indexed securities (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the redemption date to the maturity date of the 2010 Series A Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

In connection with any optional redemption, the Make-Whole Redemption Price will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the Issuer at the Issuer's expense. The Issuer may conclusively rely on such determination of the Make-Whole Redemption Price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

Extraordinary Optional Redemption Upon a Determination of Ineligibility. At the option of the Issuer, the 2010 Series A Bonds are also subject to extraordinary redemption in whole, but not in part, at a redemption price equal to 100% of the principal amount of the 2010 Series A Bonds to be redeemed or the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the 2010 Series A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which those 2010 Series A Bonds are to be redeemed, discounted to the date on which those 2010 Series A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (described below) plus 100 basis points, plus in each case, accrued interest to the redemption date, upon or on any date after the occurrence of a Determination of Ineligibility. A "Determination of Ineligibility" means (i) the enactment of legislation or the adoption of final regulations or a final decision, ruling or technical advice by any federal judicial or administrative authority which would have the effect of deeming, determining or rendering the 2010 Series A Bonds not qualified for treatment as qualified Recovery Zone Economic Development Bonds under Sections 1400U-1 through 1400U-2 of the Code; (ii) the federal government discontinues the Recovery Zone Economic Development Bonds program with retroactive applicability to bonds issued prior to the date of such discontinuance (including the 2010 Series A Bonds); or (iii) the receipt by the Issuer of a written opinion of nationally recognized bond counsel to the effect that the 2010 Series A Bonds are not qualified Recovery Zone Economic Development Bonds under Sections 1400U-1 through 1400U-2 of the Code.

Extraordinary Optional Redemption Upon the Occurrence of Certain Events. In the event of damage, destruction or condemnation of the 2010 Series A Project or any portion thereof as provided in the Loan Agreement I, the 2010 Series A Bonds will be subject to redemption prior to stated maturity, in whole or in part on any Business Day, at a Redemption Price equal to 100% of the principal amount of such 2010 Series A 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 or any Amended Loan Agreements to redeem the 2010 Series A Bonds rather than to repair or rebuild the 2010 Series A Project.

Selection of 2010 Series A Bonds for Redemption. If less than all of the Outstanding Bonds of like maturity are to be redeemed, the particular 2010 Series A Bonds or portions of the 2010 Series A Bonds to be redeemed shall be selected by the Trustee at random in such manner as the Trustee in its discretion may deem fair and appropriate in the circumstances. In making the selection, the Trustee shall treat each 2010 Series A Bond to be redeemed as representing that number of 2010 Series A Bonds of the lowest authorized denomination as is obtained by dividing the principal amount of the 2010 Series A Bond by the denomination. If any 2010 Series A Bond is to be redeemed in part, the portion to be so redeemed shall be in a principal amount of any authorized denomination. The Trustee shall promptly notify the Issuer, the Registrar and Paying Agent in writing of the 2010 Series A Bonds selected for redemption and, in the case of any 2010 Series A Bond selected for partial redemption, the principal amount thereof to be redeemed.

Notice of Redemption. Notice of redemption shall be given by the Trustee in accordance with the requirements of DTC, so long as the 2010 Series A Bonds are held in book entry form with Cede & Co. as the nominee registered owner.

Mandatory Sinking Fund Redemption. Term Bonds maturing on December 1, 2025, are required to be redeemed in part prior to maturity on December 1, 2025 at the principal amount thereof plus accrued interest to the redemption date, in the amounts set forth below:

Year	Amount
2021	$ 145,000
2022	150,000
2023	155,000
2024	160,000
2025 (Final Maturity)	165,000

Term Bonds maturing on December 1, 2030, are required to be redeemed in part prior to maturity on December 1, 2030 at the principal amount thereof plus accrued interest to the redemption date, in the amounts set forth below:

Year	Amount
2026	$ 170,000
2027	175,000
2028	180,000
2029	185,000
2030 (Final Maturity)	200,000

2010 Series B Bonds

Optional Redemption. The 2010 Series B Bonds are not subject to optional redemption prior to maturity.

Extraordinary Optional Redemption Upon the Occurrence of Certain Events. In the event of damage, destruction or condemnation of the Projects or any portion thereof as provided in the Loan Agreements, the 2010 Series B Bonds will be subject to redemption prior to stated maturity, in whole or in part on any Business Day, at a Redemption Price equal to 100% of the principal amount of such 2010 Series B 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 or any Amended Loan Agreements to redeem the 2010 Series B Bonds rather than to repair or rebuild the Projects.

Selection of 2010 Series B Bonds for Redemption. If less than all of the Outstanding Bonds of like maturity are to be redeemed, the particular 2010 Series B Bonds or portions of the 2010 Series B Bonds to be redeemed shall be selected by the Trustee at random in such manner as the Trustee in its discretion may deem fair and appropriate in the circumstances. In making the selection, the Trustee shall treat each 2010 Series B Bond to be redeemed as representing that number of 2010 Series B Bonds of the lowest authorized denomination as is obtained by dividing the principal amount of the 2010 Series B Bond by the denomination. If any 2010 Series B Bond is to be redeemed in part, the portion to be so redeemed shall be in a principal amount of any authorized denomination. The Trustee shall promptly notify the Issuer, the Registrar and Paying Agent in writing of the 2010 Series B Bonds selected for redemption and, in the case of any 2010 Series B Bond selected for partial redemption, the principal amount thereof to be redeemed.

Notice of Redemption. Notice of redemption shall be given by the Trustee in accordance with the requirements of DTC, so long as the 2010 Series B 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 Indentures. See “SECURITY FOR THE BONDS--The Loan Agreements and the Indentures” 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	2010 Series A Bonds Principal Component	Interest Component	Total Loan Payments	2010 Series B Bonds Principal Component	Interest Component	Total Loan Payments
2011	$ --	$ 55,101	$ 55,101	$ --	$ 60,345	$ 60,345
2012	--	129,650	129,650	170,000	140,288	310,288
2013	--	129,650	129,650	465,000	133,938	598,938
2014	--	129,650	129,650	465,000	124,638	589,638
2015	--	129,650	129,650	485,000	115,138	600,138
2016	--	129,650	129,650	490,000	104,775	594,775
2017	130,000	127,375	257,375	365,000	94,700	459,700
2018	130,000	122,500	252,500	375,000	84,513	459,513
2019	135,000	117,031	252,031	385,000	72,631	457,631
2020	135,000	111,125	246,125	405,000	59,288	464,288
2021	140,000	104,763	244,763	420,000	43,800	463,800
2022	145,000	97,269	242,269	435,000	26,700	461,700
2023	150,000	88,788	238,788	450,000	9,000	459,000
2024	155,000	80,019	235,019	--	--	--
2025	160,000	70,963	230,963	--	--	--
2026	165,000	61,619	226,619	--	--	--
2027	170,000	51,563	221,563	--	--	--
2028	175,000	40,781	215,781	--	--	--
2029	180,000	29,688	209,688	--	--	--
2030	185,000	18,281	203,281	--	--	--
2031	200,000	6,250	206,250	--	--	--
Total	$2,355,000	$1,831,366	$4,186,366	$4,910,000	$1,069,754	$5,979,754

SECURITY FOR THE BONDS

The Loan Agreements and the Indentures

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. 2025, and certain other revenues as provided in the Indentures. 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 Indentures. 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 Projects.

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 Indentures 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 INDENTURES -- Remedies on Default -- Application of Moneys" in Appendix B hereto.

Maintenance and Insurance of the Projects

The Agencies have agreed in the Loan Agreements not to cause or permit any waste, damage or injury to the Projects, and at its own expense, to keep the Projects 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 Agreements, the Issuer, the Trustee and the owners of the Bonds will not have any obligation to incur any expense of any kind or character for the management, operation or maintenance of the Projects.

The Projects are required to be insured to the extent described under "THE LOAN AGREEMENT -- –Maintenance and Repair of the Project" in Appendix B hereto. If the Projects or any part thereof are destroyed, damaged or taken by condemnation, within 90 days after any such damage, destruction or taking, the Agencies are required under the Loan Agreements to notify the Trustee of the Agencies' intent as to the application and disbursement of such funds.

Reserve Account

A Reserve Account is established by the Indentures for each series of Bonds and will be fully funded at the time of original issuance of the Bonds. The Reserve Account will be funded from proceeds of the sale of the Bonds and from prior debt service reserve funds in an amount equal to the Reserve Account Requirement. The 2010 Series B Bonds maturing on December 1, 2022 and the 2010 Series A Bonds maturing on December 1, 2030 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 Indentures are insufficient therefor and for certain other purposes as specified in the Indentures. See "THE INDENTURES--Accounts; Disposition of Pledged Revenue--Reserve Account" in Appendix B hereto.

TAX MATTERS

2010 Series A Bonds

The Issuer has elected to issue the 2010 Series A Bonds as Recovery Zone Economic Development Bonds for purposes of Sections 1400U-1 through 1400U-2 of the Code for which the Issuer is allowed a refundable credit which, with respect to any interest payment date for the 2010 Series A Bonds, is equal to 45% of the amount of interest payable on the 2010 Series A Bonds with respect to such date. The Issuer will receive a cash subsidy payment from the United States Treasury equal to 45% of the interest payable by the Board on the 2010 Series A Bonds. The Issuer cannot ensure that it will receive such a refundable credit at any time and in any given amount.

Owners of the 2010 Series A Bonds will not be allowed any federal tax credits as a result of ownership or receipt of interest payments on the 2010 Series A Bonds.

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2010 Series A Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Interest on the 2010 Series A Bonds is exempt from State of North Dakota income taxation (other than the tax imposed on financial institutions by North Dakota Century Code, Chapter 57-35.3)

The qualification of the 2010 Series A Bonds and receipt of the refundable credit for purposes of Sections 1400U-1 through 1400U-2 and Section 6431 of the Code is subject to the condition that the Issuer and the Agency comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 2010 Series A Bonds to assure that the 2010 Series A Bonds qualify as Recovery Zone Economic Development Bonds under Sections 1400U-1 through 1400U-2 for which the Issuer has made an irrevocable election to receive a cash subsidy payment. Failure to comply with such requirements of the Code might result in the Issuer not receiving such a cash subsidy payment, possibly retroactive to the date of issue of the 2010 Series A Bonds. The Issuer and the Agency have covenanted to comply with all such requirements.

Except as summarized above, Bond Counsel expresses no opinion with respect to the federal or state tax treatment of the 2010 Series A Bonds, or the collateral federal income tax consequences resulting from ownership of the 2010 Series A Bonds. Prospective purchasers should consult their tax advisors as to tax consequences from their ownership of the 2010 Series A Bonds.

2010 Series B Bonds

In the opinion of Bond Counsel, based upon existing statutes, regulations, rulings and court decisions, interest on the 2010 Series B 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 E hereto.

Noncompliance following issuance of the 2010 Series B Bonds with certain requirements of the Code may result in the inclusion of interest on the 2010 Series B Bonds in gross income for federal and North Dakota income tax purposes retroactive to the date of issuance of the 2010 Series B Bonds. The Issuer and the Agency have covenanted to comply with such requirements. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2010 Series B Bonds may adversely affect the value of, or the tax status of interest on the 2010 Series B Bonds.

The Code imposes an alternative minimum tax with respect to individuals and corporations on alternative minimum taxable income. Interest on the 2010 Series B 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 2010 Series B 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 2010 Series B 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 2010 Series B Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the 2010 Series B Bonds from realizing the full current benefit of the tax status of such interest, Prospective purchasers of the 2010 Series B 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 2010 Series B Bonds for audit examination, or the course or result of any IRS examination of the 2010 Series B Bonds, or obligations which present similar tax issues, will not affect the market price for the 2010 Series B Bonds.

Original Issue Discount:

To the extent the issue price of the 2010 Series B Bonds is less than the amount to be paid at maturity of the 2010 Series B Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2010 Series B 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 2010 Series B Bonds that is excluded from gross income for federal income tax purposes. For this purpose, the issue price of the 2010 Series B Bonds is the first price at which a substantial amount of the 2010 Series B 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 2010 Series B Bonds accrues daily over the term to maturity of such 2010 Series B 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 2010 Series B Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2010 Series B Bonds. Owners of the 2010 Series B Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2010 Series B Bonds with original issue discount, including the treatment of Owners who do not purchase such 2010 Series B Bonds in the original offering to the public at the first price at which a substantial amount of such 2010 Series B 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 the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and an 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 Indentures, (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 Indentures, 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 PC, Bismarck, North Dakota and Arnston Stewart, P.C., Fargo, North Dakota, Bond Counsel. The forms of opinions of Bond Counsel is attached to this Official Statement as Appendix G. Copies of the opinions 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 Indentures, the Issuer will covenant for the benefit of all Bondholders to provide certain continuing disclosure information relating to the Bonds and the security therefor to permit the Underwriter of the Bonds to comply with the amendments to Rule 15c2-12 under the Securities and Exchange Act. At the time of the initial delivery of the Bonds, the Issuer will furnish an undertaking to provide continuing disclosure substantially in the form attached to this Official Statement as Appendix H.

OFFICIAL STATEMENTS

A copy of the Issuer's Preliminary Official Statement dated December 9, 2010 may be obtained at www.pfm.com or by contacting Public Financial Management, Inc., 45 South Seventh Street, Suite 2800, Minneapolis, Minnesota 55402, telephone (612) 338-3535 or Karlene Fine, Executive Director and Secretary, North Dakota Industrial Commission, 600 East Boulevard Avenue, State Capitol, Bismarck, North Dakota 58505, telephone (701) 328-3722. The Preliminary Official Statement is in a form deemed final as of its date for purposes of Securities and Exchange Rule 15c2-12(b)(1), but is subject to minor revision, amendment and completion in a Final Official Statement in accordance with the Rule.

The Issuer agrees to notify the successful bidder of any material developments impacting the Issuer or the Bonds of which the Issuer becomes aware within 60 days after the delivery of the Bonds.

By awarding the Bonds to an underwriting syndicate submitting an Official Bid Form, the Issuer agrees that within seven business days after the date of such award it shall provide the senior managing underwriter of the successful syndicate with copies of a Final Official Statement. The senior managing underwriter of the successful syndicate will be supplied with Final Official Statements in a quantity sufficient to meet its request. Up to 25 copies of the Final Official Statement will be furnished without cost.

RATINGS

Moody's Investors Service, Inc. and Standard & Poor's Ratings Group assigned "Aa2" and "AA" ratings on the Bonds respectively.

The ratings issued reflect an opinion of the agency furnishing the same and is not a recommendation to buy or sell the Bonds. These ratings are subject to withdrawal at any time; withdrawal of a rating may have an adverse affect on the marketability of the Bonds. For an explanation of the significance of a rating, an investor should communicate with the rating agency directly.

UNDERWRITING

The Issuer has sold the 2010 Series A Bonds at public sale to Piper Jaffray & Co., as Underwriter, for a price of $2,331,567.75 and accrued interest, if any and the 2010 Series B Bonds at public sale to Piper Jaffray & Co., as Underwriter, for a price of $4,978,242.22 and accrued interest, if any.

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

____

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 North Dakota Pipeline Authority, 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, 2012 (with respect to the Governor) and December 31, 2014 (with respect to the other two members), are:

John S. (Jack) Dalrymple III, Governor
Wayne Stenehjem, Attorney General
Doug Goehring, Agriculture Commissioner

On December 7, 2010, John S. (Jack) Dalrymple III succeeded John Hoeven as Governor and Drew Wrigley became Lieutenant Governor. 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 2009 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 the Office of Management and Budget, 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

Adopted in 1987, North Dakota Century Code, Chapter 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.

As of June 30, 2010, the Budget Stabilization Fund totaled $325,000,000, the maximum amount that can be maintained in 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 ten percent of the current biennial State General Fund budget. Five percent of the 2009-11 General Fund budget is $325,000,000. Interest earnings on the Budget Stabilization Fund will be placed in the General Fund.

Legacy Fund

The voters of North Dakota passed Constitutional Measure No. 1, creating an oil and gas production and extraction tax Legacy Fund, in the November 2, 2010 general election. The stated intent of this Measure is to establish a constitutional fund for the deposit of certain oil and gas tax revenues and impose limitations on the use of moneys in that fund. The Measure takes effect for any oil and gas produced after June 30, 2011.The Legacy Fund will be funded by transfers of thirty percent of the total revenues from the oil and gas production and extraction taxes to the State Treasurer, as well as funds from any other source the Legislature decides to transfer to this special constitutional fund. The principal and earnings of the Legacy Fund will accumulate and may not be spent until after June 30, 2017. The Legislature may not spend principal of the Legacy Fund unless the spending is approved by at least two-thirds of the members of both houses, and no more than fifteen percent of the principal may be spent in any one biennium. Earnings of the Legacy Fund will be transferred to the State's general fund at the end of each biennium, beginning July 1, 2017. The Legacy Fund will be invested by the State Investment Board.

It is anticipated that the Sixty-second Legislature may make adjustments to certain existing statutory allocations of oil and gas tax revenues in 2011 to account for the tax revenues which will now flow to the Legacy Fund under Constitutional Measure No. 1. However, until the Legislature meets and passes any pertinent legislation, the amounts and types of adjustments to these current statutory allocations is unknown.

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				
	2005	2006	2007	2008	2009
Revenues					
Taxes	$ 920,483,441	$1,024,290,569	$1,048,546,194	$1,168,668,839	$1,236,569,455
Licenses & Permits	11,660,028	13,337,932	13,011,468	15,345,521	14,041,483
Intergovernmental	370,966	1,093,183	335,345	368,696	499,011
Sales and Services	2,752,748	2,305,360	3,151,572	2,809,050	3,715,595
Royalties and Rents	12,557,991	15,775,549	15,576,939	19,630,605	31,680,880
Fines and Forfeits	4,569,233	3,828,833	4,457,854	1,571,851	4,031,692
Interest and Investment Income	3,534,498	11,911,653	23,850,653	21,797,601	11,798,140
Miscellaneous	1,068,326	1,400,655	2,772,730	1,791,609	1,420,715
TOTAL REVENUES	$ 956,997,231	$1,073,943,734	$1,111,702,755	$1,231,983,772	$1,303,756,971
Expenditures					
General Government	$ 72,951,885	$ 75,798,797	$ 81,728,009	$ 84,855,934	$ 153,986,572
Education	317,689,823	323,743,430	332,596,256	362,903,584	388,901,838
Health and Human Services	195,598,382	245,661,049	244,003,697	289,443,175	263,307,026
Regulatory	7,489,639	7,289,926	8,015,052	8,654,600	8,264,935
Public Safety and Corrections	59,733,615	74,543,947	71,556,195	90,261,595	100,686,357
Agriculture and Commerce	10,665,863	11,658,558	11,293,690	18,108,382	13,374,239
Natural Resources	11,773,878	8,259,124	8,141,708	16,700,918	15,465,496
Transportation	--	542,303	7,884	550,000	--
Capital Outlay	5,500,031	5,343,699	15,939,929	10,009,068	16,210,390
Debt Service	754,326	782,825	1,263,809	4,669,463	4,344,005
TOTAL EXPENDITURES	$ 682,157,442	$ 753,623,658	$ 774,546,229	$ 886,156,719	$ 964,540,858
Other Financing Sources (Uses)					
Operating Transfers In	$ 72,592,324	$ 58,029,999	$ 119,494,575	$ 129,290,011	$84,765,607
Operating Transfers Out	(263,851,137)	(233,274,780)	(241,022,534)	(325,821,306)	(344,762,727)
Operating Transfers to Component Units	--	--	--	--	--
Other	1,483,845	4,683,354	926,419	180,191	58,585
Total Other Financing Sources (Uses)	$(189,774,968)	$(170,561,427)	$ (120,601,540)	$ (196,351,104)	$ (259,938,535)
Revenues and Other Sources Over Expenditures and Other Uses	85,064,821	149,758,649	216,554,986	149,475,949	79,277,578
Beginning Cash Balance	196,754,913	265,178,246[1]	421,908,429[2]	638,463,415	787,939,364
FUND BALANCE – END OF YEAR	$ 281,819,734	$ 414,936,895	$ 638,463,415	$ 787,939,364	$ 867,216,942

(1) The beginning fund balance was restated by $1,384,000 due to an error in the cash reconciliation and $15,258,000 due to a change in the revenue recognition accounting policy to sixty days after fiscal year end. Previously the period of availability extended to one year after fiscal year end.

(2) The beginning fund balance was restated in total by $6,971,000 due to the error in the cash reconciliation being in error last year and reversed this year, correction in reporting of certain cash and fees in certain funds and a change in accounting policy regarding donated vaccines.

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 2004 through Fiscal Year 2010 (dollars in millions).

Quarter	Fiscal 2005[1]	Fiscal 2006	Fiscal 2007[2]	Fiscal 2008	Fiscal 2009[3]	Fiscal 2010
First	$139.5	$83.7	$194.9	$208.2	$430.2	$562.5
Second	128.2	36.5	211.2	289.0	429.9	416.0
Third	213.6	89.9	256.6	304.3	488.1	290.5
Fourth	68.5	217.1	333.2	474.9	593.8	412.4

(1) Pursuant to NDCC 54-27.2-02, $99.5 million of the general fund balance was transferred to the budget stabilization fund.
(2) Pursuant to NDCC 54-27.2-02, $100.5 million of the general fund balance was transferred to the budget stabilization fund.
(3) Pursuant to NDCC 54-27.2-02, $124.9 million of the general fund balance was transferred to the budget stabilization fund.

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 2001 to 2003, 2003 to 2005, 2005 to 2007 and 2007 to 2009.

	2001-03	2003-05	2005-07	2007-09
Cash Balance Beginning July 1	$ 334,139,162	$ 263,523,268	$ 504,227,060	$ 804,012,625
Collections	5,893,541,216	6,596,324,829	9,636,795,540	12,504,744,013
Transfer from Other Funds	0	0	(9,337,009,975)	(11,840,756,013)
Disbursements	(5,964,157,110)	(6,355,621,037)		
Transfer to Other Funds	0	0	$ 804,012,625	$ 1,468,000,625
Cash Balance Ending June 30	$ 263,523,268	$ 504,227,060	$ 504,227,060	$ 804,012,625

Source: Biennial Reports of the State of North Dakota, Office of the Treasurer; July 1, 2001 to June 30, 2003; July 1, 2003 to June 30, 2005; July 1, 2005 to June 30, 2007; and July 1, 2007 to June 30, 2009.

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2009-2011 General Fund Appropriations

Purpose		Appropriation
General Government		$ 269,297,379
Education:		1,743,835,733
Public Institutions and Other	$1,150,539,590	
Higher Education	593,296,143	
Health and Human Services		699,314,530
Regulatory		34,243,364
Public Safety		235,824,028
Agricultural, Economic Development, Extension and Research:		179,549,603
Extension and Research	$ 97,613,767	
Other Agricultural and Economic Development	81,935,836	
Natural Resources		82,700,844
Transportation		4,600,000
TOTAL		$3,249,365,481

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 2003-05, 2005-07 and 2007-09 biennia, and the State's Legislative forecast for the 2009-11 biennium are shown below. The 2009-11 Legislative forecast was prepared in May 2009. The State regularly updates its projected forecasts. As of December 2010, the projected forecast of general fund revenues for the 2009-11 biennium totaled $2,978,638,819, an increase of more than $20 million from the Legislative forecast.

Revenue Source	2003-2005 Actual Collections	2005-2007 Actual Collections	2007-2009 Actual Collections	2009-2011 Legislative Forecast
Sales and Use Tax	$ 717,758,293	$ 841,930,866	$1,046,485,684	$1,109,974,800
Motor Vehicle Excise Tax	128,010,103	125,722,268	130,151,534	86,978,250
Individual Income Tax	452,547,326	587,659,377	681,703,888	655,508,000
Corporate Income Tax	102,926,972	232,294,310	239,695,937	239,110,000
Business Privilege Tax	4,958,673	9,702,362	10,486,495	9,500,000
Cigarette and Tobacco Tax	39,476,712	44,683,370	45,230,771	45,428,000
Oil and Gas Production Tax	45,534,044	45,970,447	39,309,315	39,309,315
Oil Extraction Tax	25,465,956	25,029,553	31,690,685	31,690,685
Coal Conversion Tax	47,196,831	49,217,864	49,438,952	45,005,000
Insurance Premium Tax	56,284,535	52,873,010	64,388,601	66,000,000
Wholesale Liquor Tax	11,889,465	12,787,869	14,076,919	13,644,000
Gaming Tax	20,850,911	17,986,019	20,042,392	16,799,316
Lottery	7,269,005	12,600,000	11,055,000	11,155,000
Departmental Collections	61,004,537	54,024,228	62,143,185	60,961,920
Interest Income	6,935,015	36,507,217	49,506,190	27,000,000
Mineral Leasing Fees	11,024,583	13,960,279	25,306,589	22,715,000
Bank of North Dakota Transfers	60,000,000	60,000,000	60,000,000	1,000,000
State Mill Transfers	5,000,000	5,000,000	0	4,735,836
Student Loan Trust Fund Transfers	26,258,969	0	0	0
Oil Tax Trust Fund Transfer	0	55,300,000	115,000,000	0
Gas Tax Administration	1,396,200	0	0	1,288,000
Federal Fiscal Relief Payments	56,456,581	0	0	0
Other Transfers(1)	65,153,319	34,410,132	19,551,243	470,000,000
Total	$1,953,398,031	$2,317,659,171	$2,715,263,379	$2,957,803,122

(1) 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 for the 2005-07 biennium include $6,800,000 from the Land and Mineral Trust Fund, $55,300,000 from the Permanent Oil Tax Trust Fund, $100,000 from the Compulsive Gambling Fund, $16,900,000 from the Health Care Trust Fund and $210,132 from miscellaneous transfers. Other transfers for the 2007-2009 biennium include $15,000,000 from the Lands and Minerals Trust Fund and $115,000,000 from the Permanent Oil Tax Trust Fund. Other transfers for the 2009-2011 biennium include $35,000,000 from the Land and Minerals Trust Fund and $435,000,000 from the Permanent Oil Tax 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 2003-05, 2005-07, 2007-09 and 2009-11 biennia is presented below:

	2003-2005 Legislative Appropriation	2005-2007 Legislative Appropriation	2007-2009 Legislative Appropriation	2009-2011 Legislative Appropriation
General Fund	$1,803,661,161	$1,989,452,623	$2,461,973,956	$3,249,365,481
Special Funds	3,255,788,235	3,763,221,167	4,020,515,084	5,598,909,384
Total	$5,059,439,396	$5,752,673,790	$6,482,489,040	$8,848,274,865

(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:

> 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 Legislature 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.
>
> The 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 became effective January 2006. An additional 1% sales tax on hotel and motel accommodations was adopted for the periods of July 1, 2003 through June 30, 2007. Receipts of this additional tax are intended 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.
>
> 2007 Session exempted coal for heating purposes and gradually reduced the sales tax rate on natural gas from two to one percent, with an exemption scheduled for January 1, 2009. The Legislative Assembly also exempted bingo cards from sales tax.

2009 Session exempted repair parts used in irrigation systems from sales and gross receipts Taxes. The sunset for the sales tax exemption for construction of wind-powered electrical generation facilities was extended from 2011 to 2015. A sales tax exemption was enacted for the sale of beneficiated coal.

Individual Income Tax. A tax on income (defined as federal taxable income with adjustments) is imposed upon individuals and fiduciaries. The 2009 rates and brackets for married taxpayers filing joint return are as follows:

	2009
Up to $56,750	Computed at 2.10%
$56,750 to $137,050	$1,191.75 plus 3.92% of excess over $56,750
$137,050 to $208,850	$4,339.51 plus 4.34% of excess over $137,050
$208,850 to $372,950	$7,455.63 plus 5.04% of excess over $208,850
Over $372,950	$15,726.27 plus 5.54% of excess over $372,950

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.

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.

The 2007 Legislative Assembly granted significant property tax relief in the form of income tax credits equal to ten percent of property taxes paid on residential, agricultural, and commercial property, up to $1000 for married joint filers. Legislation was enacted that eliminated up to $300 of the 'marriage penalty' contained in the state's income tax code. This will eliminate the entire 'marriage penalty' for an estimated 90% of the state's married workers.

The 2009 Legislative Assembly significantly reduced the individual income tax rates, starting with tax year 2009. The rates were reduced twelve percent in all tax brackets.

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.

The 2007 Legislative Assembly enacted legislation that made purchases of ambulances, and vehicles purchased by disabled veterans and qualifying residents of Indian reservations exempt from the motor vehicle excise tax.

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	2.6% 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		$1,595.00 + 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. The 2009 Legislative Assembly reduced the number of corporation income tax brackets from five to three and dropped the top rate one-tenth of one percent.

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 reenty 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.

The 2007 Legislative Assembly granted a rate reduction for qualifying oil produced in the newly developed Bakken Formation. This reduced rate is effective for the first 75,000 barrels of oil produced from a qualifying well.

The 2009 Legislative Assembly granted a new oil production incentive that provides for a reduced oil extraction tax rate of two percent for production from a horizontal well drilled and completed during the incentive period. The incentive "triggers on" when the average oil price is below $55 and "triggers off" when the average oil price is above $70. A qualifying well is allowed the reduced tax rate for the first 75,000 barrels of oil produced or the first $4.5 million in gross value, whichever occurs first.

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 will be 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 November 1, 2007, the balance in the Permanent Oil Trust Fund was $28.3 million. The beginning balance for the 2007-2009 biennium was $143.3 million. The $115 million transfer to the General Fund has been made leaving a balance of $28.3 million. The cap of $71 million for the 2007-2009 biennium was reached during the month of November, 2007 and oil taxes are now being deposited into the Permanent Oil Trust Fund.

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% on 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 .65 mill times 60% of installed capacity times the number of hours in the taxable period plus .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, 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 1000 cubic feet of gas produced for sale, whichever is greater. A plant which is designed for coal beneficiation is taxed at the rate of $.20 on each ton of beneficiated coal produced for sale or 1.25% of gross receipts, whichever is greater. This tax is collected on a monthly basis. A newly constructed coal conversion facility is exempt from the State's share of the coal conversion tax for five years and may be exempted from all or part of the county's share by resolution of the county commissioners.

Coal Severance Tax. This tax applies to coal severed from the ground for sale or for industrial purposes. Effective July 1, 2001, there is a $0.375 per ton tax with an additional $.02 per ton to be deposited into the Lignite Research Fund. 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¢ per package is imposed on cigarettes with 41¢ per package going to the State General Fund and 3¢ per package to cities on a population basis. A tax equal to 28% of the wholesale price or, for loose tobacco, a unit excise tax per ounce, for tobacco products other than cigarettes, 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. Five-sevenths of the amount collected is distributed to counties and two-sevenths is distributed to the general fund.

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

Gaming Tax. A gaming tax is levied on the total adjusted gross proceeds from games of chance conducted by various licensed organizations. The tax rate is 5% for the first $200,000 of adjusted gross proceeds, increasing to a maximum rate of 20% for adjusted gross proceeds in excess of $600,000. In addition, a 4.5% excise tax is imposed on gross proceeds from pull tabs.

Mineral Leasing Fees. This fee represents the money the State receives for the lease of the State's mineral interests. As of June 30, 2009, the State had rights to approximately 2,550,071 acres, of which approximately 44.7% was under lease.

Fuel Taxes. North Dakota generally imposes a tax of 23 cents per gallon an 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, 2006 TO 2010

TAX TYPE	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Sales and Use Taxes[1]	$ 495,565,242	$ 555,981,644	$ 611,082,615	$ 683,389,622	$ 684,133,784
Oil Extraction Tax	61,767,934	67,187,829	182,366,018	185,814,920	280,611,437
Gross Production Tax	104,378,689	118,782,343	209,457,069	221,462,334	302,099,211
Motor Fuels Taxes	134,124,474	139,970,254	144,008,968	144,609,484	151,731,474
Individual Income Tax	274,621,741	318,433,494	308,889,352	378,135,463	304,252,924
Corporation Income Tax	111,789,587	119,955,749	140,737,698	98,958,239	87,874,592
Coal Taxes[2]	39,799,251	40,900,014	39,047,086	41,640,124	37,660,601
All Other Taxes and Fees[3]	147,982,117	158,545,771	165,693,036	177,761,931	183,685,599
Total Net Collections	$1,370,029,036	$1,519,757,098	$1,801,281,842	$1,931,772,117	$2,032,049,622

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

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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 December 1, 2010 Bonds as follows:

2002 Series A:	
4.625% to 5.125% Serial Bonds, due December 1, 2011-2017	1,025,000[1]
5.20% Term Bond, due December 1, 2019	--[1]
5.25% Term Bond, due December 1, 2022	--[1]
2002 Series C:	
4.00% to 4.30% Serial Bonds, due August 15, 2011-2014	4,180,000
2002 Series D:	
4.00% to 4.50% Serial Bonds, due December 1, 2011-2016	7,915,000
2003 Series B:	
3.00% to 3.70% Serial Bonds, due December 1, 2011-2015	3,495,000
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:	
4.00% to 5.25% Serial Bonds, due December 1, 2011-2013	7,505,000
2005 Series A	
4.25% to 4.50% Serial Bonds, due December 1, 2011-2024	34,500,000
2006 Series A	
4.00% Serial Bonds, due December 1, 2011-2019	7,330,000
2006 Series B	
4.00% to 4.25% Serial Bonds, due December 1, 2011-2022	9,650,000
Total Outstanding (Excluding the Bonds)	**$81,785,000**

(1) 2002 Series A Bonds Maturing on December 1, 2012 through 2022 will be refunded by the 2010 Series B Bonds on December 1, 2011.

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 2001A Bonds are expected to be advance refunded, on December 1, 2010, by the 2006B Bonds.

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 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 were called on December 1, 2004 at a price 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.

The 2005A Bonds were issued to finance the acquisition, improving, equipping or construction of certain facilities for the Office of Management and Budget, the Office of the Attorney General, the North Dakota State Board of Higher Education, the North Dakota Department of Corrections and Rehabilitation, the North Dakota State Historical Society and the North Dakota Parks and Recreation Department.

The 2006A Bonds were issued to advance refund all of the outstanding maturities of the 1998 Series A Bonds totaling $6,285,000 and the 2000 Series A Bonds totaling $3,665,000 and. The 1998 Series A Bonds and 2000 Series A Bonds were called on December 1, 2008 and December 1, 2009, respectively.

The 2006B Bonds were issued to advance refund all of the outstanding maturities of the 2001 Series A Bonds totaling $9,405,000. The 2001 Series A Bonds will be called December 1, 2010.

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 November 1, 2010 is shown below:

	Outstanding
State of North Dakota Student Loan	$ 13,200,000
North Dakota Public Finance Authority(1)	151,605,000
North Dakota Housing Finance Agency	1,049,460,000
North Dakota State Board of Higher Education(2)	218,648,488
North Dakota State Water Commission(3)	91,251,759
North Dakota Department of Transportation	41,675,000
Total	$1,565,840,247

(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.

(2) As of June 30, 2010. Unaudited.

(3) A portion of the outstanding North Dakota State Water Commission Bonds is 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 three-quarters of the State's annual agricultural productivity; livestock makes up the rest.

Cash receipts for 2009 from the marketing of crops and livestock in the State totaled over $6.449 billion, as compared to $7.629 billion in 2008. 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 30.9% of the total cash receipts in 2008. Oil crops ranked second, with 21.8% of the total and feed crops ranked third with 19.3% of the total.

Below is a table which lists the major crops of North Dakota in 2009, 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 2009

Crop	Rank in Nation	Percent of U.S. Production
All Wheat	1st	17%
Durum Wheat	1st	56%
Spring Wheat	1st	50%
Barley	1st	35%
Flaxseed	1st	95%
All Sunflower	1st	43%
Sunflower, Oil	1st	45%
Sunflower, Non-Oil	1st	36%
All Dry Edible Beans	1st	34%
Pinto Beans	1st	56%
Navy Beans	1st	38%
Canola	1st	90%
Dry Edible Peas	1st	67%
Oats	3rd	12%
Sugar Beets	3rd	16%
Lentils	1st	44%

Source: North Dakota Agricultural Statistics Service.

North Dakota 2008 Cash Receipts From Crops and Livestock ($000)

	Receipts
Crops	$6,717,004
Livestock	912,352
Total Crops & Livestock	$7,629,356
Government Payments	510,590
TOTAL	$8,139,946
Five Leading Commodities	
Wheat	$2,514,691
Cattle/Calves	705,903
Soybeans	1,095,688
Corn	1,089,492
Barley	383,031

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 North Dakota's oil and gas was discovered in 1951 and has been produced in 19 counties from an estimated 935 separate pools. North Dakota's crude oil production reached its first peak in 1966 when 27 million barrels of oil were produced. Production 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 a peak in 1984 at 52.7 million barrels.

A downward slide in crude oil production began in 1985 and 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 lagged because of low oil prices through much of the 1990's and early 2000's. Beginning in 2005, the middle member of the Bakken Formation and upper part of the Three Forks Formations became targets for new horizontal drilling technology and completion techniques that have resulted in record breaking levels of daily (341,385 bbls/day) and monthly production (10,241,555 barrels in September 2010). These developments have made North Dakota the nation's 4th largest oil-producing state.

The latest surge in North Dakota oil production began with the development to the Parshall Field in Mountrail County. This development was the direct result of the application of new drilling strategies and stimulation technologies. Oil production before the Bakken boom in 2005 was over 35 million bbls of oil which made North Dakota the 9th largest oil producing state in the United States. In contrast, over 81 million bbls of oil have been produced as of October of this year. Most of this production is from wells drilled since 2005 into the Bakken source system which makes North Dakota the 4th largest oil producing state in the union with 164 actively drilling rigs.

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 2009, coal production was approximately 32 million tons. North Dakota ranks as one of the 12 major 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%
2009	646,844	--

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.

Total average nonagricultural employment in the State in 2009 was approximately 349,562. Below is a table with North Dakota annual nonagricultural employment for the years 2005 through 2009.

North Dakota Annual Average Total Nonagricultural Employment

	2005	2006	2007	2008	2009
Construction	20,300	18,265	19,067	20,582	20,558
Educational and Health Services	49,000	48,078	48,920	50,154	51,260
Financial Activities	19,050	15,358	15,903	16,352	16,286
Government	66,050	64,115	64,047	64,345	65,844
Information	7,750	7,489	7,590	7,430	7,487
Leisure and Hospitality	32,450	31,573	32,886	33,564	33,943
Manufacturing	26,400	26,009	26,043	26,363	23,550
Natural Resources & Mining	4,450	7,575	8,180	10,004	10,371
Other Services	14,900	11,154	11,336	11,494	11,296
Professional and Business Services	27,450	31,671	32,832	33,743	32,448
Retail Trade	42,000	43,223	43,105	43,138	42,775
Transportation, Warehousing and Utilities	13,300	12,153	12,469	13,406	13,569
Wholesale Trade	19,000	19,057	19,331	19,866	20,175
Employment	342,100	335,720	341,709	350,441	349,562

Source: North Dakota Job Service.

Annual Average
Unemployment Rates

	2004	2005	2006	2007	2008	2009
United States	5.5%	5.0%	4.6%	4.6%	5.8%	9.3%
North Dakota	3.4%	3.4%	3.2%	3.1%	3.2%	4.3%
Bismarck MSA	3.0%	2.5%	2.8%	2.8%	3.0%	4.0%
Fargo MSA	3.2%	2.3%	2.7%	2.8%	3.0%	4.4%
Grand Forks MSA	3.7%	2.8%	3.5%	3.4%	3.6%	4.7%

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

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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

	1990	2000	2004	2005	2006	2007	2008	2009	2009 Rank
United States	$19,354	$30,318	$33,881	$35,424	$37,698	$39,392	$40,166	$39,626	--
North Dakota	15,866	25,624	30,334	32,346	33,585	36,678	39,879	40,727	17th
Other Northern Plains States									
Minnesota	19,710	32,597	37,069	37,978	39,975	41,693	42,953	41,859	14th
Iowa	17,350	27,293	31,689	32,331	33,885	35,755	37,509	37,623	27th
South Dakota	16,075	26,427	32,144	33,117	33,718	36,428	38,644	38,208	25th
Montana	15,346	23,470	28,616	30,144	32,177	33,927	34,622	34,794	35th

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Taxable Sales and Purchases

Below is a table which sets forth the taxable sales and purchases within the State of North Dakota by sales category for the calendar years 2005-2009.

Sales Category	2005	2006	2007	2008	2009
Mining, Construction, & Manufacturing	$ 921,516,160	$ 1,087,763,103	$ 1,365,150,196	$ 2,101,349,303	$ 1,783,584,979
Transportation, Communication, & Public Utilities[1]	915,437,434	954,523,004	442,079,107	654,070,303	489,144,528
Wholesale & Retail Trade	5,123,530,026	5,505,283,812	5,972,395,410	7,012,587,128	6,748,360,197
Services	1,558,601,437	1,688,764,982	1,413,161,243	1,479,230,174	1,542,498,356
Accommodation & Food Service	--	--	1,058,245,321	1,149,837,849	1,179,623,344
Other	47,865,825	47,955,072	--	--	--
Total	$8,566,950,882	$9,284,289,973	$10,251,031,277	$12,397,074,757	$11,743,211,404

(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 Indentures and a Form of the Loan Agreement

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$_____________
NORTH DAKOTA BUILDING AUTHORITY
TAXABLE FACILITIES IMPROVEMENT BONDS
(RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS)
2010 SERIES A

TRUST INDENTURE

between

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

and

BANK OF NORTH DAKOTA
as Trustee

Dated as of December 1, 2010

Cook Wegner PC
3801 Lockport Street, Suite 2
Bismarck, North Dakota 58503

Arntson & Stewart, P.C.
51 Broadway, Suite 603
Fargo, North Dakota 58102

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PREAMBLE

THIS TRUST INDENTURE dated as of December 1, 2010, 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 (capitalized terms used herein shall have 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 Agency 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 the Loan Agreement with the Agency with respect to the Project that provides for, among other items, Loan Payments payable in amounts and at times which shall be adequate to pay the principal of and interest on the Bonds; and

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

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

WHEREAS, Recovery Zone Economic Development Bonds are authorized by the American Recovery and Reinvestment Tax Act of 2009, enacted on February 17, 2009 and the Issuer determines that it is in the best interest of the Issuer and the Agency to issue the Bonds as Recovery Zone Economic Development Bonds; 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, Taxable Facilities Improvement Bonds (Recovery Zone Economic Development Bonds), 2010 Series A". The aggregate principal amount of Bonds that may be authenticated and delivered under this Indenture is limited to and shall not exceed $______________.

The Bonds shall be dated December 28, 2010, 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 Schedule 1 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 in Schedule 1 hereto. 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 to (i) finance in part construction of the Project set out in Senate Bill No. 2025 enacted by the Sixty-first Legislative Assembly of the State, (ii) capitalize interest, (iii) fund the Reserve Account and (iv) pay Costs of Issuance.

Section 2.03. Deposit of Bond Proceeds. The $_____________ principal amount of the Bonds, less an Underwriters Discount of $____________ plus a net premium of $______________ and accrued interest of $_________, shall be deposited with the Trustee as follows:

(a) To the Bond Account:

(b) To the Reserve Account $

(c) To the Administration Account $

(d) To the Project Account: $

Section 2.04. Form of Bonds. The Bonds shall be in substantially the form of Attachment 1 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 signature of each of the members of the Commission, with the official seal of the Commission (or a facsimile thereof) impressed, imprinted or otherwise reproduced thereon, and attested by the manual or facsimile signature of the Executive Director and 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 Attachment 1 attached hereto executed by the Trustee by the manual signature of one of its authorized officers, and such certificate upon any Bond shall be conclusive evidence that the Bond has been duly authenticated and delivered hereunder. It shall not be necessary that the same officer or employee sign the certificate of authentication on all of the Bonds.

Section 2.06. Elections for Recovery Zone Economic Development Bonds. The Issuer hereby makes an irrevocable election to have Section 54AA and Section 1400U-2 of the Code apply to the Bonds, in order to designate the Bonds as Recovery Zone Economic Development Bonds pursuant to Section 1400U-2(b)(1)(B) and Section 54AA(d)(1)(C) of the Code. The Issuer hereby makes an irrevocable election to have Subsection 54AA(g) of the Code apply to the Bonds, in order to designate the Bonds as qualified bonds pursuant to Section 54AA(g)(2)(B) and Section 1400U-2(b)(1)(B) of the Code. In support of such elections, it is hereby found, determined and declared that:

(1) the Bonds are not private activity bonds and the interest on the Bonds would (but for this election) be excludable from gross income under Section 103 of the Code;

(2) the Bonds are issued after February 17, 2009 and before January 1, 2011;

(3) no more than 2% of the proceeds of the Bonds will be used to finance costs of issuance of the Bonds;

(4) the issue price of the Bonds does not have more than a de minimis amount of premium over the stated principal amount of the Bonds;

(5) 100% of the available Project proceeds of the Bonds, less amounts in a reasonably required reserve, are to be used for capital expenditures which are not working capital expenditures.

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, at a Redemption Price equal to the greater of (plus accrued interest thereon to the Redemption Date):

(a) the initial reoffering price of the Bonds to be redeemed; or

(b) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 50 basis points (0.50%).

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. The Redemption Price will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the Issuer at the Issuer's expense. The Issuer may conclusively rely on such determination of the Redemption Price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

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 Schedule 1 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 Schedule 1.

(b) Extraordinary Optional Redemption – Event of Damage. 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 Agreement. 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.

(c) Extraordinary Optional Redemption – Determination of Ineligibility. At the option of the Issuer, the Bonds are subject to extraordinary redemption in whole, but not in part, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed or the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 100 basis points, plus accrued interest to the redemption date, upon or on any date after the occurrence of a Determination of Ineligibility. A "Determination of Ineligibility" means (i) the enactment of legislation or the adoption of final regulations or a final decision, ruling or technical advice by any federal judicial or administrative authority which would have the effect of deeming, determining or rendering the Bonds not qualified for treatment as qualified Recovery Zone Economic Development Bonds Code under Sections 1400U-1 through 1400U-2; (ii) the federal government discontinues the Recovery Zone Economic Development Bonds direct payment program with retroactive applicability to bonds issued prior to the date of such discontinuance (including the Bonds); or (iii) the receipt by the Issuer of a written opinion of nationally recognized bond counsel to the effect that the Bonds are not qualified Recovery Zone Economic Development Bonds under Code Sections 1400U-1 through 1400U-2.

Section 3.03. Selection of Bonds for Redemption. If less than all of the Outstanding Bonds of like maturity are to be redeemed, the particular Bonds or portions of Bonds to be redeemed shall be selected by the Trustee at random in such manner as the Trustee in its discretion may deem fair and appropriate in the circumstances.

In making the selection, the Trustee shall treat each Bond to be redeemed as representing that number of Bonds of the lowest authorized denomination as is obtained by dividing the principal amount of the Bond by the denomination. If any Bond is to be redeemed in part, the portion to be so redeemed shall be in a principal amount of any authorized denomination.

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.

Section 3.04. 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.

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 Agreement 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 Project Costs. 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 Project Costs except proceeds of the Bonds, any grant proceeds, and Net Proceeds of insurance or Condemnation awards received pursuant to Article IX of the Loan Agreement.

The moneys in the Project Account shall be held in trust by the Trustee and applied to the payment of the Project Costs 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. Project Costs Defined. For the purposes of this Article, the Project Costs shall include the items listed in the definition of such term in Article I of the Loan Agreement.

Section 4.03. Payments from Project Account. Each of the payments to be made by the Trustee for Project Costs 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 Project Costs properly incurred, or the reimbursement to the Agency or others for payments made for Project Costs 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. 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 State legislative assembly. 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 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 Project Costs not then due and payable or the liability for which is being contested in good faith by the Agency) shall be, without further authorization, first transferred to the Rebate Account to the extent of Excess Earnings remaining in the Project Account and then transferred to the corresponding Account within the Bond Account and applied by the Trustee solely as follows, (i) to purchase Outstanding Bonds at a price not to exceed the optional Redemption Price of such Bonds, or (ii) to redeem Bonds on the first date on which redemption can be made, or (iii) to pay Debt Service on the Bonds.

ARTICLE V
ACCOUNTS; DISPOSITION OF PLEDGED REVENUE

Section 5.01. Bond Account. The Issuer covenants that it will establish and maintain or cause to be established and maintained, so long as any of the Bonds are Outstanding, with the Trustee a separate Account to be designated the Bond Account which shall be held by the Trustee in trust for application only in accordance with the provisions of this Indenture.

The Trustee shall deposit into the Bond Account (i) the amount of Bond proceeds representing any accrued interest paid on the Bonds on the date of purchase by the Original Purchaser, (ii) Loan Payments received by the Trustee pursuant to the Loan

Agreement, (iii) any Balance remaining in the Administration Account relating to the Bonds as required by Section 5.06 hereof, (iv) investment earnings as provided in Section 5.03 hereof, (v) the money authorized to be transferred from the Reserve Account hereunder, (vi) money transferred pursuant to Sections 3.01 and 3.02 hereof for redemption of the Bonds, and (vii) any other moneys required by the terms of this Indenture to be deposited in the Bond Account or paid to the Trustee under the Loan Agreement or this Indenture for credit to the Bond Account, including capitalized interest.

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

The Recovery Zone Economic Development Bonds tax credits are pledged to the payment of the Bonds and shall be received by the Trustee and deposited in the Bond Account.

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. Any interest or profit derived from investments shall be credited to the Rebate Account, the Bond Account or as otherwise directed by 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 or as otherwise directed by the Issuer. 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 Agreement prior to the next Interest Payment Date. The Trustee shall redeem or sell, at the best price obtainable, any obligations so purchased, whenever it shall be necessary to do so in order to provide moneys to meet any payment from the Bond Account. The Issuer shall direct the Trustee to, or in the absence of direction the Trustee shall, invest and reinvest the moneys in any Account or any combination of Accounts in Permitted Investments so that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended. If such Permitted Investments include any book entry government securities, the Trustee shall have such Permitted Investments held in the name of the Trustee at the appropriate Federal Reserve Bank. The Trustee shall sell at the best price obtainable in accordance with usual and customary trust department procedures, or present for redemption, any Permitted Investments purchased by it as an investment whenever it shall be necessary to provide moneys to meet any payment from such Account. Neither the Trustee nor the Issuer shall be liable for any loss resulting from any such investment, nor from failure to preserve rights against endorsers or other prior parties to instruments evidencing any such investment. Investment of funds pursuant to this Section shall be limited as to amount and Yield of investment in such manner that no part of the Outstanding Bonds shall be deemed "arbitrage bonds" under Section 148 of the Code and regulations promulgated thereunder, and in accordance with the Tax Certificate.

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

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

Section 5.06. Administration Account. The Issuer covenants that it will establish and maintain, so long as any of the Bonds are Outstanding, with the Trustee an Account to be designated the Administration Account. The Trustee shall, upon delivery of the Bonds to the Original Purchaser thereof and from Bond proceeds, credit to the Administration Account the amount specified in Section 2.03 hereof. The Trustee shall also credit to the Administration Account all amounts received pursuant to Section 5.4 (a), (b) and (c) of the Loan Agreement.

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, wire or other electronic transfer, 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 Fund. All Accounts created by this Indenture shall be Accounts within the Building Authority Fund as established by NDCC Section 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 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 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 Agreement. It will not modify or amend or consent to modification or amendment of the provisions of the Loan Agreement without the consent and approval of the Trustee. The consent of the Trustee may be given, if in its judgment the Bondholders will not be prejudiced thereby. The Issuer shall take such action or cause and permit the Trustee to take such action as may be necessary or advisable to enforce the covenants, terms and conditions of the Loan Agreement, if such action shall, in its discretion, be deemed to be in the best interest of the Issuer or the Bondholders. The Issuer shall do or cause to be done all things on its part under the Loan Agreement so that the obligations of the Agency there under shall not be impaired or excused.

Section 6.03. Appropriation Request. It will, upon notification from the Trustee, request that the State legislative assembly include in the executive budget of the State sufficient moneys for the payment of Loan Payments pursuant to the Loan Agreement, if the Agency has failed to comply with the requirements of Section 2.4 of the Loan Agreement 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 Loan Agreement.

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 Agreement 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 required by Section 9.2 of the Loan Agreement, 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 Agreement, 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 Agreement, 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 Agreement, 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 Section 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 State legislative assembly pursuant to NDCC Section 54-17.2-13, 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.

Section 6.10. Special Covenant; Recovery Zone Economic Development Bonds. The Issuer covenants to take all steps and actions necessary to preserve the status of the Bonds as Recovery Zone Economic Development Bonds under the Code, and to refrain from taking any steps or actions that would impair or call into question the status of the Bonds as Recovery Zone Economic Development Bonds under the Code. The yield on the Bonds shall be reduced by the tax credit allowed under Section 6431 of the Code. As a condition for their designation as Recovery Zone Economic Development Bonds, the Bonds shall meet all requirements for the exclusion of interest from gross income under Section 103 of the Code. The Issuer and the Agency shall comply with requirements necessary under the Code to establish and maintain the status of the Bonds as Recovery Zone Economic Development Bonds which are qualified bonds, including requirements relating to the exclusion from gross income under Section 103 of the Code of the interest on the Bonds but for their election of Recovery Zone Economic Development Bonds, including without limitation (i) requirements relating to temporary periods for investments, (ii) limitations on amounts invested at a yield greater than the yield on the Bonds, and (iii) the rebate of excess investment earnings to the United States.

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 Agreement 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 State legislative assembly.

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

Section 7.02. Acceleration of Maturity. Upon the occurrence of a Default in Payment, the Trustee may, by notice in writing delivered to the Issuer and the Agency declare the principal of all then Outstanding Bonds immediately due and payable, and such principal shall thereupon become and be immediately due and payable. Upon the occurrence of any Event of Default other than a Default in Payment, the Trustee shall at the written request of the Owners of not less than twenty- five percent (25%) in aggregate principal amount of Bonds then Outstanding, by similar notice declare the principal of all Bonds then Outstanding immediately due and payable, and such principal shall thereupon become and be immediately due and payable.

The Owners of a majority in aggregate principal amount of Bonds then Outstanding hereunder shall have the right, by written notice to the Issuer and to the Trustee, to annul any such declaration and destroy its effect at any time if all covenants with respect to which the Default shall have been made shall be fully performed or made good, and all arrears of Debt Service on all Bonds then Outstanding hereunder and the reasonable expenses and charges of the Trustee, its agents and attorneys, and all other obligations secured hereby (except the principal of any Bonds which have not then attained their Stated Maturity and interest accrued on such Bonds since the last Interest Payment Date) shall be paid, or the amount thereof shall be paid to the Trustee for the benefit of those entitled thereto. Upon any such declaration of acceleration, the Trustee shall draw upon amounts as shall be necessary to pay the Debt Service on the Bonds at the date fixed for the payment thereof, pursuant to Section 7.04 hereof, and moneys from other sources which have been deposited with the Trustee.

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

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

Section 7.04. Application of Moneys. In the event that at any time the moneys held by the Trustee shall be insufficient for the payment of the Debt Service then due on the Bonds, such moneys (other than moneys held for the payment or redemption of particular Bonds) and all revenues of the Issuer and other of its moneys received or collected for the benefit or for the account of Owners of the Bonds by the Trustee shall be applied first to the payment of any rebate owed to the United States Treasury and thereafter as follows:

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

(b) In case the principal of all of the Bonds shall have become due and payable, by declaration or otherwise and remain unpaid, all such moneys shall be applied to the payment of the Debt Service then due and unpaid upon the Bonds without preference of principal over interest or interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

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

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

Section 7.05. Right of Trustee to Act without Possession of Bonds. All rights of action (including the right to file proof of claim) under this Indenture or under any of the Bonds, may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceeding relating thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee, without the necessity of joining as plaintiffs or defendants any Owners of the Bonds hereby secured, and any recovery of judgment shall be for the equal benefit of the Owners of the Outstanding Bonds.

Section 7.06. Power of Majority of Bondholders. The Owners of a majority in aggregate principal amount of Bonds then Outstanding hereunder shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken hereunder; provided that such direction shall not be otherwise than in accordance with the provisions of law and that the Trustee shall be indemnified as provided in Section 8.06 hereof.

Section 7.07. Limitation on Suit by Bondholders. No Owner of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of this Indenture or for the execution of any trust hereof or for any other remedy hereunder, unless a Default has occurred of which the Trustee has been notified or of which it is deemed to have notice; nor unless also such Default shall have become an Event of Default and the Owners of twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding hereunder shall have made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers herein above granted or to institute such action, suit or proceeding in its own name; nor unless also they shall have offered to the Trustee indemnity as provided hereinafter, except as otherwise required by Section 7.02 hereof; and such notification, request and offer of indemnity are hereby declared in every such case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of this Indenture, and to any action or cause of action for enforcement or for any other remedy hereunder, except as otherwise required by Section 7.02 hereof; it being understood and intended that no one or more Owners of the Bonds shall have any right in any manner whatsoever to affect, disturb, or prejudice the lien of this Indenture by his or their action or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal benefit of the Owners of all Bonds Outstanding hereunder. Nothing in this Indenture contained shall, however, affect or impair the right of any Bondholder, which is absolute and unconditional, to enforce and bring suit for the payment of the Debt Service on any Bond at and after the Maturity thereof or the obligations of the Issuer to pay the Debt Service on each of the Bonds issued hereunder to the respective Owners thereof at the time and place in said Bonds, in accordance with the terms of the Bonds.

Section 7.08. Waiver by Bondholders. The Trustee, upon the written request of the Owners of not less than a majority in principal amount of the Bonds at the time Outstanding hereunder, shall waive any Default hereunder and its consequences, except a Default in the payment of the principal of the Bonds at the date of Maturity specified therein; provided, however, that a Default in the payment of interest on the Bonds shall not be waived unless, prior to such waiver, all arrears of interest, and all expenses of the Trustee shall have been paid or shall have been provided for by deposit with the Trustee of a sum sufficient to pay the same. In case of any such waiver, the Issuer, the Agency, the Trustee and the Owners of the Bonds shall be restored to their former positions and rights hereunder respectively. No such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

Section 7.09. Remedies Cumulative, Delay Not to Constitute Waiver. No remedy by the terms of this Indenture conferred upon or reserved to the Trustee (or the Bondholders) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

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

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

Section 7.10. Restoration of Rights upon Discontinuance of Proceedings. In case the Trustee or Bondholders shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned for any reason, or shall not have been determined adversely to the Trustee or Bondholders, then and in every such case the Agency, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder with respect to the Trust Estate, and all rights, remedies and powers of the Trustee and the Bondholders shall continue as if no such proceedings had been taken.

ARTICLE VIII
THE TRUSTEE, PAYING AGENT AND REGISTRAR

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

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

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

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

(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 Trustee may be removed (i) at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the Bondholders representing a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Issuer and (ii) by the Issuer at any time except during the continuance of an Event of Default for such cause as shall be determined in the sole discretion of the Issuer by filing with the Trustee notice of removal in the form of an Issuer Certificate. 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 Agreement.

ARTICLE IX
CONCERNING THE BONDHOLDERS

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

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

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

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

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

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

ARTICLE X
PAYMENT, DEFEASANCE AND RELEASE

Section 10.01. Payment and Discharge of Indenture. If the Issuer shall pay or provide for the payment of the entire indebtedness on all Bonds in any one or more of the following ways:

(a) pay or cause to be paid the Debt Service on the Bonds at the time and in the manner stipulated therein and herein, or

(b) provide for the payment of Debt Service on the Bonds by depositing with the Trustee, at any time before Maturity, amounts sufficient, either in cash or in direct obligations of the United States of America (which do not permit the redemption thereof at the option of the issuer) and the Debt Service on which when due and payable and without consideration of any reinvestment thereof shall be sufficient, to pay the entire amount due or to become due thereon for Debt Service to Maturity of all the Bonds Outstanding, or

(c) deliver to the Trustee (1) proof satisfactory to the Trustee that notice of redemption of all of the Outstanding callable Bonds not surrendered or to be surrendered to it for cancellation has been given or waived as provided in Article III hereof, or that arrangements satisfactory to the Trustee have been made insuring that such notice will be given or waived, or (2) an Issuer Resolution under its official seal and expressed to be irrevocable, authorizing the Trustee to give such notice for and on behalf of the Issuer, or (3) a waiver of such notice of redemption signed by the Owners of all such Outstanding Bonds, and in any such case, deposit with the Trustee before the date on which such notice is to be given as provided in Article III, cash or direct obligations of the United States of America (which do not permit the redemption thereof at the option of issuer) in such aggregate face amount, bearing interest at such rates and maturing at such dates as shall be sufficient to provide for the payment of such Redemption Price on the date such Bonds are to be redeemed, and on such prior dates when Debt Service on the Outstanding Bonds is due and payable, or

(d) surrender to the Trustee for cancellation all Bonds for which payment is not so provided, and shall also pay all other sums due and payable hereunder by the Issuer,

then and in that case, all the Trust Estate shall revert to the Issuer and the Agency as their interest may appear, and the entire estate, right, title and interest of the Trustee and of the Owners of the Bonds in respect thereof shall thereupon cease, determine and become void; and the Trustee in such case, upon the cancellation of all Bonds for the payment of which cash or securities shall have been deposited in accordance with the provisions of this Indenture, shall, upon receipt of a written request of the Issuer and of a Certificate of the Issuer and an opinion of Bond Counsel as to compliance with conditions precedent, and at its cost and expense, execute to the 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 discharge of the Indenture will not call into question the status of the Bonds as Recovery Zone Economic Development Bonds 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.

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 call into question the status of the Bonds as Recovery Zone Economic Development Bonds.

ARTICLE XI
SUPPLEMENTAL INDENTURES

Section 11.01. Purposes for which Supplemental Indentures may be Executed. The Issuer, upon resolution, and the Trustee from time to time and at any time, subject to the conditions and restrictions in this Indenture, may enter into such indentures supplemental hereto as may or shall by them be deemed necessary or desirable without the consent of any Bondholder for any one or more of the following purposes:

(a) To add to the covenants and agreements of the Issuer in this Indenture, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Issuer or to or upon any successor;

(b) To evidence the succession or successive successions of any other department, agency, body or corporation to the Issuer and the assumption by such successor of the covenants, agreements and obligations of the Issuer in the Bonds hereby secured and in this Indenture and in any and every supplemental indenture contained or the succession, removal or appointment of any Trustee, Registrar or Paying Agent hereunder;

(c) To cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indentures which may be defective or inconsistent with any other provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under this Indenture or any supplemental indenture as the Issuer may deem necessary or desirable and which shall not be inconsistent with the provisions of this Indenture or any supplemental indenture and which shall not impair the security of the same;

(d) To modify, eliminate and/or add to the provisions of this Indenture to such extent as shall be necessary to maintain the exempt status of this Indenture from the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter enacted; and

(e) To make such other modifications or amendments which are determined by the Trustee not to be prejudicial to the rights of the Trustee or the Owners of the Bonds.

Section 11.02. Execution of Supplemental Indenture. The Trustee is authorized to join with the Issuer in the execution of any such supplemental indenture, to make the further agreements and stipulations which may be therein contained, and accept the conveyance, transfer and assignment of any property thereunder, but the Trustee shall not be obligated to enter into any such supplemental indenture which affects its rights, duties or immunities under this Indenture.

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

Section 11.04. Modification of Indenture with Consent of Bondholders. Exclusive of supplemental indentures covered by Section 11.01 hereof and subject to the terms and provisions contained in this Section, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, to consent to and approve the execution by the Issuer and the Trustee of such indenture or indentures supplemental hereto as shall be deemed necessary or desirable by the Issuer for the purpose of modifying, altering, amending, adding to or rescinding in any particular, any of the terms or provisions contained in this Indenture or in any supplemental indenture; provided, however that nothing herein contained shall permit or be construed as permitting, without the consent of the Owners of each such Bond which would be affected thereby, (a) an extension of the Maturity of any Bond issued hereunder, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of revenues ranking prior to or on a parity with the lien or pledge created by this Indenture, or (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required to consent to supplemental indentures or amendments to the Loan Agreement or (f) a reduction in the aggregate principal amount of the Bonds required to waive an Event of Default.

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

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

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

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

ARTICLE XII
AMENDMENTS TO LOAN AGREEMENT

Section 12.01. Amendments to Loan Agreement Not Requiring Consent of Bondholders. The Issuer, the Agency, and the Trustee may without the consent of or notice to the Bondholders consent to any amendment, change or modification of the Loan Agreement as may be deemed necessary or desirable (i) by the provisions of the Loan Agreement and this Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission, or (iii) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Owners of the Bonds.

Section 12.02. Amendments to Loan Agreement Requiring Consent of Bondholders. Except for the amendments, changes or modifications as provided in Section 12.01 hereof, neither the Issuer nor the Trustee shall consent to any other amendment, change or modification of the Loan Agreement, without the written approval or consent of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, subject to the provisions of Section 12.03 hereof. If the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding hereunder at the time of the execution of any such amendment, change or modification shall have consented to and approved the execution thereof as herein provided, no Owner of any Bond shall have any right to object to any of the terms and provisions contained therein, or in the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee, the Issuer or the Agency from executing the same or from taking any action pursuant to the provisions thereof.

Section 12.03. No Amendment May Reduce Loan Payments. Under no circumstances shall any amendment to the Loan Agreement reduce the Loan Payments payable under the Loan Agreement to an amount which together with the credits against Loan Payments provided for in Section 5.8 of the Loan Agreement is less than the amount necessary to pay Debt Service on the Bonds without the consent of the Owners of all the Bonds then Outstanding.

ARTICLE XIII
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 Agreement, when mailed registered or certified mail, return receipt requested, postage prepaid (except as otherwise provided in this Indenture) (with a copy to the other parties) at the following addresses (or such other address as may be provided by any party by notice) and shall be deemed to be effective upon receipt:

To the Issuer:	North Dakota Building Authority State Capitol, 14th Floor 600 East Boulevard Avenue Bismarck, ND 58505-0840 Attn: Executive Director, Industrial Commission
To the Trustee:	Bank of North Dakota 1200 Memorial Highway PO Box 5509 Bismarck, ND 58506-5509 Attn: Trust Department
To the Agency:	Veterans Home Governing Board 1400 Rose Street PO Box 673 Lisbon, ND 58054 Attn: Administrator

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 Section 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; provided, however, that to be binding on successor Holders, the consent of the registered Holder must be executed within forty-five (45) days of the date of mailing the request for consent to the registered Holder.

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 Recovery Zone Economic Development Bonds 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.

Section 13.14. Payable Tax Credits. Sections 1400U-2(a) and 6431 of the Code provide that the issuer of Recovery Zone Economic Development Bonds which are qualified bonds and for which the Issuer in Section 2.06 has made the irrevocable elections required by law, shall be allowed a credit with respect to each interest payment date under such bonds, which shall be payable by the Secretary of the Treasury. The Secretary of the Treasury shall pay (contemporaneously with each interest payment date under such bonds) to the issuer of such bonds (or to any person who makes such interest payments on behalf of the issuer) 45% of the interest payable under such bonds on such date. The Issuer and the Agency shall take such actions as are necessary to timely apply for and receive such credits, including filing Form 8038-B with respect to the Bonds and Form 8038-CP for credit payments to issuers of qualified bonds with respect to each interest payment on the Bonds. The Recovery Zone Economic Development Bonds tax credits are pledged to the payment of the Bonds.

IN WITNESS WHEREOF, the parties hereto have caused this TRUST INDENTURE 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 S. Dalrymple III, Governor
Chairman

ATTEST:

____
Karlene K. Fine
Executive Director and Secretary

(S E A L)

BANK OF NORTH DAKOTA
Bismarck, North Dakota, as Trustee

By_______________________________

Title_____________________________

DEFINITIONS

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

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

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

"**Act**" means NDCC Chapter 54-17.2 and Senate Bill No. 2025 adopted by the Sixty-first Legislative Assembly of the State.

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

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

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

"**Agency**" means the Veterans Home Governing Board.

"**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 NDCC Chapter 6-09 and any other board, body, commission or agency succeeding to the functions thereof under this Indenture.

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

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

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

"**Bond Fees**" means the fees, costs and expenses of the Trustee and Paying Agent, Independent Accountants, Bond Counsel or Registrar incurred by the Issuer including the NDBA Fee in carrying out and administering its powers, duties and functions under this Indenture and the Loan Agreement.

"**Bond Resolution**" means the General Authorization Resolution of the Issuer adopted by the Issuer on December 1, 2010, 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, Taxable Facilities Improvement Bonds (Recovery Zone Economic Development Bonds), 2010 Series A" described in this Indenture, and any additional bonds authorized to be issued hereunder and any bonds issued to refund the Bonds in whole or in part.

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

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

"**Certificate**" means a certification in writing required or permitted by the provisions of the Loan Agreement or this Indenture, signed and delivered to the Trustee or other proper person or persons. If and to the extent required by the provisions of Section 1.02 hereof, each Certificate shall include the statements provided for in Section 1.02.

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

"**Code**" means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

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

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

"**Costs of Issuance**" means all items of expense directly or indirectly payable by or reimbursable to the 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.

"**Event of Nonappropriation**" means the event described in Section 5.9 of the Loan Agreement.

"**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 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, 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.

"**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 Agreement**" means the Loan Agreement dated as of December 1, 2010, between the Issuer and the Agency.

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

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

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

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

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

"**NDCC**" means the North Dakota Century Code.

"**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 _________________________________.

"**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**" means the project described in the 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.

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

"**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 least 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. The amount may be recalculated after every principal payment and the amount on deposit in the Reserve Account may be reduced to the newly calculated amount at the option of the Issuer. For the purposes of this definition, the Debt Service on the Bonds shall be reduced by the amount of the Recovery Zone Economic Development Bonds federal interest subsidy payments.

"**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 Schedule 1 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 Code.

"**Term Bonds**" means any Bonds designated as such in Schedule 1 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.

"**Treasury Rate**" means, with respect to any redemption date for a particular Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity, excluding inflation indexed securities (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the redemption date to the maturity date of the Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

"**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.

Schedule 1

$_____________
NORTH DAKOTA BUILDING AUTHORITY
TAXABLE FACILITIES IMPROVEMENT BONDS
(RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS)
2010 SERIES A

MATURITIES, AMOUNTS AND INTEREST RATES

$ SERIAL BONDS

Maturity _______1	Principal Amount	Interest Rate	Maturity _______1	Principal Amount	Interest Rate

$ TERM BONDS

$ @ % Term Bond Maturing _________ 1, 20__

Year	Principal Amount

BOND FORMS

R–1

NORTH DAKOTA BUILDING AUTHORITY
TAXABLE FACILITIES IMPROVEMENT BONDS
(RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS)
2010 SERIES A

BOOK ENTRY SERIAL BOND

Principal Amount: __________________ Dollars ($_______)

Registered Holder: Cede & Co.

Dated Date	Maturity Date	Interest Rate	CUSIP
December 28, 2010	December 1, 20__	_____%	

Interest Payment Dates	Initial Interest Payment Date	Registrar/Paying Agent
June 1 and December 1	June 1, 2011	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 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 "**Bonds**") issued by the Issuer in the initial aggregate principal amount of $_____________ under and pursuant to North Dakota Century Code Chapter 54-17.2 (the "**Act**"), the Trust Indenture dated as of December 1, 2010 (the "**Indenture**") and the General Authorization Resolution adopted December 1, 2010. 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 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.

Additional provisions of this Bond are contained on the reverse hereof and such provisions shall for all purposes have the same effect as though fully set forth at this place.

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.

THE ISSUER HAS ELECTED TO ISSUE THIS BOND AS A TAXABLE OBLIGATION, AND ACCORDINGLY THE INTEREST ON THE BOND IS INTENDED TO BE INCLUDED IN GROSS INCOME FOR FEDERAL INCOME TAX

PURPOSES. This Bond does not qualify for designation by the Issuer as a "qualified tax-exempt obligation" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

The Bonds 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 the Bonds are payable solely from the revenues derived by the Issuer pursuant to the Loan Agreement, as provided in the Indenture, and as provided in NDCC Chapter 54-17.2 and in Senate Bill No. 2025 adopted by the North Dakota Sixty-first Legislative Assembly. The issuance of the Bonds will not directly or indirectly or contingently obligate the Issuer or the State to levy or pledge any form of taxation whatever or to make any appropriation for their payment.

IN WITNESS WHEREOF, the Issuer has caused the 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 and Secretary

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

TAXABLE FACILITIES IMPROVEMENT BONDS
(RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS)
2010 SERIES A
BOOK ENTRY TERM BOND

Principal Amount: __________________ Dollars ($_______)
Registered Holder: Cede & Co.

Dated Date	Maturity Date	Interest Rate	CUSIP
December 28, 2010	December 1, 20__	_____%	

Interest Payment Dates	Initial Interest Payment Date	Registrar/Paying Agent
June 1 and December 1	June 1, 2011	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 15^{th} day of the month, whether or not a business day, immediately preceding each interest payment date) the Principal installments set forth on the reverse hereof and on the Maturity Date, unless redeemed prior thereto as provided in 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 "**Bonds**") issued by the Issuer in the initial aggregate principal amount of $_____________ under and pursuant to North Dakota Century Code Chapter 54-17.2 (the "**Act**"), the Trust Indenture dated as of December 1, 2010 (the "**Indenture**") and the General Authorization Resolution adopted December 1, 2010. 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 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, and

(iv) shall be subject to the payment of the sinking fund installments set out on the reverse hereof.

Additional provisions of this Bond are contained on the reverse hereof and such provisions shall for all purposes have the same effect as though fully set forth at this place.

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.

THE ISSUER HAS ELECTED TO ISSUE THIS BOND AS A TAXABLE OBLIGATION, AND ACCORDINGLY THE INTEREST ON THE BOND IS INTENDED TO BE INCLUDED IN GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. This Bond does not qualify for designation by the Issuer as a "qualified tax-exempt obligation" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

The Bonds 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 the Bonds are payable solely from the revenues derived by the Issuer pursuant to the Loan Agreement, as provided in the Indenture, and as provided in

NDCC Chapter 54-17.2 and in Senate Bill No. 2025 adopted by the North Dakota Sixty-first Legislative Assembly. The issuance of the Bonds will not directly or indirectly or contingently obligate the Issuer or the State to levy or pledge any form of taxation whatever or to make any appropriation for their payment.

IN WITNESS WHEREOF, the Issuer has caused the 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 and Secretary

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

Date	Principal Amount	Date	Principal Amount

†Final maturity.

$____________
NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT BONDS
2010 SERIES B

TRUST INDENTURE

between

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

and

BANK OF NORTH DAKOTA
as Trustee

Dated as of December 1, 2010

Cook Wegner PC
3801 Lockport Street, Suite 2
Bismarck, North Dakota 58503

Arntson & Stewart, P.C.
51 Broadway, Suite 603
Fargo, North Dakota 58102

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PREAMBLE

THIS TRUST INDENTURE dated as of December 1, 2010, 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 (capitalized terms used herein shall have 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 and Senate Bill No. 2025 enacted by the Sixty-first Legislative Assembly of the State of North Dakota, to issue and sell its bonds and lend the proceeds from the sale thereof to the Veterans Home Governing Board for the purpose of financing in part the construction of the North Dakota Veterans Home; and

WHEREAS, the Issuer issued the North Dakota Building Authority, Lease Revenue Bonds, 2002 Series A on April 10, 2002, in the original principal amount of $9,595,000 (the "**Prior Bonds**"); and

WHEREAS, the Issuer has deemed it advisable to advance refund in part the Prior Bonds (the "**Refunded Bonds**");

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

WHEREAS, the 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, the Issuer has entered into Loan Agreements with each Agency providing for, among other things, Loan Payments in amounts and at times which shall include amounts adequate to pay the principal of and interest on the Bonds when due; and

WHEREAS, the execution and delivery of this Indenture and the 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, 2010 Series B". The aggregate principal amount of Bonds that may be authenticated and delivered under this Indenture is limited to and shall not exceed $______________.

The Bonds shall be dated December __, 2010, 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 Schedule 1 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 in Schedule 1 hereto. 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 to (i) finance in part construction of the Project set out in Senate Bill No. 2025 enacted by the Sixty-first Legislative Assembly of the State, (ii) capitalize interest, (iii) fund the Reserve Account, (iv) pay Costs of Issuance and (v) advance refund the Refunded Bonds.

Section 2.03. Deposit of Bond Proceeds. The $_____________ principal amount of the Bonds, less an Underwriters Discount of $____________ plus a net premium of $______________ and accrued interest of $_________, shall be deposited with the Trustee as follows:

(a) To the Bond Account:

(b) To the Reserve Account

(c) To the Administration Account

(d) To the Project Account:

(e) To the Bank of North Dakota for deposit in the Escrow Account under the Escrow Agreement

Section 2.04. Form of Bonds. The Bonds shall be in substantially the form of Attachment 1 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 signature of each of the members of the Commission, with the official seal of the Commission (or a facsimile thereof) impressed, imprinted or otherwise reproduced thereon, and attested by the manual or facsimile signature of the Executive Director and 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 Attachment 1 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. The Bonds are not subject to optional redemption prior to maturity.

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 Schedule 1 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 Schedule 1.

(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. If less than all of the Outstanding Bonds of like maturity are to be redeemed, the particular Bonds or portions of Bonds to be redeemed shall be selected by the Trustee at random in such manner as the Trustee in its discretion may deem fair and appropriate in the circumstances.

In making the selection, the Trustee shall treat each Bond to be redeemed as representing that number of Bonds of the lowest authorized denomination as is obtained by dividing the principal amount of the Bond by the denomination. If any Bond is to be redeemed in part, the portion to be so redeemed shall be in a principal amount of any authorized denomination.

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.

Section 3.04. 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.

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

Section 4.03. Payments from Project Account. Each of the payments to be made by the Trustee for Project Costs 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 Project Costs properly incurred, or the reimbursement to the Agency or others for payments made for Project Costs 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. 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 State legislative assembly. 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 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 Loan Agreement I, any Balance remaining in the Project Account (except for amounts retained by the Trustee at the Agency's direction for any Project Costs not then due and payable or the liability for which is being contested in good faith by the Agency) shall be, without further authorization, first transferred to the Rebate Account to the extent of Excess Earnings remaining in the Project Account and then transferred to the corresponding Account within the Bond Account and applied by the Trustee solely as follows, (i) to purchase Outstanding Bonds at a price not to exceed the optional Redemption Price of such Bonds, or (ii) to redeem Bonds on the first date on which redemption can be made, or (iii) to pay Debt Service on the Bonds.

ARTICLE V
ACCOUNTS; DISPOSITION OF PLEDGED REVENUE

Section 5.01. Bond Account. The Issuer covenants that it will establish and maintain or cause to be established and maintained, so long as any of the Bonds are Outstanding, with the Trustee a separate Account to be designated the Bond Account which shall be held by the Trustee in trust for application only in accordance with the provisions of this Indenture.

The Trustee shall deposit into the Bond Account (i) the amount of Bond proceeds representing any accrued interest paid on the Bonds on the date of purchase by the Original Purchaser, (ii) Loan Payments received by the Trustee pursuant to the Loan Agreements, (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. Any interest or profit derived from investments shall be credited to the Rebate Account, the Bond Account or as otherwise directed by 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 or as otherwise directed by the Issuer. 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 Code and regulations promulgated thereunder, and in accordance with the Tax Certificate.

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

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

Section 5.06. Administration Account. The Issuer covenants that it will establish and maintain, so long as any of the Bonds are Outstanding, with the Trustee an Account to be designated the Administration Account. The Trustee shall, upon delivery of the Bonds to the Original Purchaser thereof and from Bond proceeds, credit to the Administration Account the amount specified in Section 2.03 hereof. The Trustee shall also credit to the Administration Account all amounts received pursuant to Section 5.4 (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, wire or other electronic transfer, 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 Fund. All Accounts created by this Indenture shall be Accounts within the Building Authority Fund as established by NDCC Section 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 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 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 Agreements, 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 State legislative assembly 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 Loan Agreements.

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 required by Section 9.2 of the Loan Agreements, 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 Section 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. <u>To Observe All Covenants and Terms; Limitations on Issuer's Obligations.</u> 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 State legislative assembly pursuant to NDCC Section 54-17.2-13, 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. <u>Events of Default</u>. 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 Agreements; 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 State legislative assembly.

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

Section 7.02. <u>Acceleration of Maturity</u>. 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 Agreements, 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 Agreements, except Default in the deposits or payments specified in the Loan Agreements, 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 Agreements, 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 Trustee may be removed (i) at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the Bondholders representing a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Issuer and (ii) by the Issuer at any time except during the continuance of an Event of Default for such cause as shall be determined in the sole discretion of the Issuer by filing with the Trustee notice of removal in the form of an Issuer Certificate. 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.

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 Agreements, shall not become effective unless and until the Agency shall consent to the execution and delivery of such supplemental indenture. The Issuer shall cause notice of the proposed execution and delivery of any such supplemental indenture of which the Agency has not already consented, together with a copy of the proposed supplemental indenture, to be mailed to the Agency at least thirty (30) days prior to the proposed date of execution and delivery of any such supplemental indenture.

ARTICLE XII
AMENDMENTS TO LOAN AGREEMENT

Section 12.01. Amendments to Loan 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. <u>No Amendment May Reduce Loan Payments</u>. 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. <u>Covenants of Issuer Bind Successors and Assigns</u>. 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. <u>Immunity of Officers</u>. 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. <u>No Benefits to Outside Parties</u>. 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. <u>Separability of Indenture Provisions</u>. 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. <u>Execution of Indenture in Counterparts</u>. 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. <u>Headings Not Controlling</u>. 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. <u>Notices to Trustee, Issuer, and Agency</u>. 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
1200 Memorial Highway
PO Box 5509
Bismarck, ND 58506-5509
Attn: Trust Department

To the Agency: Veterans Home Governing Board
1400 Rose Street
PO Box 673
Lisbon, ND 58054
Attn: Administrator

Job Service North Dakota
PO Box 5507
Bismarck, ND 58506-5507
Attn: Executive Director

North Dakota Department of Health
600 East Boulevard Avenue
Bismarck, ND 58505-0200
Attn: State Health Officer

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 Section 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 Agreements, 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; provided, however, that to be binding on successor Holders, the consent of the registered Holder must be executed within forty-five (45) days of the date of mailing the request for consent to the registered Holder.

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 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 S. Dalrymple, Governor

Chairman

ATTEST:

____
Karlene K. Fine
Executive Director and Secretary

(S E A L)

BANK OF NORTH DAKOTA
Bismarck, North Dakota, as Trustee

By_______________________________

Title_____________________________

DEFINITIONS

Defined Terms. Unless the context otherwise requires, the terms herein defined shall, for all purposes of this Indenture and of any indenture supplemental hereto, have the meanings herein specified. Any terms defined in the Loan Agreements, 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. 2025 adopted by the Sixty-first 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 the Veterans Home Governing Board, the North Dakota Department of Health and Job Service North Dakota.

"**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 NDCC Chapter 6-09 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 December 1, 2010, 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, 2010 Series B" described in this Indenture, and any additional bonds authorized to be issued hereunder and any bonds issued to refund the Bonds in whole or in part.

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

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

"**Certificate**" means a certification in writing required or permitted by the provisions of the 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.

"**Code**" means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

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

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

"**Costs of Issuance**" means all items of expense directly or indirectly payable by or reimbursable to the 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.

"**Event of Nonappropriation**" means the event described in Section 5.9 of the Loan Agreements.

"**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 Code and Section 1.148 of the Treasury Regulations.

"**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, 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.

"**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 Agreement I**" means the Loan Agreement dated as of December 1, 2010, between the Issuer and the Veterans Home Governing Board.

"**Loan Agreements**" means Loan Agreement I, and the Loan Agreements dated as of December 1, 2010, between the Issuer and the North Dakota Department of Health and Job Service North Dakota.

"**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.

"**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 ________________________________.

"**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.

"**Prior Bonds**" means North Dakota Building Authority, Lease Revenue Bonds, 2002 Series A.

"**Project**" or "**Projects**" means the project(s) described in the Loan Agreements 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.

"**Project Costs**" means the aggregate of all Project Costs as defined in Loan Agreement I.

"**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 least 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. The amount may be recalculated after every principal payment and the amount on deposit in the Reserve Account may be reduced to the newly calculated amount at the option of the Issuer.

"**Refunded Bonds**" means the portion of each outstanding maturity of the Prior Bonds allocable to the North Dakota Department of Health and Job Service North Dakota.

"**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 Schedule 1 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 Code.

"**Term Bonds**" means any Bonds designated as such in Schedule 1 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.

Schedule 1

$_____________
NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT BONDS
2010 SERIES B

MATURITIES, AMOUNTS AND INTEREST RATES

$ SERIAL BONDS

Maturity ______1	Principal Amount	Interest Rate	Maturity ______1	Principal Amount	Interest Rate

$ TERM BONDS

$ @ % Term Bond Maturing _________ 1, 20__

Year	Principal Amount

Attachment 1

BOND FORMS

R–1

NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT BONDS
2010 SERIES B

BOOK ENTRY SERIAL BOND

Principal Amount: __________________ Dollars ($_______)

Registered Holder: Cede & Co.

Dated Date	Maturity Date	Interest Rate	CUSIP
December 28, 2010	December 1, 20__	_____%	

Interest Payment Dates	Initial Interest Payment Date	Registrar/Paying Agent
June 1 and December 1	June 1, 2011	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 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 "**Bonds**") issued by the Issuer in the initial aggregate principal amount of $_____________ under and pursuant to North Dakota Century Code Chapter 54-17.2 (the "**Act**"), the Trust Indenture dated as of December 1, 2010 (the "**Indenture**") and the General Authorization Resolution adopted December 1, 2010. 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 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.

Additional provisions of this Bond are contained on the reverse hereof and such provisions shall for all purposes have the same effect as though fully set forth at this place.

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 part is payable solely from the revenues derived by the Issuer pursuant to the Loan</u>

Agreements, as provided in the Indenture, and as provided in NDCC Chapter 54-17.2 and in Senate Bill No. 2025 adopted by the North Dakota Sixty-first Legislative Assembly. The issuance of the Bonds will not directly or indirectly or contingently obligate the Issuer or the State to levy or pledge any form of taxation whatever or to make any appropriation for their payment.

IN WITNESS WHEREOF, the Issuer has caused the 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 and Secretary

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

NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT BONDS
2010 SERIES B

BOOK ENTRY TERM BOND

Principal Amount: __________________ Dollars ($_______)

Registered Holder: Cede & Co.

Dated Date	Maturity Date	Interest Rate	CUSIP
December 28, 2010	December 1, 20__	_____%	

Interest Payment Dates	Initial Interest Payment Date	Registrar/Paying Agent
June 1 and December 1	June 1, 2011	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 installments set forth on the reverse hereof and on the Maturity Date, unless redeemed prior thereto as provided in 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 "**Bonds**") issued by the Issuer in the initial aggregate principal amount of $_____________ under and pursuant to North Dakota Century Code Chapter 54-17.2 (the "**Act**"), the Trust Indenture dated as of December 1, 2010 (the "**Indenture**") and the General Authorization Resolution adopted December 1, 2010. 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 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, and

(iv) shall be subject to the payment of the sinking fund installments set out on the reverse hereof.

Additional provisions of this Bond are contained on the reverse hereof and such provisions shall for all purposes have the same effect as though fully set forth at this place.

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 part 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 Chapter 54-17.2 and in Senate Bill No. 2025 adopted by the</u>

North Dakota Sixty-first Legislative Assembly. The issuance of the Bonds will not directly or indirectly or contingently obligate the Issuer or the State to levy or pledge any form of taxation whatever or to make any appropriation for their payment.

IN WITNESS WHEREOF, the Issuer has caused the 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 and Secretary

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

Date	Principal Amount	Date	Principal Amount

†Final maturity.

LOAN AGREEMENT

between

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

and

STATE OF NORTH DAKOTA
VETERANS HOME GOVERNING BOARD

Dated as of December 1, 2010

NORTH DAKOTA BUILDING AUTHORITY
TAXABLE FACILITIES IMPROVEMENT BONDS
(RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS)
2010 SERIES A

NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT BONDS
2010 SERIES B

Cook Wegner PC
3801 Lockport Street, Suite 2
Bismarck, ND 58503

Arntson & Stewart, P.C.
51 Broadway, Suite 603
Fargo, North Dakota 58102

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RECITALS

THIS LOAN AGREEMENT dated as of December 1, 2010, is made and entered into between the **INDUSTRIAL COMMISSION OF NORTH DAKOTA, ACTING AS THE NORTH DAKOTA BUILDING AUTHORITY** (the "**Issuer**"), 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, and the **STATE OF NORTH DAKOTA, VETERANS HOME GOVERNING BOARD** (the "**Agency**").

North Dakota Century Code, Chapter 54-17.2 and Senate Bill No. 2025 enacted by the Sixty-first Legislative Assembly of the State of North Dakota (together the "**Act**"), empowers the Issuer to issue the Bonds and to loan the proceeds thereof for the purpose of financing in part the construction of the North Dakota Veterans Home (the "**Project**").

Pursuant to the Series A Indenture, the Issuer proposes to issue the Series A Bonds in the original principal amount of $___________, to provide funds which will be loaned to the Agency to pay Project Costs and to finance costs of issuance of the Bonds, capitalized interest, and the funding of a reserve fund. The Agency desires to use the proceeds of the Series A Bonds in accordance with the terms and conditions set forth in this Loan Agreement.

Pursuant to the Series B Indenture, the Issuer proposes to issue the Series B Bonds in the original principal amount of $______________, to provide, in part, funds which will be loaned to the Agency to pay Project Costs and capitalized interest, and to finance the Agency's proportionate share of the costs of issuance of the Series B Bonds and the funding of a reserve fund. The Agency desires to use the proceeds of the Series B 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 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 Series A Bonds and the Series B Bonds.

"**Bond Account**" means the bond accounts established in the Indenture.

"**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 Series A Indenture and the Series B Indenture.

"**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 of issuance of the Bonds, capitalized interest or the funding of a reserve fund.

"**Project**" means the construction and equipping of the North Dakota Veteran's Home located at 1400 Rose Street, Lisbon, ND 58054-4846.

"**Project Account**" means the project accounts established in the Indenture.

"**Project Costs**" means the cost of implementing the Project as is reasonably estimated and intended to be financed with the proceeds of the Bonds. Project Costs does not include the costs of issuance of the Bonds, capitalized interest or the funding of a reserve fund.

"**Reserve Account**" means the reserve accounts established in the Indenture.

"**Series A Bonds**" means the $_________ North Dakota Building Authority, Taxable Facilities Improvement Bonds (Recovery Zone Economic Development Bonds), 2010 Series A and any additional bonds authorized to be issued under the Series A Indenture and any bonds issued to refund the Series A Bonds in whole or in part.

"**Series A Indenture**" means the Trust Indenture relating to the Series A Bonds, dated as of December 1, 2010 and entered into between the Issuer and the Bank of North Dakota, as Trustee, as such Trust Indenture may be amended or supplemented from time to time in accordance with its terms.

"**Series B Bonds**" means the $_________ North Dakota Building Authority, Facilities Improvement Bonds, 2010 Series B and any additional bonds authorized to be issued under the Series B Indenture and any bonds issued to refund the Series B Bonds in whole or in part.

"**Series B Indenture**" means the Trust Indenture relating to the Series B Bonds, dated as of December 1, 2010 and entered into between the Issuer and the Bank of North Dakota, as Trustee, as such Trust Indenture may be amended or supplemented from time to time in accordance with its terms.

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 December 1, 2010, 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 Series B Bonds from the federal gross income of the Owners of the Series B Bonds. The Issuer covenants to take all steps and actions necessary to preserve the status of the Series A Bonds as Recovery Zone Economic Development Bonds under the Code, and to refrain from taking any steps or actions that would impair or call into question the status of the Series A Bonds as Recovery Zone Economic Development Bonds under the Code.

(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 Project Costs 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.

(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 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. The Agency shall not (i) use the facilities constructed or improved with its share of the proceeds of the Bonds for any private business purpose, or (ii) otherwise assign any rights under this Loan Agreement for any private business use, which would cause the interest payable on the Series B Bonds to be includable in the gross income of the Bondholders for federal income tax purposes or call into question the status of the Series A Bonds as Recovery Zone Economic Development Bonds, 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 State legislative assembly 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 Project Costs to be in the amount of $______________. The Agency estimates the total expenses associated with implementation of the Project and capitalized interest, not including the Agency's proportionate share of the costs of issuance of the Bonds or the funding of a reserve fund, 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 Project Costs to exceed the amount of the Project Costs 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 Series B Bonds to be includable in a Bondholder's gross income for federal income tax purposes or call into question the status of the Series A Bonds as Recovery Zone Economic Development Bonds.

(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 Project Costs 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 Project Costs 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 Project Costs, 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 Project Costs 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 Project Costs 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 Project Costs 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 Project Costs 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 Project Costs.

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 Project before December 28, 2013. 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 Project Costs 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 Project Costs 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 Project Costs 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 Project Costs and capitalized interest, and to finance the Agency's proportionate share of the costs of issuance of the Bonds and the funding of a reserve fund, 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 and capitalized interest, including the Agency's proportionate share of the costs of issuance of the Bonds and the funding of a reserve fund, 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 December 28, 2010, 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 State legislative assembly, or other legally available funds, on or before a date which is five Business Days prior to June 1, 2011, 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 the Agency's failure to pay Additional Payments as required by the Loan Agreement or to pay Loan Payments pursuant to the Loan Agreement, 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 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 State legislative assembly 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 State legislative assembly and paid by the Agency to the Issuer for such payment, 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, or 3) in regard to the Series A Bonds, from the Recovery Zone Economic Development Bonds tax credits. 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 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 Series B Bonds to become includable in gross income of the Bondholders for federal income tax purposes and will not cause the Series A Bonds to lose status as Recovery Zone Economic Development Bonds.

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 NDCC Section 28-26-04, 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 the Outstanding Bonds. If the Agency elects to rebuild, replace, or restore the facilities constructed or improved with the Agency's 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 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 State legislative assembly, 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 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:	Veterans Home Governing Board 1400 Rose Street PO Box 673 Lisbon, ND 58054 Attn: Administrator
Trustee:	Bank of North Dakota 1200 Memorial Highway PO Box 5509 Bismarck, ND 58506-5509 Attn: 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 Project 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 S. Dalrymple III, Governor
Chairman

Attest:

____
Karlene K. Fine
Executive Director and Secretary

(SEAL)

VETERANS HOME GOVERNING BOARD

____
Lyle Schuchard, Chairman

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APPENDIX C

Audited General Purpose Financial Statements of the State of North Dakota For the Fiscal Year Ended June 30, 2009

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Basic Financial Statements

STATE OF NORTH DAKOTA

Statement of Net Assets
June 30, 2009

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and Cash Equivalents	$ 11,679,678	$ 672,337,942	$ 684,017,620	$ 41,062,839
Investments	1,075,158,877	1,469,826,743	2,544,985,620	32,136,623
Accounts Receivable - Net	51,627,671	88,052,301	139,679,972	19,352,645
Taxes Receivable - Net	258,336,391	-	258,336,391	-
Interest Receivable - Net	8,454,593	46,271,118	54,725,711	85,229
Intergovernmental Receivable - Net	222,505,975	41,204,702	263,710,677	-
Internal Receivable	1,852,768,660	-	150,864,253	-
Due from Component Units	-	9,280,691	9,280,691	-
Due from Primary Government	-	-	-	62,770,818
Prepaid Items	5,853,792	1,709,625	7,563,417	-
Inventory	16,389,853	28,186,897	44,576,750	520,096
Loans and Notes Receivable - Net	107,099,366	2,642,104,559	2,749,203,925	11,677,758
Unamortized Bond Financing Costs	1,145,897	10,856,888	12,002,785	2,859,754
Pension Assets	2,471,502	-	2,471,502	-
Other Assets	-	10,507,424	10,507,424	28,032,015
Restricted Assets:				
Cash and Cash Equivalents	49,626	124,608,441	124,658,067	21,411,228
Investments	-	28,921,807	28,921,807	703,497,133
Interest Receivable - Net	-	3,515,000	3,515,000	4,133,000
Loans and Notes Receivable - Net	-	839,444,000	839,444,000	-
Capital Assets:				
Land and Construction in Progress	510,943,893	61,633,860	572,577,753	3,443,805
Infrastructure - Net	638,109,275	89,477,455	727,586,730	12,057,337
Buildings and Equipment - Net	393,598,527	683,984,820	1,077,583,347	109,681,005
Total Assets	5,156,193,576	6,851,924,273	10,306,213,442	1,052,721,285

*** An internal receivable balance remains in the Total column because certain Business-Type Activities have different fiscal year ends than the Governmental Activities. As internal balances are reported separately as internal receivables and internal payables, those lines, as well as the total assets and total liabilities, do not crossfoot.**

The Accompanying Notes are an Integral Part of the Financial Statements

STATE OF NORTH DAKOTA

Statement of Net Assets
June 30, 2009

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES				
Accounts Payable	187,401,654	36,215,738	223,617,392	8,053,737
Accrued Payroll	38,316,787	26,240,519	64,557,306	103,686
Securities Lending Collateral	72,571,905	61,204,672	133,776,577	-
Interest Payable	3,829,112	19,853,381	23,682,493	1,539,000
Intergovernmental Payable	65,871,655	4,090,249	69,961,904	-
Tax Refunds Payable	54,120,613	-	54,120,613	-
Internal Payable	-	1,701,904,407	-	-
Due to Component Units	-	4,047,936	4,047,936	-
Due to Primary Government	-	-	-	9,280,691
Contracts Payable	7,718,596	755,782	8,474,378	-
Federal Funds Purchased	-	300,945,000	300,945,000	-
Reverse Repurchase Agreements	-	3,075,000	3,075,000	-
Other Deposits	-	677,392,905	677,392,905	660,383
Amounts Held In Custody for Others	-	18,922,038	18,922,038	-
Unearned Revenue	11,647,777	93,863,880	105,511,657	6,881,475
Other Liabilities	-	10,947,684	10,947,684	28,521,176
Long-Term Liabilities				
Due within one year	28,680,366	144,711,826	173,392,192	17,340,835
Due in more than one year	297,351,491	2,104,812,792	2,402,164,283	256,165,048
Total Liabilities	767,509,956	5,208,983,809	4,274,589,358	328,546,031
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	1,323,476,716	578,827,822	1,902,304,538	102,924,608
Restricted for:				
General Government	1,440,757	-	1,440,757	-
Education	128,198,786	-	128,198,786	-
Health and Human Services	39,069,734	-	39,069,734	-
Regulatory Purposes	30,880,045	-	30,880,045	-
Public Safety & Corrections	35,834,415	-	35,834,415	-
Agriculture and Commerce	18,881,200	-	18,881,200	-
Cultural and Natural Resources	126,639,996	-	126,639,996	-
Transportation	188,880,963	-	188,880,963	-
Capital Projects	3,340,000	79,659	3,419,659	-
Debt Service	25,220,898	102,738,979	127,959,877	58,643,000
Loan Purposes	-	46,432,847	46,432,847	215,761,000
Pledged Assets	-	190,647,000	190,647,000	-
Unemployment Compensation	-	116,945,710	116,945,710	-
Permanent Fund and University System - Expendable	20,887,944	30,553,551	51,441,495	-
Permanent Fund and University System - Nonexpendable	879,305,267	11,920,629	891,225,896	-
Other	3,657,246	1,114,857	4,772,103	300,962,291
Unrestricted	1,562,969,653	563,679,410	2,126,649,063	45,884,355
Total Net Assets	$ 4,388,683,620	$ 1,642,940,464	$ 6,031,624,084	$ 724,175,254

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, 2009

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental Activities:				
General Government	$ 418,220,944	$ 24,085,311	$ 37,991,743	$ -
Education	564,818,600	4,325,036	69,947,510	-
Health and Human Services	1,005,299,226	34,200,110	694,183,117	7,000
Regulatory	26,581,606	19,418,470	3,095,779	-
Public Safety and Corrections	194,263,845	10,572,514	87,764,235	221,000
Agriculture and Commerce	68,057,495	22,749,832	22,169,064	-
Natural Resources	64,816,773	26,553,195	13,474,231	14,559,813
Transportation	382,619,328	87,100,993	203,212,452	42,276,911
Interest on Long Term Debt	12,683,901	-	-	-
Total Governmental Activities	2,737,361,718	229,005,461	1,131,838,131	57,064,724
Business-Type Activities:				
Bank of North Dakota	99,089,692	155,951,000	(5,310,000)	-
Housing Finance	59,769,233	53,438,021	13,635,000	-
Loan Programs	6,776,733	6,941,602	592,013	-
Mill and Elevator	233,792,242	224,127,818	27,178	-
State Lottery	16,122,996	21,815,381	38,239	-
Unemployment Compensation	106,475,262	75,137,232	6,023,243	-
University System	894,733,624	400,638,083	217,373,005	10,820,227
Workforce Safety & Insurance	168,527,183	163,857,781	(115,693,869)	-
Other	15,809,783	14,303,486	(2,526,628)	-
Total Business-Type Activities	1,601,096,748	1,116,210,404	114,158,181	10,820,227
Total Primary Government	$ 4,338,458,466	$ 1,345,215,865	$ 1,245,996,312	$ 67,884,951
Component Units:	$ 104,427,713	$ 58,560,007	$ (11,139,038)	$ -

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

Contributions to Perm Fund Principal

Special Item - Loss on Discontinuance of Computer Project

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
$ (356,143,890)		$ (356,143,890)	
(490,546,054)		(490,546,054)	
(276,908,999)		(276,908,999)	
(4,067,357)		(4,067,357)	
(95,706,096)		(95,706,096)	
(23,138,599)		(23,138,599)	
(10,229,534)		(10,229,534)	
(50,028,972)		(50,028,972)	
(12,683,901)		(12,683,901)	
(1,319,453,402)		(1,319,453,402)	
	51,551,308	51,551,308	
	7,303,788	7,303,788	
	756,882	756,882	
	(9,637,246)	(9,637,246)	
	5,730,624	5,730,624	
	(25,314,787)	(25,314,787)	
	(265,902,309)	(265,902,309)	
	(120,363,271)	(120,363,271)	
	(4,032,925)	(4,032,925)	
-	(359,907,936)	(359,907,936)	
(1,319,453,402)	(359,907,936)	(1,679,361,338)	
			$ (57,006,744)
503,975,529	-	503,975,529	-
857,770,891	-	857,770,891	-
428,669,882	-	428,669,882	-
60,813,632	-	60,813,632	-
12,830,321	-	12,830,321	-
30,990,193	-	30,990,193	-
54,636,981	-	54,636,981	-
11,573,541	-	11,573,541	8,246,062
(3,314,057)	-	(3,314,057)	-
(229,267,859)	270,189,481	40,921,622	-
1,728,679,054	270,189,481	1,998,868,535	8,246,062
409,225,652	(89,718,455)	319,507,197	(48,760,682)
3,979,457,968	1,732,658,919	5,712,116,887	772,935,936
$ 4,388,683,620	$ 1,642,940,464	$ 6,031,624,084	$ 724,175,254

Balance Sheet
Governmental Funds
June 30, 2009

	General	Federal	School Permanent Trust Fund	Other Governmental Funds	Total
ASSETS					
Cash Deposits at the Bank of ND	$ 585,968,025	$ -	$ 4,871,323	$ 1,011,928,975	$ 1,602,768,323
Cash and Cash Equivalents	5,710,517	15,762	-	5,926,946	11,653,225
Restricted Cash and Cash Equivalents	-	-	-	49,626	49,626
Investments at the Bank of ND	99,923,955	7,750,000	-	136,606,842	244,280,797
Investments	81,761,823	-	901,847,772	86,577,815	1,070,187,410
Accounts Receivable - Net	3,460,232	7,252,497	9,803,718	29,100,699	49,617,146
Taxes Receivable - Net	191,155,829	-	1,854,439	65,326,124	258,336,392
Interest Receivable - Net	97,245	-	7,306,563	996,232	8,400,040
Intergovernmental Receivable - Net	-	212,196,169	-	10,137,978	222,334,147
Due from Other Funds	101,045,606	13,725,077	2,043,566	66,443,781	183,258,030
Due from Fiduciary Funds	151,171	1,174,999	-	158,271	1,484,441
Prepaid Items	1,202,509	818,949	-	2,221,220	4,242,678
Inventory	2,845,591	6,086,735	-	7,351,222	16,283,548
Loans and Notes Receivable - Net	141,290	279,673	38,334,416	68,343,987	107,099,366
Total Assets	$ 1,073,463,793	$ 249,299,861	$ 966,061,797	$ 1,491,169,718	$ 3,779,995,169
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	$ 43,664,077	$ 105,971,754	$ 4,486,449	$ 31,327,368	$ 185,449,648
Accrued Payroll	19,680,488	8,718,799	-	8,107,008	36,506,295
Securities Lending Collateral	-	-	61,297,730	11,164,202	72,461,932
Interest Payable	-	-	-	290,263	290,263
Intergovernmental Payable	2,770,223	7,838,180	-	55,263,217	65,871,620
Tax Refunds Payable	53,317,541	-	-	803,072	54,120,613
Due to Other Funds	55,394,555	99,596,789	84,409	36,224,384	191,300,137
Contracts Payable	9,984	6,539,400	-	1,169,212	7,718,596
Deferred Revenue	31,409,983	16,977,693	-	33,153,600	81,541,276
Total Liabilities	206,246,851	245,642,615	65,868,588	177,502,326	695,260,380
Fund Balances:					
Reserved For:					
Inventory	2,845,591	6,086,735	-	7,351,222	16,283,548
Long - Term Receivables	75,454	166,566	-	61,901,185	62,143,205
Capital Projects	-	-	-	3,340,000	3,340,000
Debt Service	-	-	-	25,220,898	25,220,898
Prepaid Expenditures	1,202,509	818,949	-	2,221,220	4,242,678
Legal Requirements	-	-	-	14,611,223	14,611,223
Undistributed Revenue	-	-	7,306,562	-	7,306,562
Permanent Trust Fund	-	-	892,886,647	-	892,886,647
Unreserved, Reported in:					
General Fund	863,093,388	-	-	-	863,093,388
Special Revenue Funds	-	(3,415,004)	-	1,199,021,644	1,195,606,640
Total Fund Balances	867,216,942	3,657,246	900,193,209	1,313,667,392	3,084,734,789
Total Liabilities and Fund Balances	$ 1,073,463,793	$ 249,299,861	$ 966,061,797	$ 1,491,169,718	$ 3,779,995,169

The Accompanying Notes are an Integral Part of the Financial Statements

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2009

Total Fund Balances-Governmental Funds		$ 3,084,734,789
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 $4,235,960,037 and the accumulated depreciation is $2,768,654,623.		1,467,305,414
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.		69,893,499
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.		74,942,639
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.		1,106,000
The pension assets resulting from contributions in excess of annual required contribution are not financial resources and, therefore, are not reported in the funds.		2,471,500
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	(247,949,109)	
Notes Payable	(20,522,820)	
Accrued Interest on Long-Term Liabilities	(3,165,661)	
Compensated Absences	(34,080,137)	
Intergovernmental Payable	(504,739)	
Capital Leases	(3,662,211)	
Pension Obligation (Reported as Accounts Payable)	(214,386)	
Claims and Judgments	(1,671,158)	
Total Long-Term Liabilities		(311,770,221)
Net Assets of Governmental Activities		$ 4,388,683,620

The Accompanying Notes are an Integral Part of the Financial Statements

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2009

	General	Federal	School Permanent Trust Fund	Other Governmental Funds	Total
REVENUES					
Individual and Corporate Income Taxes	$ 492,125,666	$ -	$ -	$ 12,885,825	$ 505,011,491
Sales and Use Taxes	648,762,770	-	-	208,638,009	857,400,779
Oil, Gas, and Coal Taxes	53,168,841	-	17,686,968	357,773,973	428,629,782
Business and Other Taxes	42,512,178	-	-	18,505,454	61,017,632
Licenses, Permits and Fees	14,041,483	-	-	119,178,385	133,219,868
Intergovernmental	499,011	1,204,858,005	-	46,808,433	1,252,165,449
Sales and Services	3,715,595	3,796,238	-	41,359,867	48,871,700
Royalties and Rents	31,680,880	8,015	72,574,656	20,988,135	125,251,686
Fines and Forfeits	4,031,692	-	3,236,701	8,506,021	15,774,414
Interest and Investment Income	11,798,140	189,741	(129,908,272)	7,567,234	(110,353,157)
Tobacco Settlement	-	-	8,336,839	30,990,193	39,327,032
Commodity Assessments	-	-	-	16,502,864	16,502,864
Miscellaneous	1,420,715	502,976	-	3,939,953	5,863,644
Total Revenues	1,303,756,971	1,209,354,975	(28,073,108)	893,644,346	3,378,683,184
EXPENDITURES					
Current:					
General Government	153,986,572	3,100,917	-	7,974,910	165,062,399
Education	388,901,838	127,298,564	4,211,800	44,167,512	564,579,714
Health and Human Services	263,307,026	678,106,249	-	61,286,541	1,002,699,816
Regulatory	8,264,935	4,064,607	-	9,954,847	22,284,389
Public Safety and Corrections	100,686,357	51,129,437	-	35,243,433	187,059,227
Agriculture and Commerce	13,374,239	20,642,603	-	33,970,990	67,987,832
Natural Resources	15,465,496	14,237,465	-	28,730,204	58,433,165
Transportation	-	212,493,146	-	140,747,267	353,240,413
Intergovernmental - Revenue Sharing	-	-	-	253,363,580	253,363,580
Capital Outlay	16,210,390	65,423,082	-	32,246,113	113,879,585
Debt Service:					
Principal	3,492,402	341,792	-	16,372,999	20,207,193
Interest and Other Charges	851,603	81,522	-	11,347,531	12,280,656
Total Expenditures	964,540,858	1,176,919,384	4,211,800	675,405,927	2,821,077,969
Revenues over (under) Expenditures	339,216,113	32,435,591	(32,284,908)	218,238,419	557,605,215
OTHER FINANCING SOURCES (USES)					
Bonds and Notes Issued	-	-	-	3,005,000	3,005,000
Capital Lease Acquisitions	58,585	29,660	-	-	88,245
Sale of Capital Assets	-	-	11,800	74,825	86,625
Transfers In	84,765,607	9,202,293	-	184,265,987	278,233,887
Transfers Out	(344,762,727)	(37,912,452)	(35,600,000)	(89,226,567)	(507,501,746)
Total Other Financing Sources (Uses)	(259,938,535)	(28,680,499)	(35,588,200)	98,119,245	(226,087,989)
Net Change in Fund Balances	79,277,578	3,755,092	(67,873,108)	316,357,664	331,517,226
Fund Balances - Beginning of Year, as Adjusted	787,939,364	(97,846)	968,066,317	997,309,728	2,753,217,563
Fund Balances - End of Year	$ 867,216,942	$ 3,657,246	$ 900,193,209	$ 1,313,667,392	$ 3,084,734,789

The Accompanying Notes are an Integral Part of the Financial Statements

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, 2009

Net Change in Fund Balances-Total Governmental Funds		$ 331,517,226
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	113,879,585	
Depreciation expense	(54,990,948)	
Excess of capital outlay over depreciation expense		58,888,637
Construction in progress previously capitalized on the government wide and expensed in governmental funds. This construction in progress was written off in the current fiscal year on the government wide but does not affect the governmental funds.		(3,314,057)
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.		(1,246,657)
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.		312,832
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.		(88,245)
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.		(421,136)
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		6,858,499
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		(3,005,000)
The pension assets resulting from contributions in excess of annual required contribution are not financial resources and, therefore, are not reported in the funds.		98,177
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	16,217,000	
Note payments	3,203,326	
Capital lease payments	1,164,863	
Total long-term debt repayment		20,585,189
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	327,944	
Net increase/decrease in compensated absences	(1,591,486)	
Net increase/decrease in net pension obligation (reported as accounts payable	(112,756)	
Net increase/decrease in claims and judgments	416,485	
Total additional expenditures		(959,813)
Change in Net Assets of Governmental Activities		$ 409,225,652

The Accompanying Notes are an Integral Part of the Financial Statements

STATE OF NORTH DAKOTA

Statement of Net Assets
Proprietary Funds
June 30, 2009

	Business-Type Activities - Enterprise Funds							Governmental Activities
	Bank of North Dakota	Housing Finance	Mill and Elevator	University System	Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds
ASSETS								
Current Assets:								
Cash Deposits at the Bank of ND		$ 2,840,000	$ 46,725	$ 49,851,643	$ 2,030,233	$ 30,063,976	$ 84,832,577	$ 13,822,436
Cash and Cash Equivalents		92,000	-	9,837,092	-	109,685,850	119,614,942	26,453
Investments at the Bank of ND		-	-	95,428,748	25,761,995	11,051,000	132,241,743	-
Investments		-	-	2,760,815	1,110,726,761	21,724,114	1,135,211,690	4,971,458
Accounts Receivable - Net		549,000	30,430,826	21,022,999	17,739,055	18,241,116	87,982,996	526,085
Interest Receivable - Net		178,000	-	-	8,521,532	2,920,586	11,620,118	54,053
Intergovernmental Receivable - Net		157,000	-	36,749,624	-	4,298,078	41,204,702	171,828
Due from Other Funds		98,000	-	12,023,287	1,855	1,006,541	13,129,683	6,539,622
Due from Fiduciary Funds		-	-	-	-	69,305	69,305	-
Due from Component Units		-	-	5,612,691	-	-	5,612,691	-
Prepaid Items		46,000	475,820	-	62,411	1,125,394	1,709,625	1,611,114
Inventory		-	19,964,272	7,210,562	-	1,012,063	28,186,897	106,305
Loans and Notes Receivable - Net		-	-	8,715,134	-	9,462,261	18,177,395	-
Other Assets		452,000	-	2,284,199	-	-	2,736,199	-
Restricted Cash at the Bank of ND		10,542,000	-	-	-	3,279,949	13,821,949	191,977
Restricted Cash and Cash Equivalents		124,584,000	-	-	-	-	124,584,000	-
Restricted Investments at the Bank of ND		-	-	-	-	4,575,000	4,575,000	-
Restricted Interest Receivable - Net		3,515,000	-	-	-	-	3,515,000	-
Restricted Loans Receivable - Net		15,857,000	-	-	-	-	15,857,000	-
Total Current Assets		158,910,000	50,917,643	251,496,794	1,164,843,842	218,515,233	1,844,683,512	28,021,331
Noncurrent Assets:								
Restricted Cash at the Bank of ND		-	-	4,002,365	-	260,070	4,262,435	-
Restricted Cash and Cash Equivalents		-	-	24,441	-	-	24,441	-
Restricted Investments at the Bank of ND		-	-	6,262,965	-	-	6,262,965	-
Restricted Investments		13,345,000	-	15,361,119	-	215,688	28,921,807	-
Investments at the Bank of ND		-	-	35,893,634	-	-	35,893,634	-
Investments		-	-	6,867,053	-	-	6,867,053	-
Loans and Notes Receivable - Net		-	-	31,817,269	-	57,099,895	88,917,164	-
Restricted Loans Receivable - Net		808,387,000	-	-	-	15,200,000	823,587,000	-
Unamortized Bond Issuance Costs		7,143,000	-	3,620,327	-	93,561	10,856,888	39,897
Other Noncurrent Assets		3,033,000	269,721	254	-	2,766,250	6,069,225	-
Capital Assets:								
Land and Construction in Progress		-	2,599,407	47,676,888	7,912,533	2,274,032	60,462,860	58,904
Infrastructure - Net		-	853,041	87,636,889	-	987,525	89,477,455	-
Buildings and Equipment - Net		96,000	33,836,453	618,000,366	9,767,934	9,874,067	671,574,820	75,287,377
Total Noncurrent Assets		832,004,000	37,558,622	857,163,570	17,680,467	88,771,088	1,833,177,747	75,386,178
Bank Related Assets:								
Cash and Cash Equivalents	$ 552,723,000						$ 552,723,000	
Investments	327,748,000						327,748,000	
Interest Receivable - Net	34,651,000						34,651,000	
Due from Other Funds	47,882,000						47,882,000	
Due from Component Units	3,668,000						3,668,000	
Loans and Notes Receivable - Net	2,535,010,000						2,535,010,000	
Other Assets	1,702,000						1,702,000	
Capital Assets:								
Land and Construction in Progress	1,171,000						1,171,000	
Buildings and Equipment - Net	12,410,000						12,410,000	
Total Bank Related Assets	3,516,965,000						3,516,965,000	
Total Assets	3,516,965,000	990,914,000	88,476,265	1,108,660,364	1,182,524,309	307,286,321	7,194,826,259	103,407,509

The Accompanying Notes are an Integral Part of the Financial Statements

Statement of Net Assets
Proprietary Funds
June 30, 2009

	Business-Type Activities - Enterprise Funds							Governmental Activities
	Bank of North Dakota	Housing Finance	Mill and Elevator	University System	Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds
LIABILITIES								
Current Liabilities:								
Accounts Payable		1,044,000	4,304,453	22,212,668	4,563,677	4,090,940	36,215,738	1,735,671
Accrued Payroll		-	280,818	25,679,825	-	279,876	26,240,519	1,810,492
Securities Lending Collateral		-	-	-	60,747,094	457,578	61,204,672	109,963
Interest Payable		19,149,000	-	27,812	-	114,389	19,291,201	308,742
Intergovernmental Payable		544,000	-	169,563	-	4,102,249	4,815,812	35
Due to Other Funds		2,802,000	38,600,000	2,742,100	127,527	10,594,763	54,866,390	129,395
Due to Component Units		-	-	379,936	-	-	379,936	-
Contracts Payable		-	-	755,782	-	-	755,782	-
Other Deposits		-	-	8,511,531	-	-	8,511,531	-
Amounts Held in Custody for Others		10,542,000	-	-	-	8,380,038	18,922,038	-
Claims/Judgments Payable		-	-	-	96,250,000	868,653	97,118,653	1,896,767
Dividends Payable		-	-	-	1,644,630	-	1,644,630	-
Compensated Absences Payable		133,000	37,272	1,333,346	836,573	33,724	2,373,915	122,810
Notes Payable		-	-	951,999	-	-	951,999	1,049,917
Capital Leases Payable		-	-	8,576,442	-	24,716	8,601,158	161,389
Bonds Payable		19,480,000	-	8,488,908	-	190,000	28,158,908	654,108
Deferred Revenue		35,000	-	12,188,589	77,004,241	4,636,050	93,863,880	-
Total Current Liabilities		53,729,000	43,222,543	92,018,501	241,173,742	33,772,976	463,916,762	7,979,289
Noncurrent Liabilities:								
Intergovernmental Payable		1,612,000	-	1,362,405	-	4,877,778	7,852,183	-
Claims/Judgments Payable		-	-	-	675,650,000	75,534	675,725,534	4,174,325
Compensated Absences Payable		68,000	708,174	24,374,565	147,630	299,853	25,598,222	1,477,271
Notes Payable		-	-	2,291,179	-	-	2,291,179	4,950,083
Capital Leases Payable		-	-	59,312,871	-	182,538	59,495,409	296,921
Bonds Payable		830,106,000	-	177,309,988	-	15,967,277	1,023,383,265	2,922,538
Other Noncurrent Liabilities		-	-	1,373,787	-	5,870,897	7,244,684	-
Total Noncurrent Liabilities		831,786,000	708,174	266,024,795	675,797,630	27,273,877	1,801,590,476	13,821,138
Bank Related Liabilities:								
Interest Payable	428,482						428,482	
Due to Other Funds	23,931,518						23,931,518	
Due to Component Units	3,668,000						3,668,000	
Federal Funds Purchased	300,945,000						300,945,000	
Reverse Repurchase Agreements	3,075,000						3,075,000	
Deposits Held for Other Funds	2,017,227,840						2,017,227,840	
Other Deposits	624,460,160						624,460,160	
Other Liabilities	3,703,000						3,703,000	
Long Term Liabilities:								
Due within one year	5,137,000						5,137,000	
Due in more than one year	310,467,000						310,467,000	
Total Bank Related Liabilities	3,293,043,000						3,293,043,000	
Total Liabilities	3,293,043,000	885,515,000	43,930,717	358,043,296	916,971,372	61,046,853	5,558,550,238	21,800,427
NET ASSETS								
Invested in Capital Assets, Net of Related Debt	13,581,000	96,000	37,282,916	498,376,235	17,680,467	11,811,204	578,827,822	68,829,203
Restricted for:								
Capital Projects	-	-	-	79,659	-	-	79,659	-
Debt Service	-	89,748,000	-	11,785,221	-	1,205,758	102,738,979	-
Loan Purposes	-	-	-	45,827,764	-	605,083	46,432,847	-
Pledged Assets	190,647,000	-	-	-	-	-	190,647,000	-
Unemployment Compensation	-	-	-	-	-	116,945,710	116,945,710	-
University System-Nonexpendable	-	-	-	11,920,629	-	-	11,920,629	-
University System-Expendable	-	-	-	30,553,551	-	-	30,553,551	-
Other	-	-	-	117,403	-	997,454	1,114,857	-
Unrestricted	19,694,000	15,555,000	7,262,632	151,956,606	247,872,470	114,674,259	557,014,967	12,777,879
Total Net Assets	$ 223,922,000	$ 105,399,000	$ 44,545,548	$ 750,617,068	$ 265,552,937	$ 246,239,468	$ 1,636,276,021	$ 81,607,082

Reconciliation of the Proprietary Funds Statement of Net Assets to the Statement of Net Assets
June 30, 2009

Total Net Assets - Enterprise Funds	
Amounts reported for business-type activities in the statement of net assets are different because:	$ 1,636,276,021
Prior year net assets restatement and reduction of current year expenses based on the allocation of internal service fund's net income	6,664,443
Net Assets of Business-Type Activities	$ 1,642,940,464

The Accompanying Notes are an Integral Part of the Financial Statements

STATE OF NORTH DAKOTA

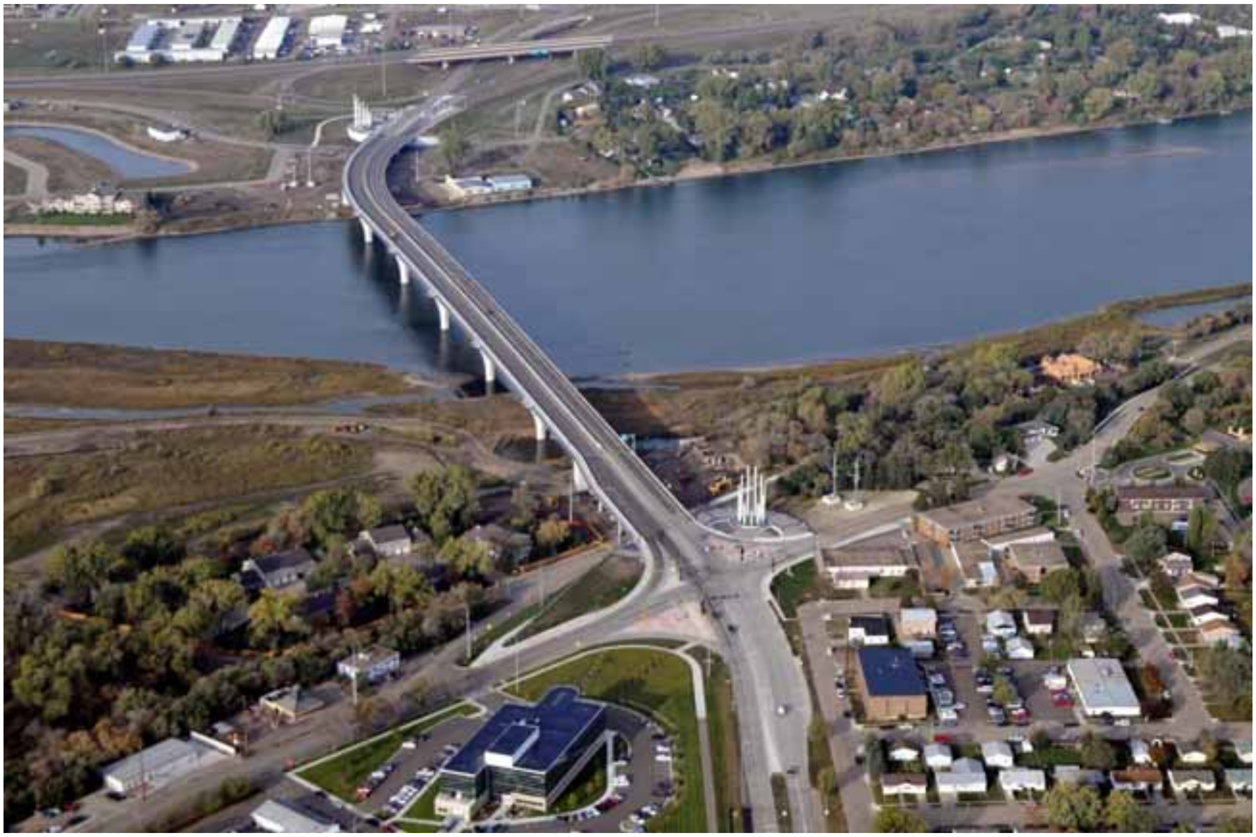
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2009

	Business-Type Activities - Enterprise Funds							Governmental Activities
	Bank of North Dakota	Housing Finance	Mill and Elevator	University System	Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES								
Sales and Services	$ 7,475,000	$ 1,572,000	$ 224,052,365	$ 57,477,025	$ 162,179,298	$ 114,488,417	$ 567,244,105	$ 83,794,546
Auxiliary Sales Pledges for Bonds	-	-	-	94,329,556	-	-	94,329,556	-
Tuition and Fees	-	-	-	244,594,116	-	-	244,594,116	-
Grants and Contributions	-	-	-	156,649,964	-	-	156,649,964	-
Royalties and Rents	-	-	-	-	759,180	71,608	830,788	-
Fines and Forfeits	-	-	-	-	919,303	-	919,303	-
Interest and Investment Income	143,166,000	51,866,021	-	-	-	3,631,792	198,663,813	-
Miscellaneous	-	-	-	1,553,886	-	1,384	1,555,270	296,821
Total Operating Revenues	150,641,000	53,438,021	224,052,365	554,604,547	163,857,781	118,193,201	1,264,786,915	84,091,367
OPERATING EXPENSES								
Cost of Sales and Services	-	-	226,765,117	38,080,007	-	2,726,946	267,572,070	1,179,284
Salaries and Benefits	9,595,000	2,416,000	1,568,849	543,130,015	14,481,049	4,220,439	575,411,352	21,029,682
Operating	16,596,000	4,995,000	732,844	225,073,998	3,760,342	27,462,804	278,620,988	37,040,580
Claims	-	-	-	-	147,080,241	108,347,826	255,428,067	3,378,476
Dividends Expense	-	-	-	-	(3,300,000)	-	(3,300,000)	-
Scholarships and Fellowships	-	-	-	29,537,642	-	-	29,537,642	-
Interest	71,801,000	40,204,000	-	-	-	834,444	112,839,444	-
Depreciation	1,194,000	4,000	2,700,468	43,817,249	248,627	1,000,189	48,964,533	11,519,942
Miscellaneous	-	-	-	-	-	3,800	3,800	-
Total Operating Expenses	99,186,000	47,619,000	231,767,278	879,638,911	162,270,259	144,596,448	1,565,077,896	74,147,964
Operating Income (Loss)	51,455,000	5,819,021	(7,714,913)	(325,034,364)	1,587,522	(26,403,247)	(300,290,981)	9,943,403
NONOPERATING REVENUES (EXPENSES)								
Grants and Contracts	-	-	-	33,046,541	-	516,860	33,563,401	-
Gifts	-	-	-	23,263,783	-	-	23,263,783	-
Interest and Investment Income	-	13,635,000	27,178	4,412,717	(115,693,869)	3,610,007	(94,008,967)	(405,844)
Interest Expense	-	(12,157,000)	(2,036,147)	(14,179,789)	(6,332,254)	(166,715)	(34,871,905)	(787,698)
Gain (Loss) on Sale of Capital Assets	-	-	-	(1,794,197)	-	4,500	(1,789,697)	(79,475)
Other	-	-	26,828	1,875,745	-	(466,412)	1,436,161	19,061
Total Nonoperating Revenues (Expenses)	-	1,478,000	(1,982,141)	46,624,800	(122,026,123)	3,498,240	(72,407,224)	(1,253,956)
Income (Loss) Before Contributions and Transfers	51,455,000	7,297,021	(9,697,054)	(278,409,564)	(120,438,601)	(22,905,007)	(372,698,205)	8,689,447
Capital Grants and Contributions	-	-	-	10,820,227	-	-	10,820,227	142,096
Transfers In	-	363,979	-	303,759,385	-	1,160,375	305,283,739	-
Transfer Out	(20,004,000)	(31,000)	(36,254)	(8,234,000)	-	(6,789,004)	(35,094,258)	-
Changes in Net Assets	31,451,000	7,630,000	(9,733,308)	27,936,048	(120,438,601)	(28,533,636)	(91,688,497)	8,831,543
Total Net Assets - Beginning of Year, as Adjusted	192,471,000	97,769,000	54,278,856	722,684,020	385,991,538	274,773,104	1,727,967,518	72,775,539
Total Net Assets - End of Year	$ 223,922,000	$ 105,399,000	$ 44,545,548	$ 750,620,068	$ 265,552,937	$ 246,239,468	$ 1,636,279,021	$ 81,607,082

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, 2009

Net Change in Net Assets-Total Enterprise Funds	$ (91,691,497)
Amounts reported for business-type activities in the statement of net assets are different because:	
Expenses were reduced based on the allocation of internal service fund's net income	1,973,042
Change in Net Assets of Business-Type Activities	$ (89,718,455)

The Accompanying Notes are an Integral Part of the Financial Statements



Memorial Bridge – Bismarck

STATE OF NORTH DAKOTA

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2009

	Business-Type Activities - Enterprise Funds		
	Bank of North Dakota	Housing Finance	Mill and Elevator
Cash Flows from Operating Activities:			
Receipts from Customers and Users	$ 7,664,000	$ 153,562,021	$ 275,810,930
Receipts from Tuition and Fees	-	-	-
Interest Income on Loans	-	-	-
Receipts from Loan Principal Repayments	-	-	-
Receipts from Other Funds	-	-	-
Receipts from Grants and Contracts	-	-	-
Receipts from Others	-	-	-
Payments for Loan Funds	-	(460,000)	-
Payments to Other Funds	-	-	-
Payments for Scholarships and Fellowships	-	-	-
Payments to Suppliers	(8,500,000)	(157,703,000)	(221,517,628)
Payments to Employees	(9,550,000)	(2,410,000)	(7,998,481)
Claim Payments	-	-	-
Payments to Others	-	(921,000)	-
Other	-	-	(48,625)
Net Cash Provided by (Used for) Operating Activities	(10,386,000)	(7,931,979)	46,246,196
Cash Flows from Noncapital Financing Activities:			
Proceeds from Bonds	-	175,641,000	
Proceeds from Sale of Notes and Other Borrowings	360,200,000	-	31,600,000
Principal Payments - Bonds	-	(254,020,000)	-
Principal Payments - Notes and Other Borrowings	(289,666,000)	-	(71,898,712)
Interest Payments - Bonds	-	(40,733,000)	-
Interest Payments - Notes and Other Borrowings	(14,468,000)	-	(2,036,147)
Payment of Bond Issue Costs	-	(1,236,000)	-
Transfers In	-	363,979	-
Transfers Out	(30,046,000)	(31,000)	(36,254)
Net Increase in Non-Interest Bearing Deposits	(4,049,000)	-	-
Net Decrease in Interest Bearing Deposits	777,638,000	-	-
Payments of Interest on Deposits	(46,233,000)	-	-
Interest Paid on Federal Funds and Reverse Repurchase Agreements	(9,226,000)	-	-
Net Decrease in Federal Funds and Reverse Repurchase Agreements	(130,041,000)	-	-
Principal Payments on Due To Other Funds	-	-	-
Grants and Gifts Received for Other than Capital Purposes	-	-	-
Agency Fund Cash Increase	-	-	-
Grants Given for Other than Capital Purposes	-	-	-
Net Cash Provided by (Used for) Noncapital Financing Activities	614,109,000	(120,015,021)	(42,371,113)
Cash Flows from Capital and Related Financing Activities:			
Acquisition and Construction of Capital Assets	(3,731,000)	(89,000)	(3,909,273)
Proceeds from Sale of Capital Assets	2,122,000	-	50,000
Proceeds from Sale of Notes and Other Borrowings	-	-	-
Principal Payments - Bonds	-	-	-
Principal Payments - Notes and Other Borrowings	-	-	-
Interest Payments - Bonds	-	-	-
Interest Payments - Notes and Other Borrowings	-	-	-
Capital Appropriations	-	-	-
Payment on Capital Leases	-	-	-
Interest Payments - Capital Leases	-	-	-
Capital Grants and Gifts Received	-	-	-
Insurance Proceeds	-	-	-
Other	-	-	-
Net Cash Used for Capital and Related Financing Activities	(1,609,000)	(89,000)	(3,859,273)
Cash Flows from Investing Activities:			
Proceeds from Sale and Maturities of Investment Securities	131,488,000	10,918,000	-
Purchase of Investment Securities	(232,664,000)	(5,942,000)	-
Interest and Dividends on Investments	18,999,000	1,803,000	27,178
Proceeds from Sale of Other Real Estate	129,000	-	-
Net Decrease in Loans	(618,415,000)	-	-
Receipt of Loan Principal Repayments	-	-	-
Loan Income Received	128,415,000	-	-
Net Cash Provided by (Used for) Investing Activities	(572,048,000)	6,779,000	27,178

The Accompanying Notes are an Integral Part of the Financial Statements

(Continued on Next Page)

Business-Type Activities - Enterprise Funds				Governmental Activities
University System	Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds
$ 146,301,463	$ 88,306,037	$ 283,731,720	$ 955,376,171	$ 82,534,560
245,208,707	-	-	245,208,707	-
-	-	488,788	488,788	-
4,855,567	-	11,963,738	16,819,305	-
-	-	6,380	6,380	231,145
155,300,058	-	-	155,300,058	-
4,513,910	2,835,198	92,097	7,441,205	-
(4,705,013)	-	(10,663,788)	(15,828,801)	-
-	-	225	225	(186,793)
(29,537,642)	-	-	(29,537,642)	-
(262,442,569)	(1,545,746)	(195,821,979)	(847,530,922)	(37,462,349)
(539,978,286)	(10,845,602)	(4,138,108)	(574,920,477)	(20,786,870)
-	(112,186,839)	(77,674,286)	(189,861,125)	(484,313)
-	(15,615,457)	(63,678)	(16,600,135)	(2,745,908)
2,989,448	-	(454,323)	2,486,500	2,953
(277,494,357)	(49,052,409)	7,466,786	(291,151,763)	21,102,425
-	-	-	175,641,000	-
-	-	-	391,800,000	-
-	-	(59,400,000)	(313,420,000)	-
-	-	-	(361,564,712)	-
-	-	(929,000)	(41,662,000)	-
-	-	(61,122)	(16,565,269)	-
-	-	-	(1,236,000)	(2,449)
308,619,021	-	906,431	309,889,431	-
(8,234,000)	-	(9,743,004)	(48,090,258)	(5,500,000)
-	-	-	(4,049,000)	-
-	-	-	777,638,000	-
-	-	-	(46,233,000)	-
-	-	-	(9,226,000)	-
-	-	-	(130,041,000)	-
(1,479,887)	-	(443,486)	(1,923,373)	-
45,017,972	-	516,860	45,534,832	-
263,298	-	-	263,298	-
(1,557,755)	-	-	(1,557,755)	-
342,628,649	-	(69,153,321)	725,198,194	(5,502,449)
(57,362,918)	(3,623,419)	(1,278,975)	(69,994,585)	(14,000,722)
167,455	-	-	2,339,455	1,953,653
10,632,445	-	73,150	10,705,595	-
-	-	(195,000)	(195,000)	-
(31,757,754)	-	(25,950)	(31,783,704)	(6,613,350)
-	-	(43,586)	(43,586)	-
(13,848,295)	-	(15,582)	(13,863,877)	(935,650)
14,876,265	-	-	14,876,265	-
-	-	(41,108)	(41,108)	(150,209)
-	-	-	-	(41,909)
8,397,112	-	-	8,397,112	-
257,851	-	-	257,851	-
-	-	220	220	
(68,637,839)	(3,623,419)	(1,526,831)	(79,345,362)	(19,788,187)
52,099,864	56,000,000	24,292,039	274,797,903	1,060,300
(67,163,685)	(2,669,137)	(20,528,452)	(328,967,274)	-
7,668,070	-	6,206,211	34,703,459	(27,522)
	-	-	129,000	-
-	-	(1,085,000)	(619,500,000)	-
-	-	976,426	976,426	-
-	-	517,573	128,932,573	-
(7,395,751)	53,330,863	10,378,797	(508,927,913)	1,032,778

The Accompanying Notes are an Integral Part of the Financial Statements

Statement of Cash Flows
Proprietary Funds (Continued)
For the Fiscal Year Ended June 30, 2009

	Business-Type Activities - Enterprise Funds		
	Bank of North Dakota	Housing Finance	Mill and Elevator
Net Change In Cash:			
Net Increase (Decrease) in Cash and Cash Equivalents	30,066,000	(121,257,000)	42,988
Cash and Cash Equivalents at June 30, 2008	522,657,000	259,315,000	3,737
Cash and Cash Equivalents at June 30, 2009	$ 552,723,000	$ 138,058,000	$ 46,725
Reconciliation:			
Current:			
Cash Deposits at the Bank of North Dakota	$ -	$ 2,840,000	$ 46,725
Cash and Cash Equivalents	552,723,000	92,000	-
Restricted Cash Deposits at the Bank of North Dakota	-	10,542,000	-
Restricted Cash and Cash Equivalents	-	124,584,000	-
Noncurrent:			
Restricted Cash Deposits At The Bank of North Dakota	-	-	-
Restricted Cash and Cash Equivalents	-	-	-
Cash and Cash Equivalents	$ 552,723,000	$ 138,058,000	$ 46,725
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used for) Operating Activities:			
Operating Income (Loss)	$ 51,455,000	$ 5,819,021	$ (7,714,913)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	1,194,000	4,000	2,700,468
Amortization\Accretion	-	694,000	-
Reclassification of Interest Revenue\Expense	(76,675,000)	40,602,000	-
Gain on Sale of Student Loans	(1,000)	-	-
Loss on Sale of Real Estate	28,000	-	-
Net Decrease in Fair Value of Investments	5,099,000	-	-
Interest Received on Program Loans	-	-	-
Disbursements for Loans and Loan Purchases	-	-	-
Receipt of Loan Principal Repayments	-	-	-
Provision for Losses	8,900,000	-	-
Contributed Property and Equipment	(628,000)	-	
Other	-	(123,000)	75,453
Change in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	-	(55,173,000)	16,057,557
(Increase) Decrease in Interest Receivable	-	(337,000)	-
(Increase) Decrease in Due From	96,000	25,000	-
Decrease in Due From Fiduciary Funds	-	-	-
(Increase) Decrease in Intergovernmental Receivable	-	48,000	-
Decrease in Notes Receivable	-	-	-
(Increase) Decrease in Prepaid Items	-	(22,000)	554,545
Decrease in Inventories	-	-	38,016,258
Increase in Other Assets	(94,000)	-	(21,766)
Increase (Decrease) in Accounts Payable	-	-	(3,221,233)
Increase (Decrease) in Claims\Judgments Payable	-	-	-
Increase (Decrease) in Intergovernmental Payable	-	(210,000)	-
Increase in Accrued Payroll	-	-	26,007
Increase in Compensated Absences Payable	-	13,000	55,884
Increase in Amounts Held for Others	-	388,000	-
Increase in Other Deposits	-	-	-
Increase (Decrease) in Due To Other Funds	(9,000)	26,000	-
Increase (Decrease) in Deferred Revenue	-	-	-
Increase (Decrease) in Other Liabilities	249,000	314,000	(282,064)
Decrease in Dividends Payable			
Total Adjustments	(61,841,000)	(13,751,000)	53,961,109
Net Cash Provided by (Used for) Operating Activities	$ (10,386,000)	$ (7,931,979)	$ 46,246,196
Noncash Transactions:			
Net Increase (Decrease) in Fair Value of Investments	$ 5,310,000	$ (246,000)	$ -
Change in Securities Lending Collateral	-	-	-
Interest on Investments	-	-	-
Amortization of Bond Discount	-	-	-
Amortization of Bond Issuance Costs	-	-	-
Assets Acquired Through Capital Lease	-	-	-
Assets Acquired Through Special Assessments	-	-	-
Gifts of Capital Assets	-	-	-
Interest Revenue on Prize Reserves	-	-	-
Total Noncash Transactions	$ 5,310,000	$ (246,000)	$ -

The Accompanying Notes are an Integral Part of the Financial Statements

	Business-Type Activities - Enterprise Funds				Governmental Activities
	University System	Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds
	(10,899,298)	655,035	(52,834,569)	(154,226,844)	(3,155,433)
	74,614,839	1,375,198	196,124,414	1,054,090,188	17,196,299
	$ 63,715,541	$ 2,030,233	$ 143,289,845	$ 899,863,344	$ 14,040,866
	$ 49,851,643	$ 2,030,233	$ 30,063,976	$ 84,832,577	$ 13,822,436
	9,837,092	-	109,685,850	672,337,942	26,453
	-	-	3,279,949	13,821,949	-
	-	-	-	124,584,000	-
	4,002,365	-	260,070	4,262,435	191,977
	24,441	-	-	24,441	-
	$ 63,715,541	$ 2,030,233	$ 143,289,845	$ 899,863,344	$ 14,040,866
	$ (325,037,364)	$ 1,587,522	$ (26,403,247)	$ (300,293,981)	$ 9,943,403
	43,817,249	248,627	1,000,189	48,964,533	11,513,292
	-	-	539,000	1,233,000	6,650
	-	-	(2,360,500)	(38,433,500)	-
	-	-	-	(1,000)	-
		-	-	28,000	-
	-	-	-	5,099,000	-
	-	-	2,495,000	2,495,000	-
	-	-	(178,000)	(178,000)	-
	-	-	24,758,000	24,758,000	-
	-	-	897,000	9,797,000	-
			-	(628,000)	-
	-	-	(378,323)	(425,870)	-
	(11,911,526)	(1,598,444)	(1,501,328)	(54,126,741)	(375,169)
	-	-	35,314	(301,686)	-
	-	-	6,243	127,243	(1,195,494)
	-	-	4,476	4,476	-
	-	-	(1,464,644)	(1,416,644)	230,614
	1,380,461	-	177,307	1,557,768	-
	-	36,753	(343,152)	226,146	694,950
	202,708	-	51,299	38,270,265	6,225
	2,373,271	-	(59,878)	2,197,627	2,953
	1,851,001	155,715	1,258,173	43,656	77,029
	-	31,300,000	(320,661)	30,979,339	160,603
	-	-	2,784,385	2,574,385	(191,567)
	2,205,334	-	33,169	2,264,510	192,637
	2,040,942	164,720	49,162	2,323,708	50,174
	-	-	3,908,835	4,296,835	-
	3,211,042	-	-	3,211,042	-
	-	58,581	1,279,373	1,354,954	(13,336)
	2,372,525	8,930,567	1,208,414	12,511,506	(539)
	-	-	(8,820)	272,116	-
		(89,936,450)		(89,936,450)	
	47,543,007	(50,639,931)	33,870,033	9,142,218	11,159,022
	$ (277,494,357)	$ (49,052,409)	$ 7,466,786	$ (291,151,763)	$ 21,102,425
	$ (138,139)	$ (117,088,561)	$ (2,109,850)	$ (114,272,550)	$ (409,517)
	-	(76,051,009)	(444,891)	(76,495,900)	(127,261)
	-	43,923,868	-	43,923,868	-
	-	-	8,754	8,754	-
	-	-	3,335	3,335	-
	26,761,225	-	-	26,761,225	-
	657,055	-	-	657,055	-
	2,335,463	-	-	2,335,463	-
	-	-	591	591	-
	$ 29,615,604	$ (149,215,702)	$ (2,542,061)	$ (117,078,159)	$ (536,778)

The Accompanying Notes are an Integral Part of the Financial Statements

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2009

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Agency Funds
ASSETS				
Cash Deposits at the Bank of ND	$ 27,963,234	$ 716,541	$ 8,021,963	$ 15,249,160
Cash and Cash Equivalents	-	-	1,806,697	3,894,839
Receivables:				
Contributions Receivable	13,881,378	-	-	-
Accounts Receivable - Net	4,717	-	54,630	6,223,561
Taxes Receivable - Net	-	-	-	14,179,561
Interest Receivable - Net	9,713,752	74,124	5,096	409
Due from Other Funds	14,290	-	26	-
Due from Fiduciary Funds	140,720	-	-	-
Total Receivables	23,754,857	74,124	59,752	20,403,531
Investments, at Fair Value:				
Investments at the Bank of ND	5,500	-	21,103	19,857,655
Equity Pool	1,306,117,088	59,599,108	-	-
Fixed Income	2,399,637	-	-	-
Fixed Income Pool	1,054,485,414	58,468,110	2,080,342	230,774
Cash and Cash Pool	8,132,298	250,157	-	-
Real Estate Pool	220,441,035	7,338,132	-	-
Alternative Investments	141,264,674	3,307,954	-	-
Annuities	88,888	-	-	-
Mutual Funds	33,107,540	-	263,169,979	-
Total Investments	2,766,042,074	128,963,461	265,271,424	20,088,429
Invested Securities Lending Collateral	14,552,880	988,942	34,178	-
Capital Assets (Net of Depreciation)	4,684,575	-	-	-
Total Assets	2,836,997,620	130,743,068	275,194,014	$ 59,635,959
LIABILITIES				
Accounts Payable	4,809,889	226,164	771,343	$ -
Accrued Payroll	113,626	-	-	-
Securities Lending Collateral	14,552,880	988,942	34,178	-
Intergovernmental Payable	-	-	-	31,033,499
Tax Refunds Payable	-	-	-	42,665
Due to Other Funds	138,703	-	-	-
Due to Fiduciary Funds	134,605	-	-	-
Amounts Held in Custody for Others	-	-	-	28,559,795
Deferred Revenue	18,744	-	-	-
Compensated Absences Payable	130,273	-	-	-
Total Liabilities	19,898,720	1,215,106	805,521	$ 59,635,959
NET ASSETS				
Net Assets Held in Trust for:				
Pension Benefits	2,815,803,258	-	-	
Other Employee Benefits	1,295,642	-	-	
External Investment Pool Participants	-	129,527,962	-	
Other Purposes	-	-	274,388,493	
Total Net Assets Held in Trust	$ 2,817,098,900	$ 129,527,962	$ 274,388,493	

The Accompanying Notes are an Integral Part of the Finanacial Statements

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2009

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds
ADDITIONS			
Contributions:			
Employer	$ 73,681,743	$ -	$ -
Employee	77,174,126	-	-
From Participants	-	-	27,420,196
Transfers from Other Funds	564,078	-	-
Transfers from Other Plans	150,734	-	-
Donations	-	-	3,359
Total Contributions	151,570,681	-	27,423,555
Investment Income:			
Net Change in Fair Value of Investments	(1,019,750,271)	(26,057,926)	(69,463,525)
Interest and Dividends	77,164,619	3,100,638	9,976,204
Less Investment Expense	13,774,604	556,975	-
Net Investment Income	(956,360,256)	(23,514,263)	(59,487,321)
Securities Lending Activity:			
Securities Lending Income	543,773	30,809	-
Less Securities Lending Expense	225,741	13,050	-
Net Securities Lending Income	318,032	17,759	-
Repurchase Service Credit	6,078,777	-	-
Miscellaneous Income	1,055,807	-	3,900
Total Additions	(797,336,959)	(23,496,504)	(32,059,866)
DEDUCTIONS			
Benefits Paid to Participants	204,715,940	-	371
Refunds	7,304,171	-	-
Prefunded Credit Applied	4,854,724	-	-
Transfer to Other Plans	564,078	-	-
Payments in Accordance with Trust Agreements	-	-	33,534,397
Administrative Expenses	3,785,294	-	2,406,482
Total Deductions	221,224,207	-	35,941,250
Purchase of Units at Net Asset Value of $1.00 Per Unit	-	31,970,490	-
Change in Net Assets Held in Trust for:			
Pension Benefits	(1,018,941,438)	-	-
Other Employee Benefits	380,272	-	-
External Investment Pool Participants	-	8,473,986	-
Other Purposes	-	-	(68,001,116)
Total Change in Net Assets	(1,018,561,166)	8,473,986	(68,001,116)
Net Assets - Beginning of Year	3,835,660,066	121,053,976	342,389,609
Net Assets - End of Year	$ 2,817,098,900	$ 129,527,962	$ 274,388,493

The Accompanying Notes are an Integral Part of the Financial Statements

Combining Statement of Net Assets
Component Units - Proprietary Funds
June 30, 2009

	BSC Foundation	DSU Foundation	CHAND	MISU Development Foundation	Public Finance Authority	ND Development Fund
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 101,791	$ 11,309,711	$ 3,523,938	$ 293,524	$ 1,000	$ 6,687,135
Investments	-	-	-	-	-	6,019,000
Accounts Receivable - Net	1,381,102	2,838,022	10,957	41,152	-	-
Interest Receivable - Net	-	-	-	-	-	85,229
Due from Primary Government	54,788	-	-	-	-	-
Inventory	-	-	-	-	-	-
Loans and Notes Receivable - Net	-	-	-	-	-	2,346,473
Other Assets	65,079	99,631	-	3,892	-	-
Restricted Cash and Cash Equivalents	-	-	-	-	1,233,000	-
Restricted Investments	-	-	-	-	54,570,000	-
Restricted Interest Receivable - Net	-	-	-	-	4,133,000	-
Total Current Assets	1,602,760	14,247,364	3,534,895	338,568	59,937,000	15,137,837
Noncurrent Assets:						
Restricted Cash and Cash Equivalents	456,391	111,737	-	-	-	-
Restricted Investments	10,101,508	7,018,881	-	8,655,276	393,316,000	-
Investments	327,647	580,000	-	956,202	-	834,057
Due from Primary Government	2,265,000	-	-	-	3,668,000	-
Loans and Notes Receivable - Net	-	-	-	-	-	7,671,535
Unamortized Bond Issuance Costs	41,526	-	-	-	1,036,000	-
Other Noncurrent Assets	603,594	5,248,349	-	343,937	-	-
Capital Assets:						
Land and Construction in Progress	1,200,000	80,000	-	-	-	-
Infrastructure - Net	11,071,939	57,596	-	-	-	-
Buildings and Equipment - Net	70,206	770,497	-	-	-	766
Total Noncurrent Assets	26,137,811	13,867,060	-	9,955,415	398,020,000	8,506,358
Total Assets	27,740,571	28,114,424	3,534,895	10,293,983	457,957,000	23,644,195
LIABILITIES						
Current Liabilities:						
Accounts Payable	81,818	785,625	2,000,325	14,314	153,000	13,653
Accrued Payroll	-	74,991	-	-	-	-
Interest Payable	-	-	-	-	1,539,000	-
Intergovernmental Payable	-	-	-	-	-	-
Due to Primary Government	87,764	1,511,847	-	-	-	-
Other Deposits	-	-	-	-	-	-
Notes Payable	-	464,924	-	-	-	-
Capital Leases Payable	-	-	-	-	-	-
Bonds Payable	771,834	-	-	-	12,234,000	-
Deferred Revenue	-	-	165,233	-	-	-
Other Current Liabilities	-	-	-	-	-	-
Total Current Liabilities	941,416	2,837,387	2,165,558	14,314	13,926,000	13,653
Noncurrent Liabilities:						
Intergovernmental Payable	-	-	-	-	310,000	-
Due to Primary Government	-	-	-	-	3,668,000	-
Notes Payable	-	131,569	-	-	-	-
Capital Leases Payable	-	-	-	-	-	-
Bonds Payable	3,430,799	9,200,000	-	-	162,774,000	-
Other Noncurrent Liabilities	2,445,031	611,265	-	161,712	-	-
Total Noncurrent Liabilities	5,875,830	9,942,834	-	161,712	166,752,000	-
Total Liabilities	6,817,246	12,780,221	2,165,558	176,026	180,678,000	13,653
Net Assets						
Invested in Capital Assets, Net of Related Debt	9,139,512	311,600	-	-	-	766
Restricted for:						
Debt Service	-	-	-	-	58,643,000	-
Loan Purposes	-	-	-	-	215,761,000	-
Other	12,640,139	15,542,936	-	7,910,175	-	-
Unrestricted	(856,326)	(520,333)	1,369,337	2,207,782	2,875,000	23,629,776
Total Net Assets	$ 20,923,325	$ 15,334,203	$ 1,369,337	$ 10,117,957	$ 277,279,000	$ 23,630,542

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
$ 1,271,676	$ 2,565,625	$ 4,317,053	$ 737,589	$ 2,439,456	$ 7,814,341	$ 41,062,839
-	-	-	-	-	-	6,019,000
2,399,661	287,777	1,557,174	1,577,150	9,013,054	246,596	19,352,645
-	-	-	-	-	-	85,229
373,824	840,000	-	132,951	915,693	229,619	2,546,875
-	-	387,867	132,229	-	-	520,096
-	-	-	-	-	-	2,346,473
588,484	72,310	148,305	261,101	27,619	104,994	1,371,415
-	-	-	-	-	-	1,233,000
-	-	-	-	-	-	54,570,000
-	-	-	-	-	-	4,133,000
4,633,645	3,765,712	6,410,399	2,841,020	12,395,822	8,395,550	133,240,572
6,566,481	550,599	2,782,497	-	-	9,710,523	20,178,228
82,759,996	-	-	-	130,626,146	16,449,326	648,927,133
17,730,451	-	-	31,310	5,657,956	-	26,117,623
19,144,510	23,645,000	-	1,784,126	9,717,307	-	60,223,943
-	1,659,750	-	-	-	-	9,331,285
-	1,782,228	-	-	-	-	2,859,754
1,425,194	674,755	200,000	-	17,907,665	257,106	26,660,600
868,809	-	-	1,088,436	-	206,560	3,443,805
-	907,569	-	20,233	-	-	12,057,337
4,981,296	3,387,496	82,112,115	15,384,373	2,649,911	324,345	109,681,005
133,476,737	32,607,397	85,094,612	18,308,478	166,558,985	26,947,860	919,480,713
138,110,382	36,373,109	91,505,011	21,149,498	178,954,807	35,343,410	1,052,721,285
1,642,738	340,704	1,233,474	912,709	796,627	78,750	8,053,737
-	28,695	-	-	-	-	103,686
-	-	-	-	-	-	1,539,000
-	28,368	-	-	-	-	28,368
-	-	1,427,088	881,899	3,150	1,700,943	5,612,691
660,383	-	-	-	-	-	660,383
195,525	81,667	-	980,093	200,000	33,734	1,955,943
-	41,564	-	40,858	-	-	82,422
485,861	840,000	226,714	-	715,693	-	15,274,102
-	-	3,793,683	1,597,565	1,324,994	-	6,881,475
-	-	-	-	-	20,000	20,000
2,984,507	1,360,998	6,680,959	4,413,124	3,040,464	1,833,427	40,211,807
-	463,452	-	-	-	-	773,452
-	-	-	-	-	-	3,668,000
1,793,487	628,000	-	6,958,495	100,000	37,881	9,649,432
-	-	-	1,784,126	-	-	1,784,126
22,677,819	27,085,000	5,538,844	-	13,251,576	-	243,958,038
6,194,691	1,003,700	-	-	18,001,446	83,331	28,501,176
30,665,997	29,180,152	5,538,844	8,742,621	31,353,022	121,212	288,334,224
33,650,504	30,541,150	12,219,803	13,155,745	34,393,486	1,954,639	328,546,031
5,850,105	(387,587)	76,346,557	8,554,454	2,649,911	459,290	102,924,608
-	-	-	-	-	-	58,643,000
-	-	-	-	-	-	215,761,000
99,806,823	636,515	2,782,497	-	130,132,376	31,510,830	300,962,291
(1,197,050)	5,583,031	156,154	(560,701)	11,779,034	1,418,651	45,884,355
$ 104,459,878	$ 5,831,959	$ 79,285,208	$ 7,993,753	$ 144,561,321	$ 33,388,771	$ 724,175,254

Combining Statement of Activities
Component Units - Proprietary Funds
For the Fiscal Year Ended June 30, 2009

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue
BSC Foundation	$ 2,298,387	$ 400,006	$ (1,783,977)	$ (3,682,358)
DSU Foundation	2,251,076	145,149	4,405,760	2,299,833
CHAND	10,721,751	11,398,138	446,291	1,122,678
MISU Development Foundation	706,212	203,446	(2,320,693)	(2,823,459)
Public Finance Authority	8,929,000	1,297,000	24,573,000	16,941,000
ND Development Fund	1,473,687	887,649	233,596	(352,442)
NDSU Development Foundation	15,146,243	1,254,933	(11,897,423)	(25,788,733)
NDSU Research and Technology Park	3,382,172	2,823,640	533,789	(24,743)
RE Arena, Inc., UND Arena Services & Affiliates	12,161,832	7,485,936	-	(4,675,896)
UND Aerospace Foundation	19,481,610	20,090,136	404,098	1,012,624
UND Alumni Association & UND Foundation	15,698,405	4,492,821	(25,329,411)	(36,534,995)
Nonmajor Component Units	12,177,338	8,141,153	(464,068)	(4,500,253)
Total Component Units	$ 104,427,713	$ 58,620,007	$ (11,199,038)	$ (57,006,744)

The Accompanying Notes are an Integral Part of the Financial Statements

Adds to Permanent Endowments	Change in Net Assets	Net Assets Beginning of Year, as Adjusted	Net Assets End of Year
$ 406,523	$ (3,275,835)	$ 24,199,160	$ 20,923,325
250,184	2,550,017	12,784,186	15,334,203
-	1,122,678	246,659	1,369,337
251,466	(2,571,993)	12,689,950	10,117,957
-	16,941,000	260,338,000	277,279,000
-	(352,442)	23,982,984	23,630,542
5,403,988	(20,384,745)	124,844,623	104,459,878
-	(24,743)	5,856,702	5,831,959
-	(4,675,896)	83,961,104	79,285,208
-	1,012,624	6,981,129	7,993,753
1,343,163	(35,191,832)	179,753,153	144,561,321
590,738	(3,909,515)	37,298,286	33,388,771
$ 8,246,062	$ (48,760,682)	$ 772,935,936	$ 724,175,254

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NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2009

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, 2009, and their report 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, 2008, and their report has been previously issued under a separate cover.

Public Finance Authority (Proprietary Fund Type) - The Finance Authority was created by the Legislature as a separate agency of the State. The purpose of the Finance Authority 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 Finance Authority 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, 2008, and their report 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, 2009, and their report 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, 2009, and their report 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, 2009, and their report 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, 2009, and their report has been previously issued under separate cover.

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, 2009, and their report 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 who 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, 2009, and their report 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 60-member board of trustees comprised of leading citizens, both alumni and friends of the university, as well as four ex-officio members: the president of NDSU, the president and vice president of the Alumni Association, and the executive director of the Development Foundation and Alumni Association. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2009, and their report 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, 2009, and their report has been previously issued under separate cover.

RE Arena, Inc., UND Arena Services, Inc., UND Sports Facilities, 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. 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, 2008, and their combined report has been previously issued under separate cover.

NONMAJOR COMPONENT UNITS

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, 2009, and their report 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 15-member board of directors comprised of leading citizens, both alumni and friends of the university, as well as one ex-officio member 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, 2009, and their combined report has been previously issued under separate cover.

The **NDSU Research Foundation** is a legally separate, nonprofit 501(c)(3) created to provide support to NDSU in its mission 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 is managed by an 11-member board of trustees, comprised of five NDSU employees and six individuals who are not employed by NDSU. The Foundation was audited by other independent auditors for the fiscal year ended June 30, 2009, and their report has been previously issued under a 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, 2009, and their report 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 18-member board of directors comprised of leading citizens, both alumni and friends of the university, as well as one ex-officio member 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.

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 State University Research Foundation
1735 NDSU Research Park Drive
Fargo, ND 58105-5014

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

Public Finance Authority
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 that 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 (agency funds are excluded as they have no measurement focus) 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.

The State considers tax revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Other revenues are considered to be available if received within one year after the fiscal year end. 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. 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 Mill and Elevator Fund engages in the business of manufacturing and marketing farm products.

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; and risk management 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, the State's college savings plan, and a remediation trust.

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 the 2007-2009 biennium, there were general, federal and supplemental appropriations totaling $538,128,488.

For the biennium ended June 30, 2009, the Secretary of State had expenditures that exceeded appropriations by $70,654 at the General Fund Funding Authority, Line Item Level, and by $56,114 at the Operating Expense Line Item Level. An unexpected amount of computer costs resulted in the over-expenditure.

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, 2009.

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 reported at fair value. Quoted market prices, when available, have been used to value investments. The market value for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that value. International securities are valued based upon quoted foreign market prices and translated into U.S. dollars at the exchange rate in effect at June 30. In general, corporate debt securities have been valued at quoted market prices or, if not available, values are based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investment securities, including timberland, is based on appraisals plus fiscal year-to-date capital transactions. Publicly traded alternative investments are valued based on quoted market prices. When not readily available, alternative investment securities are valued using current estimates of fair value from the investment manager. Such valuations consider variables such as financial performance of the issuer, comparison of comparable companies' earnings multiples, cash flow analysis, recent sales prices of investments, withdrawal restrictions, and other pertinent information. Because of the inherent uncertainty of the valuation for these other alternative investments, the estimated fair value may differ from the values that would have been used had a ready market existed. 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 cost adjusted for other than temporary impairment as determined by the Board of Directors. Among the factors considered by the Fund’s Directors in determining whether an other than temporary impairment of an investment has occurred 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 by the management company and of the investee company as to the potential effect of future developments. Total equity investments in the North Dakota Development Fund, Inc. are valued at $834,057 at June 30, 2009. 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.

The State lends its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The State has contracted with a third party securities lending agent (Agent) to lend the State’s securities portfolios. The Agent lends securities of the type on loan at June 30, 2009, for collateral in the form of cash or other securities at 102% of the loaned securities market value plus accrued interest for domestic securities and 105% of the loaned securities market value plus accrued interest for international securities. The collateral for the loans is maintained at 100% per the contractual requirements. As of June 30, 2009, 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.

The Average Duration of the collateral investments as of June 30, 2009, was 10 days. The Average Weighted Maturity of collateral investments as of June 30, 2009, was 95 days. (Land Department was 52 days.) The interest rate sensitivity (duration) of the securities on loan matched the duration of the collateral investments, however the Land Department has an interest sensitivity of 15 days.

The Agent provides indemnification if the borrowers fail to return the underlying securities (and if collateral is inadequate to replace the securities lent) or fails to pay income distributions on them. All open securities loans can be terminated on demand by either the State or the borrower. All term securities loans can be terminated with five days notice by either the State or the borrower. Cash collateral is invested in accordance with investment guidelines approved by the State. The State cannot pledge or sell collateral securities received unless the borrower defaults.

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.

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, including those infrastructure assets acquired prior to June 30, 1980. 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 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 five 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.

NOTE 2 – RESTATEMENTS

The following changes to beginning fund equity (due to correction of errors) as previously reported, is summarized in the following table (expressed in thousands):

	Government-wide Governmental Activities	School Permanent Trust Fund	Other Governmental Funds
June 30, 2008, fund balance/net assets, as previously reported	$ 3,978,976	$ 975,756	$ 996,983
Prior period adjustment:			
Correction of errors	482	(7,690)	327
June 30, 2008, fund balance/net assets, as restated	$ 3,979,458	$ 968,066	$ 997,310

CORRECTION OF ERRORS

The beginning net assets of the Government-wide Governmental Activities $481,736; School Permanent Trust Fund $(7,689,685); PACE Fund $(273,549); Transportation $700,369 and Other Special $(99,945) were restated. The errors consisted of underaccrual of liabilities, overstatement of revenue in prior period and adjustments to fund balances in prior period for the Other Governmental Funds. Also, land values of the School Permanent Trust Fund were transferred from an investment to a capital asset per GASB 34.

NOTE 3 - DETAILED NOTES ON ACCOUNT BALANCES

A. DEPOSITS

CUSTODIAL CREDIT RISK

The State minimizes custodial credit risk by restrictions set forth in state statute. Custodial credit risk is risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure the State would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties.

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, “all state funds . . . must be deposited in the Bank of North Dakota” or must be deposited in accordance with constitutional and statutory provisions. The State does not have a formal policy that addresses custodial credit risk for deposits.

At June 30, 2009, the bank balance of the primary government's deposits was $468,047,967. Of the bank amount, $420,351,884 was uncollateralized and uninsured.

There were significant concentrations of uninsured and uncollateralized deposits in the Bank of North Dakota and University System at June 30, 2009. Their uninsured and uncollateralized deposits totaled $409.1 million and $7.5 million, and their bank deposits totaled $409.9 million and $7.5 million, respectively.

At June 30, 2009, the bank balance of the major component units' deposits was $91,028,333. Of the bank amount, $11,971,849 was uncollateralized and uninsured.

The internal receivable amount in the governmental activities column in the Statement of Net Assets is Cash and Investments at the Bank of North Dakota for governmental activities. The internal payable amount in the business-type activities column includes 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 retirement funds belonging to the teachers' fund for retirement and the public employee's retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

   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 allows the Board to invest in first mortgages on farmlands 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.

Agency investments, of the primary government, under management of the State Investment Board are included below with the Pension and Investment Trust funds.

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The State does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates. However, North Dakota Housing Finance's respective bond resolutions permit only investments that will not adversely affect the rating quality of the outstanding bonds. Also, the maturity date or the date on which such investment obligations may be redeemed shall coincide as nearly as practicable with the date or dates on which moneys in the funds or accounts for which the investments were made will be required. The Bank of North Dakota's investment policy provides for a duration range of one to five years, which will serve to decrease interest rate risk.

At June 30, 2009, the following table shows the debt securities of the primary government and major component units by investment type and maturity (expressed in thousands).

Primary Government (includes Pension and Investment Trust Funds)

Investment Type	Total Market Value	Less Than 1 Year	1 - 6 Years	6 - 10 Years	More Than 10 Years
Asset Backed Securities	$ 22,739	$ 4,444	$ 4,648	$ 2,594	$ 11,053
Commercial Mortgage-Backed	26,153	5,267	-	-	20,886
Corporate Bonds	854,196	11,556	457,956	220,918	163,766
Corporate Convertible Bonds	87,949	48	76,874	391	10,636
Government Agencies	335,437	109,273	202,646	12,777	10,741
Government Bonds	178,254	35,081	66,517	42,576	34,080
Government Mortgage-Backed	256,335	446	189,362	6,840	59,687
Index-Linked Government Bonds	202,022	4,266	149,959	15,956	31,841
Municipal/Provincial Bonds	21,314	1,110	2,673	3,303	14,228
Non-Government-Backed CMOs	42,331	8,127	85	593	33,526
Short Term Bills and Notes	5,418	5,418	-	-	-
Short Term Investment Funds	19,758	19,758	-	-	-
Pooled Investments	400,777	72,741	154,520	173,404	112
Total Debt Securities	$ 2,452,683	$ 277,535	$ 1,305,240	$ 479,352	$ 390,556

The market values of inflation-indexed bonds are reflected in the columns above, based on their stated maturity dates. The principal balances of these bonds are adjusted every six months based on the inflation index for that period.

Some investments are more sensitive to interest rate changes than others. Variable and floating rate collateralized mortgage obligations (CMO's), asset-backed securities (ABS), interest-only and principal-only securities are examples of investments whose fair values may be highly sensitive to interest rate changes. Interest-only (IO) and principal-only (PO) strips are transactions which involve the separation of the interest and principal components of a security. They are highly sensitive to prepayments by mortgagors, which may result from a decline in interest rates. The State has no policy regarding IO or PO strips.

Major Component Units

	Total Market Value	Less Than 1 Year	1 - 6 Years	6 - 10 Years	More Than 10 Years
US Treasuries and Agencies	$ 584	$ 158	$ 283	$ 142	$ 1
Money Market Funds	2,291	2,291	-	-	-
Corporate Bonds	3,412	226	2,326	685	175
State and Municipal Bonds	388	-	47	18	323
Mutual Bond Funds	30,625	1,902	14,973	1,141	12,609
Commercial Paper	312	312	-	-	-
Total Debt Securities	$ 37,612	$ 4,889	$ 17,629	$ 1,986	$ 13,108

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State does not have an investment policy that specifically addresses credit risk. The State Investment Board maintains a highly diversified portfolio of debt securities encompassing a wide range of credit ratings. Each debt securities manager is given a specific set of guidelines to invest within, based on the mandate for which it was hired. The guidelines specify in which range of credit the manager may invest. These ranges include investment grade and high yield categories. The Bank of North Dakota's investment policy provides minimum credit quality ratings for its investments and asset allocation ranges for investments as a percentage of the total portfolio.

As of June 30, 2009, the following tables present the debt securities of the primary government and major

Primary Government (includes Pension and Investment Trust Funds) S&P Credit Rating*

	Total Market Value	AAA	AA	A	BBB
Asset Backed Securities	$ 22,738	$ 8,132	$ 1,578	$ 1,012	$ 5,505
Commercial Mortgage Backed	24,839	24,164	675	-	-
Corporate Bonds	854,228	12,639	28,702	152,385	332,708
Corporate Convertible Bonds	87,948	1,256	458	14,679	21,341
Government Agencies	223,362	216,169	-	4,495	2,583
Government Bonds	122,186	77,614	-	16,674	8,943
Government Mortgage Backed	128,610	128,610	-	-	-
Index-Linked Government Bonds	198,491	69,103	-	27,709	-
Municipal/Provincial Bonds	9,447	-	5,323	1,514	1,329
Non-Government Backed CMOs	42,330	20,590	480	1,153	3,510
Pooled Investments	418,104	176,489	105,302	67,041	-
Total Credit Risk Debt Securities	2,132,283	$ 734,766	$ 142,518	$ 286,662	$ 375,919
US Gov't & Agencies	320,400				
Total Debt Securities	$ 2,452,683				

*Majority of debt securities rated by S&P, however some were determined by Moody's, Fitch or manager determined.

component units, and their respective ratings (expressed in thousands).

BB	B	CCC	C	D	Not Rated
$ 608	$ 1,537	$ 113	$ 29	$ 16	$ 4,208
-	-	-	-	-	-
121,584	76,661	32,788	1,865	3,769	91,127
18,147	11,201	3,429	-	-	17,437
100	-	-	15	-	-
3,021	-	98	-	-	15,836
-	-	-	-	-	-
-	-	-	-	-	101,679
-	1,281	-	-	-	-
3,524	6,379	4,132	1,067	20	1,475
60,565	8,003	-	-	-	704
$ 207,549	$ 105,062	$ 40,560	$ 2,976	$ 3,805	$ 232,466

Component Units

S & P Credit Rating*	Total Market Value	Money Market Funds	Corporate Bonds	State and Municipal Bonds	Mutual Bond Funds	Commercial Paper
AAA	$ 2,336	$ 2,291	$ -	$ 45	$ -	$ -
AA	98	-	98	-	-	-
AA3	93	-	93	-	-	-
A	3,227	-	1,401	114	1,712	-
Aa	618	-	389	229	-	-
Aaa	27	-	27	-	-	-
BAA	41	-	41	-	-	-
BBB	838	-	33	-	805	-
B	46	-	46	-	-	-
Baa	11	-	11	-	-	-
BB	15	-	15	-	-	-
CCC	120	-	120	-	-	-
Caa	81	-	81	-	-	-
NR	29,477	-	1,057	-	28,108	312
Total Credit Risk Debt Securities	37,028	$ 2,291	$ 3,412	$ 388	$ 30,625	$ 312
US Treasuries	584					
Total Debt Securities	$ 37,612					

*Majority of debt securities rated by S&P, however some were determined by Moody's, Fitch or manager determined.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State does not have an investment policy that specifically addresses concentrations of credit risk in a single issuer.

The Bank of North Dakota had the following concentrations at June 30, 2009 (expressed in thousands):

	Amount	Percent
Federal Agency		
Federal Home Loan Bank	$ 160,383	48.4%
Mortgage-backed		
Fannie Mae	37,755	11.4%
Freddie Mac	55,904	16.9%
Ginnie Mac	18,216	5.5%
Federal Home Loan Bank Stock	17,385	5.3%

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Although the State Investment Board does not have a formal investment policy governing foreign currency risk, the board does manage its exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios to limit foreign currency and security risk. The Board of University and School Lands treats currency exposure in two different ways, depending on the type of investment. For the Board's international equity portfolio, the currency exposure is not hedged, as currency exposure is one of the things that add diversity to the overall portfolio. For foreign bonds, the Board fully hedges the currency exposure, as the purpose of this portfolio is to generate income for distribution to trust beneficiaries. The board does not have a formal policy regarding foreign currency risk.

At June 30, 2009, foreign currency risk exposure on investments managed by the Board of University and School Lands and State Investment Board were as follows (expressed in thousands).

Primary Government (includes Pension and Investment Trust Funds)

Currency	Short-Term	Debt	Equity	Total
Australian dollar	$ (1,706)	$ 9,150	$ 13,410	$ 20,854
Brazilian real	(960)	5,045	5,566	9,651
British pound sterling	(3,444)	5,658	50,734	52,948
Canadian dollar	(2,078)	4,219	4,380	6,521
Danish krone	(816)	946	2,674	2,804
Euro	(18,576)	499	87,181	69,104
Hong Kong dollar	(2,441)	-	7,853	5,412
Hungarian forint	(110)	148	-	38
Iceland krona	-	295	-	295
Indonesian rupiah	-	2,215	-	2,215
Israeli shekel	-	-	64	64
Japanese yen	(18,787)	70	59,489	40,772
Malaysian ringgit	-	4,739	-	4,739
Mexican peso	-	3,971	102	4,073
New Zealand dollar	828	3,611	98	4,537
Norwegian krone	502	73	1,931	2,506
Polish zloty	(95)	3,811	-	3,716
Singapore dollar	(480)	-	2,372	1,892
South African rand	-	2,525	96	2,621
South Korean won	2,748	-	146	2,894
Swedish krona	(967)	2,106	4,021	5,160
Swiss franc	(8,684)	48	19,973	11,337
Turkish lira	885	-	-	885
International commingled funds (various currencies)	-	96,600	277,288	373,888
Total international investment securities	$ (54,181)	$ 145,729	$ 537,378	$ 628,926

Alternative Investments - In relation to investment asset allocation, the State considers alternative investments to be any investments that do not fit into any of the other specific asset classes available for investment. Examples of investments the State has included in the alternative investments asset class are private equity, venture capital and distressed debt. All of the investments in this asset class are in the form of limited partnerships with specific time horizons and capital commitments.

Private Equity - Private Equity investments are typically private interests in corporations across different areas of the capital structure and in different stages of the corporations' development via limited partnership vehicles. Private Equity investments are illiquid and long term in nature (10-12 years), typically held until maturity. Private Equity portfolios generally have a —J-Curve Effect" whereby there are low to negative returns in the initial years due to the payment of investment whereby there are low to negative returns in the initial years due to the payment of investment management fees and initial funding of investments made by the General Partner during a period when investments are typically carried at cost and returns have not been realized. To diversify the program, Private Equity investments are made across business cycles, vintage years, and different strategies.

Venture Capital - These include investments in companies in a range of stages of development from start-up/seed stage, early stage, and later/expansion stage. Investments are typically made in years one through six and returns typically occur in years four through ten.

Distressed Debt - These include investments in the debt instruments of companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments, mortgages and bank loans.

The AICPA expands the definition of Alternative Investments for the purpose of performing audits. The expanded definition includes investments for which a readily determinable fair value does not exist (that is, investments not listed on national exchanges or over-the-counter markets, or for which quoted market prices are not available from sources such as financial publications, the exchanges, or Nasdaq). These types of investments can be held within any of the asset classes used by the State based on underlying portfolio holdings and analysis of risk and return relationships. These investments can be structured in different ways, including limited partnerships, limited liability companies, common trusts and mutual funds. Some are closed-ended with a specific life and capital commitment while others are open-ended with opportunity for ad hoc contributions or withdrawals and termination upon proper notice.

Commingled/Mutual Funds - These types of funds are generally open-ended funds and may be utilized in equities or fixed income asset classes. They are funds made up of underlying securities that have readily available market values (publically traded stocks or bonds). The State owns units of these funds rather than the individual securities. Contributions or withdrawals from these fund can be done as needed.

Private Equity – See definition above. The State has determined that private equity investments add diversification opportunities within asset classes that traditionally hold public equity investments. Therefore, there are private equity investments within equity asset classes as well as the alternative investments asset class.

Distressed Equity - See definition above. The State has determined that certain distressed debt investments add diversification and return opportunities within traditional fixed income asset classes. Therefore, there are distressed debt investments within fixed income asset classes as well as the alternative investments asset class.

Mezzanine Debt - This strategy is a hybrid of debt and equity financing. It is basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to senior debt. The State utilizes this strategy, through a limited partnership structure, in its high yield bond allocation.

Equity Long/Short - This strategy is a combination of long and short positions, primarily in publicly traded equities. The State utilizes this strategy in its US equity allocations.

Portable Alpha Strategies - This strategy separates alpha from beta in a portfolio by investing in securities that differ from the market index from which their beta is derived. Alpha is the return achieved over and above the return that results from the correlation between the portfolio and the market (beta). This strategy involves investing in areas that have little to no correlation with the beta of the portfolio. The State utilizes this strategy in its US equity and fixed income allocations.

Real Estate and Real "Tangible" Assets - These investments are intended to provide allocations to tangible assets that are expected to be inflation protected and provide performance above the inflation rate as indicated by the CPI. Investments in Real Estate and Real Estate Assets include:

Real Estate – includes investments in private vehicles through limited partnerships or commingled vehicles that have an ownership interest in direct real estate properties. The investment strategies may include "value added" strategies, which derive their return from both income and appreciation, "opportunistic", which derive their return primarily through appreciation, and "alternative" which invest in less traditional types of property. Both domestic and international real estate funds are utilized. The State has a dedicated asset class for these types of investments.

Timberland – includes investments in limited liability companies that have an ownership interest in properties where the value of the property is derived mainly from income-producing timber but also from the "higher and better use" value of the underlying land. The State has analyzed this type of investment and determined that its risk and return profile is very similar to bonds. Therefore, they have chosen to include timberland in fixed income asset allocations to provide additional diversification and return options.

Infrastructure – includes investments in limited partnerships that have an ownership interest in transportation assets such as toll roads, tunnels and bridges; and regulated assets such as electricity transmission, gas and oil distribution and wastewater collection. Other possible investments would include communication assets and social infrastructure. Similar to timberland, the State has included these types of investments in fixed income asset allocations.

C. SECURITIES LENDING

The following represents the balances relating to the securities lending transactions at June 30, 2009 (expressed in thousands).

Primary Government (Includes Pension and Investment Trust Funds)

Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for cash collateral:			
US agency securities	$ 4,231	$ -	$ 4,332
US government securities	69,477	-	70,739
US corporate fixed income securities	41,406	-	42,478
US equities	29,683	-	31,233
Global equities	558	-	574
Lent for non-cash collateral:			
US agency securities	-	-	-
US government securities	919	373	-
US corporate fixed income securities	-	-	-
US equities	-	-	-
Global equities	-	-	-
Total	$ 146,274	$ 373	$ 149,356

D. ENDOWMENT FUNDS

The endowment funds reported herein are donor-restricted funds in the custody of the University System. Investment income on the amount endowed is restricted for scholarships and other purposes. NDCC Section 15-67-04 applies to the investment of endowments governed by a gift instrument. 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. NDCC Section 15-67-06 applies to standard of conduct in the administration of powers to make and retain investments. It states ―In the administration of the powers to appropriate appreciation and in making investment decisions, members of the governing board shall consider long-term and short-term needs of the institution in carrying out its purposes, its present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions." Given the flexibility in NDCC 15-67-06, campuses have differing policies with respect to spending investment income and net appreciation on endowment funds. UND's policy allows up to 4.5% of the average of the last five years of assets in the Alerus endowment pool to be expended. MiSU allows for 4.5 percent of earnings to be used for scholarships and .5 percent for administrative expenses. MaSU, VCSU and WSC give departments authority to spend all investment income earned on the endowment funds. Net appreciation on investments are available for expenditure and consists of the following at June 30, 2009:

		Reflected in net assets as:
Mayville State University	$ 594	Expendable scholarships & fellowships
Minot State University	62,898	Expendable scholarships & fellowships
University of North Dakota	458,000	Non –expendable scholarships & fellowships
Williston State College	3,685	Cash in bank
Total NDUS	$ 525,177	

Endowment funds reported herein do not include the Federal Land Grant Fund held by the State Land Department. The annual proceeds from assets held by the State Land Commissioner are deposited into each college/university's operating fund at the State Treasury and are used for current operating purposes. Bismarck State College, Lake Region State College and Williston State College do not participate in the proceeds allocated by the State Land Department. Total assets held by the State Land Department and proceeds for the fiscal year ended June 30, 2009 are $41,821,933 and $1,430,000, respectively.

E. 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, 2009, the State had reverse repurchase agreements of $3,075,000 included in securities lending collateral on the statement of net assets. The highest month end balance for the previous year was $141,755,000, with an average daily balance of $87,114,000. The weighted average interest rate as of year end was 0.25 percent. The weighted average interest rate paid during the year was 1.90 percent. The fair value of these securities at June 30, 2009, was $3,075,000.

F. RECEIVABLES

Receivables at June 30, 2009, consist of the following (expressed in thousands):

	General	Federal	School Permanent Trust Fund	Other Governmental Funds	Bank of North Dakota	Housing Finance	Mill & Elevator	University System
Receivables:								
Accounts	$ 7,532	$ 7,252	$ 9,804	$ 40,973	$ -	$ 549	$ 31,987	$ 24,624
Less Allowance	(4,072)	-	-	(11,872)	-	-	(1,556)	(3,601)
Taxes	213,253	-	1,854	66,464	-	-	-	-
Less Allowance	(22,097)	-	-	(1,138)	-	-	-	-
Interest	97	-	7,307	2,055	34,651	3,693	-	-
Less Allowance	-	-	-	(1,059)	-	-	-	-
Current Loans and Notes	167	280	2,757	72,198	461,234	15,857	-	10,181
Less Allowance	(26)	-	-	(3,854)	-	-	-	(1,466)
Noncurrent Loans and Notes	-	-	35,577	-	2,110,526	808,387	-	36,705
Less Allowance	-	-	-	-	(36,750)	-	-	(4,888)
Net Receivables	$ 194,854	$ 7,532	$ 57,299	$ 163,767	$ 2,569,661	$ 828,486	$ 30,431	$ 61,555

	Workforce Safety & Insurance	Other Enterprise Funds	Internal Service Funds	Fiduciary Funds	Major Component Units	Total
Receivables:						
Accounts	$ 22,239	$ 24,498	$ 526	$ 6,283	$ 19,106	$ 195,373
Less Allowance	(4,500)	(6,257)	-	-	-	(31,858)
Taxes	-	-	-	16,488	-	298,059
Less Allowance	-	-	-	(2,308)	-	(25,543)
Interest	8,522	2,921	54	9,793	4,218	73,311
Less Allowance	-	-	-	-	-	(1,059)
Current Loans and Notes	-	9,462	-	-	2,346	574,482
Less Allowance	-	-	-	-	-	(5,346)
Noncurrent Loans and Notes	-	73,313	-	-	14,819	3,079,327
Less Allowance	-	(1,013)	-	-	(5,487)	(48,138)
Net Receivables	$ 26,261	$ 102,924	$ 580	$ 30,256	$ 35,002	$ 4,108,608

G. INTERFUND ACCOUNTS AND TRANSFERS

DUE FROM OTHER FUNDS/DUE TO OTHER FUNDS

Interfund balances at June 30, 2009, consist of the following (expressed in thousands):

Due To General Fund From:	
Federal Fund	$ 81,337
Nonmajor Governmental Funds	11,450
Bank of North Dakota	2,401
Nonmajor Enterprise Funds	5,755
All Others	254
Total Due To General Fund	$ 101,197
Due To Federal Fund From:	
General Fund	$ 2,454
Nonmajor Governmental Funds	11,205
All Others	1,241
Total Due To Federal Fund	$ 14,900
Due To Internal Service Funds From:	
General Fund	$ 3,837
Federal Fund	625
Nonmajor Governmental Funds	814
University System	645
All Others	619
Total Due To Internal Service Funds	$ 6,540
Due To School Permanent Trust Fund From:	
Nonmajor Enterprise Funds	$ 1,186
All Others	858
Total Due To School Permanent Trust Fund	$ 2,044

Included in the Nonmajor Enterprise Funds is an advance from the Developmentally Disabled Fund for $838,425. This is not expected to be repaid within one year.

Due To Nonmajor Governmental Funds From:	
General Fund	$ 40,811
Federal Fund	14,705
Nonmajor Governmental Funds	9,910
Internal Service Funds	594
All Others	582
Total Due To Nonmajor Governmental Funds	$ 66,602
Due To Bank of North Dakota From:	
Housing Finance	$ 9,648
Mill and Elevator	34,894
University System	1,573
Nonmajor Enterprise Funds	968
All Others	799
Total Due To Bank of North Dakota	$ 47,882
Due To University System From:	
General Fund	$ 8,363
Federal Fund	2,271
All Others	1,389
Total Due To University System	$ 12,023
Due To All Other Funds From:	
All Other	$ 1,330

Included in this category are all other enterprise funds 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, 2009.

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

Due From's		$ 252,518
Differences:		
General Fund/Bank of ND	12,599	
Bank of ND/Housing Finance	(6,898)	
Mill & Elevator/Bank of ND	3,706	
University System/Bank of ND	309	
Student Loan Trust/Bank of ND	(72)	
School Permanent Trust Fund/ Developmentally Disabled Loan Fund	(39)	
Bank of ND/Guaranteed Student Loan	199	
Governmental Agencies/Bank of ND	5,991	
Enterprise Funds/Bank of ND	2,188	
Total Differences		17,983
Due To's		$ 270,501

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, 2009, follows (expressed in thousands):

	Transfers In						
	General	Federal	Non-major Governmental	Housing Finance	University System	Non-major Enterprise	Total
Transfers Out							
General	$ -	$ -	$ 61,678	$ -	$ 283,085	$ -	$ 344,763
Federal	-	-	37,548	364	-	-	37,912
School Permanent Trust Fund	-	-	34,170	-	1,430	-	35,600
Non-major Governmental	24,766	8,375	35,624	-	19,244	1,218	89,227
Bank of North Dakota	20,004	-	-	-	-	-	20,004
Housing Finance	-	-	31	-	-	-	31
University System	-	-	8,234	-	-	-	8,234
Non-major Enterprise	-	-	6,789	-	-	-	6,789
Mill & Elevator	-	-	36	-	-	-	36
Total	$ 44,770	$ 8,375	$ 184,110	$ 364	$ 303,759	$ 1,218	$ 542,596

(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, 2009, legislatively-mandated transfers were made to the general fund of $115 million and $5.3 million from the Permanent Oil Tax and the State Lottery respectively.

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

Transfers Out		$ 542,596
Differences:		
General Fund/Bank of ND	39,996	
Federal Fund/Bank of ND	827	
Beginning Farmer/PACE	156	
State Fair/Bank of ND	(58)	
Total Differences		40,921
Transfers In		$ 583,517

The above timing differences of $26,507,000 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.

H. CAPITAL ASSETS

PRIMARY GOVERNMENT:

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

Description	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Governmental Activities:				
Capital Assets Not Being Depreciated				
Land	$ 63,211	$ 4,848	$ (7)	$ 68,052
Construction in Progress	457,976	79,548	(94,632)	442,892
Total Capital Assets Not Being Depreciated	521,187	84,396	(94,639)	510,944
Capital Assets Being Depreciated:				
Buildings and Improvements	405,812	30,911	(423)	436,300
Equipment	262,857	29,929	(16,149)	276,637
Infrastructure	3,073,481	74,431	(106)	3,147,806
Total Capital Assets Being Depreciated	3,742,150	135,271	(16,678)	3,860,743
Less Accumulated Depreciation for:				
Buildings and Improvements	(176,653)	(9,312)	300	(185,665)
Equipment	(127,188)	(19,512)	13,027	(133,673)
Infrastructure	(2,472,088)	(37,681)	73	(2,509,696)
Total Accumulated Deprecation	(2,775,929)	(66,505)	13,400	(2,829,034)
Total Capital Assets Being Depreciated, Net	966,221	68,766	(3,278)	1,031,709
Governmental Activities Capital Assets, Net	$ 1,487,408	$ 153,162	$ (97,917)	$ 1,542,653

Infrastructure assets of the State Water Commission, with a carrying value of $30,516,290 are considered temporarily impaired at June 30, 2009.

Description	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Business-Type Activities:				
Capital Assets Not Being Depreciated				
Land	$ 19,436	$ -	$ (672)	$ 18,764
Construction in Progress	57,910	46,116	(61,157)	42,869
Total Capital Assets Not Being Depreciated	77,346	46,116	(61,829)	61,633
Capital Assets Being Depreciated:				
Buildings and Improvements	852,599	69,581	(4,762)	917,418
Equipment	402,515	35,181	(17,161)	420,535
Infrastructure	150,640	7,783	-	158,423
Total Capital Assets Being Depreciated	1,405,754	112,545	(21,923)	1,496,376
Less Accumulated Depreciation for:				
Buildings and Improvements	(378,352)	(22,720)	3,925	(397,147)
Equipment	(247,316)	(23,965)	14,459	(256,822)
Infrastructure	(65,216)	(3,729)	-	(68,945)
Total Accumulated Deprecation	(690,884)	(50,414)	18,384	(722,914)
Total Capital Assets Being Depreciated, Net	714,870	62,131	(3,539)	773,462
Business-Type Activities Capital Assets, Net	$ 792,216	$ 108,247	$ (65,368)	$ 835,095

Description	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Major Component Units:				
Capital Assets Not Being Depreciated				
Land	$ 3,215	$ 22	$ -	$ 3,237
Construction in Progress	10,351	496	(10,846)	1
Total Capital Assets Not Being Depreciated	13,566	518	(10,846)	3,238
Capital Assets Being Depreciated:				
Buildings and Improvements	120,623	32	(14)	120,641
Equipment	21,030	13,185	(3,997)	30,218
Infrastructure	1,638	10,846	-	12,484
Total Capital Assets Being Depreciated	143,291	24,063	(4,011)	163,343
Less Accumulated Depreciation for:				
Buildings and Improvements	(27,340)	(6,278)	14	(33,604)
Equipment	(6,231)	(2,118)	451	(7,898)
Infrastructure	(235)	(191)	-	(426)
Total Accumulated Deprecation	(33,806)	(8,587)	465	(41,928)
Total Capital Assets Being Depreciated, Net	109,485	15,476	(3,546)	121,415
Major Component Unit Capital Assets, Net	$ 123,051	$ 15,994	$ (14,392)	$ 124,653

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	$ 6,362
Education	337
Health and Human Services	4,205
Regulatory	249
Public Safety & Corrections	7,698
Agriculture and Commerce	138
Natural Resources	6,524
Transportation	40,992
Total Governmental Activities Depreciation Expense	$ 66,505

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

Project Description:

Governmental Activities	Amount Authorized	Amount Expended Through June 30, 2009	Balance Authorized
Office of Management and Budget	$ 5,398	$ 2,018	$ 3,380
State Courts	1,538	758	780
Legislative Assembly	2,137	575	1,562
Secretary of State	709	709	-
School for the Deaf	286	55	231
Department of Health	338	278	60
Veterans Home	35,077	4,206	30,871
Department of Human Services	5,109	4,394	715
Adjutant General	35,794	20,884	14,910
Department of Corrections	295	86	209
Game and Fish	1,264	285	979
Job Service North Dakota	6,324	386	5,938
Department of Transportation	487,340	408,199	79,141
Fleet Services	127	59	68
Total Governmental Activities	$ 581,736	$ 442,892	$ 138,844

Business-Type Activities	Amount Authorized	Amount Expended Through June 30, 2009	Balance Authorized
Mill and Elevator	$ 3,475	$ 2,378	$ 1,097
Workforce Safety and Insurance	14,000	7,011	6,989
State Fair	250	120	130
PERS Group Insurance	2,759	1,763	996
University System	84,563	31,597	52,966
Total Business-Type Activities	$ 105,047	$ 42,869	$ 62,178

Major Component Units	Amount Authorized	Amount Expended Through June 30, 2009	Balance Authorized
UND Aerospace Foundation	$ 200	$ 1	$ 199

I. 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, 2009, amounted to $11,374,584 for governmental activities and $8,621,241 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, 2009, for all fund types are as follows (expressed in thousands):

Year Ending June 30	Governmental Activities	Business-type Activities
2010	$ 4,693	$ 6,039
2011	2,727	4,657
2012	1,289	3,615
2013	850	2,818
2014	382	2,170
2015-2019	908	6,189
2020-2024	137	433
2025-2029	-	253
2030-2034	-	114
Total Minimum Lease Payments	$ 10,986	$ 26,288

J. 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, 2009 (expressed in thousands):

Year Ending June 30	Governmental Activities	Business-type Activities	Major Component Units
2010	$ 1,528	$ 12,401	$ 171
2011	1,191	9,065	126
2012	974	7,360	126
2013	789	6,673	126
2014	8	6,141	126
2015-2019	-	25,928	632
2020-2024	-	13,617	632
2025-2029	-	12,523	632
2030-2034	-	2,042	569
2035-2039	-	1,822	-
2040-2044	-	729	-
Total Minimum Lease Payments	4,490	98,301	3,140
Less: Amount Representing Interest	(434)	(30,204)	(1,273)
Present Value of Future Minimum Lease Payments	$ 4,056	$ 68,097	$ 1,867

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, 2009, is as follows (expressed in thousands):

	Governmental Activities	Business-Type Activities	Major Component Units
Infrastructure	$ -	$ 1,660	$ -
Buildings	-	46,319	-
Equipment	10,415	33,302	1,978
Less: Accumulated Depreciation	(5,217)	(20,868)	(432)
Total	$ 5,198	$ 60,413	$ 1,546

K. 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, 2009, 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 B and C Bonds, the 2001 Series A Bonds, the 2002 Series A and D Bonds, the 2003 Series A, B, and C Bonds, the 2005 Series A Bonds, and the 2006 Series A and B Bonds have interest payable semiannually on June 1 and December 1 of each year. The bonds of each series are subject to optional and/or extraordinary optional redemption prior to maturity upon the occurrence of certain events. The bonds are independently secured by the funds, certain mortgaged property, and all rights, titles, and interests of the Building Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Building Authority with respect to the lease.

All the bond agreements require the establishment and maintenance of reserve funds to be used for debt service payments if amounts in the bond funds are insufficient to make payments. Reserve funds are also required for any positive arbitrage due to the federal government.

Water Commission

The Water Commission was granted authority to issue bonds to finance various flood control and pipeline projects throughout the state of North Dakota.

Interest is payable semiannually on January 1 and July 1 of each year for the Series 2000 A Term Bonds and Series 2007 B, and February 1 and August 1 for the Series 2000 A, 2005 A, 2005 B and 2007 B 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.

Department of Transportation

The North Dakota Department of Transportation (NDDOT) is authorized pursuant to NDCC 24-02, to issue grant and revenue anticipation bonds for the purpose of financing certain qualified federal aid transportation projects. The Series 2005 Bonds are limited obligations of NDDOT, payable solely from federal transportation funds, pledged state highway funds and other moneys.

Interest on the Series 2005 Bonds is payable on June 1 and December 1, of each year. Bonds maturing on or after June 1, 2016, are subject to redemption prior to maturity at the option of NDDOT, at any time on or after June 1, 2015, at a redemption price equal to 100% of the principal amount 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

Interest is payable semiannually on June 1 and December 1 of each year. The proceeds of the Series 2000 B Bonds were used to provide funds for the acquisition of student loans from the Bank of North Dakota. The 2000 Series B Bonds are fixed rate bonds. Under certain conditions, the Industrial Commission may call for early redemption of the 2000 Series 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 lesser of either the one-month LIBOR plus .7% or Federal Home Loan Bank plus .7%. Details of the terms and provisions of the variable rate bonds are outlined in Section 2.1 of the Fourth Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution. Section 2.2 of the Fourth Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution has deemed these to be Federally Taxable Bonds. 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.

Interest is payable semiannually on June 1 and December 1 of each year. The Subordinate Series 2004 Bonds are variable rate bonds. The rate of interest is determined based on the lesser of either the one-month LIBOR plus .7% or Federal Home Loan Bank plus .7%. Details of the terms and provisions of the variable rate bonds are outlined in Section 2.1 of the Fourth Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution. The Subordinate 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

Public Finance Authority

The bonds of the Public Finance Authority 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 Public Finance Authority 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 6/30/09
Primary Government			
Governmental:			
Building Authority	2010-2025	2.00-5.35	$ 94,396
Water Commission	2010-2048	2.50-5.50	107,093 [1]
Department of Transportation	2010-2020	3.00-5.00	46,460
Information Technology Department	2010-2014	4.50-5.25	3,577
Proprietary:			
State Fair	2010-2012	3.50-4.60	957
Student Loan Trust	2026-2029	1.01-5.85	15,200 [2]
Housing Finance:			
Homeownership	2010-2040	1.45-6.15	849,586 [2]
University System:			
VCSU—Valley City	2010-2033	4.30-7.25	3,190
Williston State College	2010-2019	0-4.75	426
Lake Region State College	2010-2017	4.00-5.125	745
UND—Grand Forks	2010-2036	0-5.00	71,550
NDSU—Fargo	2010-2037	0-5.60	87,700
NDSCS—Wahpeton	2010-2016	0-5.50	1,050
MiSU–Minot	2010-2030	0-5.25	5,585
MiSU—Bottineau	2010-2012	6.25-6.95	81
MaSU—Mayville	2010-2018	4.80-5.38	2,302
DSU—Dickinson	2010-2020	4.00-5.00	630
BSC—Bismarck	2010-2030	3.4-6.1	4,020
NDUS – Univ. Sys. State Office	2010-2014	0-4.28	8,520
Total Revenue Bonds Payable— Primary Government			$ 1,303,068
Major Component Units			
Proprietary:			
Public Finance Authority	2010-2033	2.00-10.00	$ 175,008
NDSU Research and Technology Park, Inc.	2010-2032	3.00-5.40	27,925
NDSU Development Foundation	2010-2039	1.50-5.19	23,164
Arena Holdings Charitable LLC	2010-2030	4.60	5,765
UND Foundation	2010-2027	2.50-5.00	13,967
DSU Foundation	2010-2024	5.89	9,200
BSC Foundation	2010-2032	4.50-5.25	4,203
Total Revenue Bonds Payable— Major Component Units			$ 259,232

1) Approximately $57 million of the Water Commission's bonds payable is not associated with fixed assets of the State.
2) Entire amount of bonds payable are not associated with fixed assets of the State.

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
2010	$ 17,595	$ 10,677
2011	17,483	10,034
2012	16,709	9,339
2013	16,720	8,675
2014	17,629	8,039
2015-2019	84,129	28,424
2020-2024	52,805	11,683
2025-2029	17,383	2,771
2030-2034	3,588	1,105
2035-2039	1,153	692
2040-2044	1,417	438
2045-2049	1,246	140
Bond Premium	4,926	(4,926)
Deferred Amount On Refunding	(1,257)	1,257
Total	$ 251,526	$ 88,348

Business-type Activities

Fiscal Year	Principal	Interest
2010	$ 28,159	$ 48,643
2011	33,704	47,401
2012	34,163	46,029
2013	32,172	44,592
2014	30,566	43,229
2015-2019	133,235	197,909
2020-2024	144,035	165,358
2025-2029	197,875	123,842
2030-2034	206,535	73,689
2035-2039	200,595	21,927
2040-2044	4,290	84
Bond Premium	6,213	(6,213)
Total	$ 1,051,542	$ 806,490

Major Component Units

Fiscal Year	Principal	Interest
2010	$ 15,275	$ 11,000
2011	15,395	10,830
2012	15,559	10,197
2013	15,254	9,535
2014	15,657	8,869
2015-2019	78,235	34,203
2020-2024	58,143	18,068
2025-2029	38,615	7,073
2030-2034	5,270	780
2035-2039	511	59
Bond Premium	1,318	(1,318)
Total	$ 259,232	$ 109,296

2. NOTES PAYABLE

The following is a schedule of notes payable outstanding at June 30, 2009 (expressed in thousands):

Fund Type/Fund	Maturities	Interest Rates	Balance 6/30/08
Primary Government			
Governmental:			
Department of Corrections	2010-2015	4.59	$ 489
Department of Human Services	2010-2015	4.24	3,372
Department of Transportation	2010-2022	4.18	2,309
Office of Management and Budget	2010-2022	4.18	4,183
Tax Department	2010-2013	3.166	9,916
School for the Deaf	2010-2021	4.8408	253
Information Technology Department	2010-2013	3.47	6,000
Proprietary:			
Bank of North Dakota	2010-2022	3.27-7.35	315,604
University System	2010-2015	4.09-5.52	3,243
Major Component Units			
UND Aerospace Foundation	2010-2019	2.22-6.00	7,939
NDSU Development Foundation	2010-2013	2.77-6.86	1,989
NDSU Research & Tech Park	2010-2017	0.0-7.50	710
UND Foundation	2010-2012	5.00	300
DSU Foundation	2010-2013	5.625-6.785	596

(1) The Bank of North Dakota issued short-term debt to fund loans on a short-term basis.

The Public Finance Authority has a note payable of $3,668,000 due to the Bank of North Dakota which is reported in the state's financial statements as a due to 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
2010	$ 4,395	$ 944
2011	5,424	768
2012	5,648	575
2013	4,834	386
2014	1,241	240
2015–2019	2,919	779
2020–2024	2,061	145
Total	$ 26,522	$ 3,837

Business-type Activities

Fiscal Year	Principal	Interest
2010	$ 6,089	$ 15,303
2011	946	15,112
2012	33,894	14,314
2013	630	13,104
2014	62,243	11,523
2015–2019	190,445	41,576
2020–2024	24,600	3,659
Total	$ 318,847	$ 114,591

Major Component Units

Fiscal Year	Principal	Interest
2010	$ 1,922	$ 557
2011	1,883	460
2012	1,196	373
2013	1,284	305
2014	2,859	176
2015–2019	2,390	226
Total	$ 11,534	$ 2,097

Changes in General Long-Term Liabilities

Changes in Long-Term Liabilities for the year ended June 30, 2009, are summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Notes Payable	$ 35,726	$ -	$ (9,203)	$ 26,523	$ 4,396
Bonds Payable	265,665	3,005	(17,144)	251,526	17,730
Capital Leases Payable	5,236	89	(1,269)	4,056	1,338
Intergovernmental Payable	385	120	-	505	56
Compensated Absences	34,039	23,612	(21,971)	35,680	1,970
Claims/Judgments Payable	8,004	4,074	(4,336)	7,742	3,190
Total Long-Term Liabilities	$ 349,055	$ 30,900	$ (53,923)	$ 326,032	$ 28,680
Business-Type Activities:					
Notes Payable	$ 250,645	$ 160,200	$ (91,998)	$ 318,847	$ 6,089
Bonds Payable	1,197,845	139,750	(286,053)	1,051,542	28,159
Capital Leases Payable	50,046	27,891	(9,840)	68,097	8,601
Intergovernmental Payable	7,547	10,508	(9,477)	8,578	726
Compensated Absences	25,648	3,510	(1,186)	27,972	2,374
Dividends Payable	91,581	-	(89,936)	1,645	1,645
Claims/Judgments Payable	741,864	180,267	(149,286)	772,845	97,119
Total Long-Term Liabilities	$ 2,365,176	$ 522,126	$ (637,776)	$ 2,249,526	$ 144,713
Major Component Units:					
Notes Payable	$ 8,383	$ 6,988	$ (3,837)	$ 11,534	$ 1,922
Bonds Payable	226,938	62,840	(30,546)	259,232	15,274
Capital Leases Payable	1,952	-	(85)	1,867	83
Intergovernmental Payable	967	94	(260)	801	28
Total Long-Term Liabilities	$ 238,240	$ 69,922	$ (34,728)	$ 273,434	$ 17,307

Bonds payable reductions include amortization of premium and deferred bond refunding costs.

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, $1,600,081 of internal service fund compensated absences and $6,071,092 of claims and judgments are included in the above amounts. Other governmental activities compensated absences generally have been liquidated by the General Fund (53%), the Highway Fund (15%), the Federal Fund (21%), and other various funds. Other governmental activities claims and judgments have all been liquidated by the Petroleum Release Compensation Fund.

3. DEFEASED DEBT

Primary Government

Building Authority

On February 15, 2006, the Authority issued $10,460,000 Lease Revenue Refunding Bonds, 2006 A. The proceeds of the issue were for an advance refunding of 1998 Series A and 2000 Series A. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the refunded bonds. The reacquisition price exceeded the net carrying amount of the old debt by $438,000. 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 fourteen years by $440,000 and resulted in an economic gain of $288,000. As of June 30, 2009, there were bonds of $8,250,000.

Water Commission

On March 17, 2005, the Water Commission issued $21,630,000 Water Development Trust Fund, Water Development and Management Program Refunding Bonds, 2005 Series A. The proceeds of the 2005 Series A Bonds were used to establish an irrevocable escrow account to advance refund the callable maturities totaling $20,340,000 of the Water Commission's outstanding $32,095,000 Water Development Trust Fund, Water Development and Management Program Bonds, 2000 Series A. As of June 30, 2009, $20,340,000 of the 2000 Series A Bonds outstanding is considered defeased, and the liability for those 2000 Series A 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, 2009, $2,855,000 of bonds outstanding is considered defeased.

University System

North Dakota State University

On December 30, 1985, the North Dakota State University issued $4,833,813 of Housing and Auxiliary Facilities Revenue Refunding Bonds (Series 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 principal amount outstanding as of June 30, 2009, of the original bonds refunded by the advance refunding total $430,000.

On January 25, 2007, the NDSU Research & Technology Park, Inc., issued $22,835,000 of Lease Revenue Refunding Bonds, Series 2007A and 2007B with an average true interest rate of 4.30 percent. The bonds were used to advance refund a portion ($21,580,000) of outstanding Series 2000 Lease Revenue Bonds and Series 2002 Lease Revenue Bonds (with an average interest rate of 5.5 and 4.9 percent, respectively). The NDSU Research & Technology Park advance refunded the funds to reduce its total debt service payments over the next 24 years by approximately $1,075,086 and to obtain an economic gain (difference of the present values of the debt service payments on the old and new debt) of approximately $635,567. The principal amount outstanding as of June 30, 2009 or the original amount of the portion of the Series 2000 and 2002 bonds refunded, totaled $22,445,000.

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). These bonds were used to (1) refund, defease and discharge outstanding North Dakota State School of Science Married Student Housing Revenue Bonds 1970 and Dormitory Revenue Bonds of 1972; (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. The principal amount outstanding as of June 30, 2009, of the original bonds refunded is $475,000.

Component Units

Public Finance Authority Bonds

The Finance Authority issued $11,790,000 of revenue bonds (Series 2004 A SRF Bonds) with an average interest rate of 4.16% on October 5, 2004. The net proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As of December 31, 2008, $11,005,000 of bonds outstanding is considered defeased, and the liability has been removed from the balance sheet.

L. 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 $3,016,739 at June 30, 2009. These amounts are reported in the Government-wide and Proprietary Fund Type financial statements as an intergovernmental payable.

NOTE 4 – NET ASSETS

The government-wide statement of net assets reports $2,002,670,483 of restricted net assets, of which $562,632,585 is restricted by enabling legislation.

NOTE 5 – RETIREMENT SYSTEMS

A. DESCRIPTION OF PLANS

The State of North Dakota administers four major retirement systems: North Dakota Public Employees' Retirement System, North Dakota Highway Patrolmen's Retirement System, Retirement Plan for the Employees of Job Service North Dakota and the Teachers' Fund for Retirement. The State also administers the North Dakota Defined Contribution Retirement Plan, which was established January 1, 2000. These retirement systems have implemented Governmental Accounting Standards Boards Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for

Defined Contribution Plans, and Statement No. 27, Accounting for Pensions by State and Local Governmental Employers. Certain state employees may also participate in a privately administered retirement system: Teachers' Insurance Annuity Association. The following is a brief description of each plan. More detailed information can be found in the plan agreements and the related legislation.

NORTH DAKOTA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

The North Dakota Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan covering substantially all employees of the State of North Dakota, its agencies, and various participating political subdivisions (Main System). It also covers Supreme and district court judges, the National Guard Security Officers and Firefighters, and as of August 1, 2003, 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, 2009, the number of participating local political subdivisions in PERS was:

Cities and Park Districts	80
Counties	48
School Districts	108
Other	65
Total Participating Local	301

Death and disability benefits are set by statute. If an active employee dies with less than three years of service for the Main System and National Guard/Law Enforcement, or less than five years of service for Supreme and district court judges, 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 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) or the rule of 85 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 at normal retirement age (55), and Law Enforcement, normal retirement age (55) or the rule of 85, 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. The plan permits early retirement at ages 50-55 with three or more years of service.

Employees may elect to receive the pension benefits in the form of a single life, joint and survivor, level social security, term-certain annuity, or partial lump sum with ongoing 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 6.50% 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. 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 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 three years of service for the Main System and National Guard/Law Enforcement, or five years of service for the Supreme and district court judges, 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 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, which is the same as the aggregate 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. The ―scheduled contribution" and amortization will be determined when the plan is not in surplus and will be based on a funding policy adopted by the employer.

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, 2009, the number of participating employer units in TFFR was:

Type	Number
Special Education Units	21
Vocational Education Units	5
Public School Districts	184
County Superintendents	11
Other	10
Total	231

Effective July 1, 2008, for purposes of determining pension benefits, members are classified as those employed before July 1, 2008, who have not taken a refund (Tier 1), and those employed after July 1, 2008 (Tier 2).

Tier 1 - 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 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 Section 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. All members may be eligible for legislative increases in monthly benefits.

Tier 2 - A member is entitled to receive full benefits when five 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 90. 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 90. 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 Section 15-39.1-10. Monthly benefits under TFFR are equal to the five highest annual salaries earned divided by 60 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. All members 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 8.25% of the teacher's salary, until the fund reaches 90% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of assessments paid plus 6% or defer payment until eligible for pension benefits. A nonvested member who terminates covered employment must claim a refund of contributions paid before 70 ½. 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:	7,188	109	214	6,466
Special Prior Service Retirees:	22	-	-	-
Terminated Employees:				
Vested	3,270	4	4	1,490
Nonvested	2,025	1	-	292
Total Terminated Employees	5,295	5	4	1,782
Active Employees:				
Vested	14,281	66	35	8,301
Nonvested	5,662	67	-	1,406
Total Active Employees	19,943	133	35	9,707
Date of Annual Valuation	July 1, 2009	July 1, 2009	July 1, 2009	July 1, 2009

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.

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.

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, 2009	July 1, 2009	July 1, 2009
Actuarial Cost Method	Entry Age Normal	Frozen Initial Liability**	Entry Age Normal
Amortization Method	Level Percent Open	Level Dollar Closed	Level Percentage of Payroll
Remaining Amortization Period	20 years	15 years	30 years***
Asset Valuation Method	5-year smoothed market	5-year smoothed market	5-year smoothed market
Actuarial Assumptions:			
Investment rate of return	8.0%	7.5%	8.0%
Projected salary increase	4.5%*	5.0%	4.5% to 14.0%
Includes inflation at	3.5%	5.0%	3.0%
Post retirement cost-of-living	None	5.0%	None

* Inflation together with wage increases attributable to seniority, merit and ―standard of living" increases.

** As of July 1, 2008, the actuarial value of assets exceeds the present value of projected benefits; therefore, the unfunded actuarial accrued liability is currently zero. The frozen initial liability actuarial cost method is the same as the aggregate cost method.

*** The GASB Annual Required Contribution (ARC) for this plan is defined as the larger of (a) the sum of (i) the employer normal costs, and (ii) an amount necessary to amortize the UAAL as a level percentage of payroll over an open 30-year amortization period, and (b) the 8.25% statutory employer contribution rate. Payroll is assumed to increase at 2.00% per annum.

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, 2004	$ 1,196.5	$ 1,272.9	$ 76.4	94.0%	$ 501.0	15.3%
July 1, 2005	1,236.1	1,361.2	125.1	90.8%	521.1	24.0%
July 1, 2006	1,314.5	1,480.5	166.0	86.8%	547.0	30.3%
July 1, 2007	1,503.1	1,610.2	107.1	93.4%	582.3	18.4%
July 1, 2008	1,609.8	1,737.6	127.8	92.6%	640.7	19.9%
July 1, 2009	1,617.1	1,901.2	284.1	85.1%	697.7	40.7%
NDHPRS						
July 1, 2004	$ 40.0	$ 44.5	$ 4.5	89.9%	$ 5.4	83.3%
July 1, 2005	40.7	46.3	5.6	87.9%	5.3	105.7%
July 1, 2006	42.8	49.1	6.3	87.0%	5.7	110.5%
July 1, 2007	48.2	51.5	3.3	93.5%	6.1	54.1%
July 1, 2008	50.8	54.6	3.8	93.0%	6.5	58.5%
July 1, 2009	50.2	57.6	7.4	87.2%	7.0	105.0%
JSND						
July 1, 2004	$ 67.5	N/A*	$ -	N/A	$ 2.5	0.0%
July 1, 2005	69.3	N/A	-	N/A	2.2	0.0%
July 1, 2006	70.6	N/A	-	N/A	1.9	0.0%
July 1, 2007	75.7	70.7	(5.0)	107.1%	1.8	0.0%
July 1, 2008	77.0	70.8	(6.2)	108.8%	1.8	0.0%
July 1, 2009	74.5	71.1	(3.4)	104.7%	1.7	0.0%
TFFR						
July 1, 2004	$ 1,445.6	$ 1,800.4	$ 354.8	80.3%	$ 376.5	94.2%
July 1, 2005	1,469.7	1,965.2	495.5	74.8%	386.6	128.2%
July 1, 2006	1,564.0	2,073.9	509.9	75.4%	390.1	130.7%
July 1, 2007	1,750.1	2,209.3	459.2	79.2%	401.3	114.4%
July 1, 2008	1,909.5	2,330.6	421.1	81.9%	417.7	100.8%
July 1, 2009	1,990.3	2,445.9	545.6	77.7%	440.0	124.0%

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

D. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Employer contribution rates for PERS 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, which is the same as the aggregate 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 8.25 percent of the teacher's salary, until the fund reaches 90% funded ratio on an actuarial basis.

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

Schedule of Employer Contributions

	Annual Required Contribution	Percentage Contributed
PERS		
2007	$ 38,184,510	61.0%
2008	35,875,117	70.0%
2009	40,327,067	69.0%
TFFR		
2007	$ 50,532,462	63.1%
2008	44,114,585	76.4%
2009	41,986,174	89.3%

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, 2009:

	NDHPRS	JSND
Annual required contributions	$ 1,025,737	$ -
Interest on net pension obligations	(57,978)	(123,645)
Adjustment to annual required contributions	50,579	129,850
Annual pension costs	1,018,338	6,205
Contributions made	1,122,720	-
Increase in net pension obligations	(104,382)	6,205
Net pension obligations, beginning of year	(724,722)	(1,648,603)
(Assets in excess of) net pension obligations, end of year	$ (829,104)	$ (1,642,398)

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			
2007	$ 1,076,146	89%	$ (565,712)
2008	905,591	117%	(724,722)
2009	1,025,737	109%	(829,104)
JSND			
2007	$ 6,252	0%	$ (1,654,832)
2008	6,229	0%	(1,648,603)
2009	6,205	0%	(1,642,398)

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 300 participants as of June 30, 2009.

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 $594,402 and $577,142 respectively, for the fiscal year ended June 30, 2009.

The Board, or vendors contracted by the Board, has 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.

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%
President/ Chancellor (additional employer contribution)	0 thru 12	0.00%	8.33%*	8.33%*
	or			
	less than 3	0.00%	0.00%	0.00%
	3 to less than 6	0.00%	4.00%	4.00%
	6 yrs and over	0.00%	8.00%	8.00%

*A final contribution is made in the year the president terminates employment equal to the difference between total contributions made and the president's final annual salary in year of termination of employment.

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 $24,566,108 to TIAA-CREF during the fiscal year ending June 30, 2009.

NOTE 6 - POST-RETIREMENT BENEFITS

The Retiree Health Insurance Credit Fund, a cost-sharing multiple-employer plan, 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), and the Highway Patrolmen's Retirement System 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 (1.14 percent effective July 1, 2009) of covered compensation. The employer contribution for non-teaching employees of the Office of the Superintendent of Public Instruction is 3.1 percent (3.24 percent effective July 1, 2009) of covered compensation beginning in the month following the transfer under chapter 54-52-02.13 of the North Dakota Century Code and continuing thereafter for a period of eight years. The employer contribution for employees of the State Board of Career and Technical Education is 2.85 percent (2.99 percent effective July 1, 2009) of covered compensation beginning in the month following the transfer under NDCC 54-52-02.14 and continuing thereafter for a period of eight years. Employees participating in the retirement plan as part-time/temporary members are required to contribute one percent (1.14 percent effective July 1, 2009) 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, or the Defined Contribution Retirement Plan, are eligible to receive credit toward their monthly health insurance premium under the state health plan. The benefits are equal to $4.50 ($5.00 effective July 1, 2009) for each of the employee's years of credited service not to exceed the premium in effect for selected coverage. 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 ($5.00 effective July 1, 2009) 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, 2009. 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 3.50 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 provisions	0.14%	$ 1,007,737
Changes in plan experience during the year	(0.02)%	(143,962)
	0.12%	$ 863,775

Employer contributions totaling $6,771,699 were made for the year ended June 30, 2009. The actuarially required employer contribution of $5,804,660 for the year ended June 30, 2009, is 0.81 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, 2009, the cost of benefits incurred for the fund was $4,854,724.

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:

Schedule Of Funding Progress
(Dollars In Millions)

Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liabilities AAL-Entry Age	Unfunded Value of Assets (UAA)	Ratio of Assets to AAL	Covered Payroll	UAA As A Percentage Of Covered Payroll
June 30, 2007	$ 38.9	$ 85.3	$ 46.5	45.6%	$ 602.9	7.7%
June 30, 2008	42.5	87.6	45.1	48.5%	660.9	6.8%
June 30, 2009	44.8	102.2	57.4	43.9%	719.8	8.0%

Employee membership is as follows:

Retirees receiving benefit	4,030
Active participants	20,317
Total Membership	24,347

The fair value of the net assets available for benefits at June 30, 2009, is $36,148,791.

Another component of the Retiree Health Insurance Credit Fund provides health care coverage to eligible retires who are not eligible for Medicare. The premiums for this coverage are set under NDCC 54-52.1-02 as a percent of the active member single and family plan rates and are paid by the retiree. The premiums for this coverage are not age-rated. Currently, the premiums for their group do not cover the costs of the coverage; therefore, the costs of this group are being subsidized through the active group rates. This subsidy is not funded in advance and there is no guarantee that the subsidy for the 2009-11 biennium will continue in the future.

A member must be receiving a retirement from NDPERS to be eligible for the retiree health care coverage. In addition, a member receiving a retirement allowance from NDTFFR or TIAA-CREF is also eligible for the retiree health care coverage.

The premiums for this plan are reported as employee contributions on the statement of changes in Plan Assets as they are fully paid by the retirees. The full amount of the premiums collected are expended each year and are reported as health premiums paid on the statement of changes in Plan Assets.

Significant actuarial assumption for the implicit subsidy unfunded plan include; using the 1983 Group Annuity Maturity Table, applied on a gender-specific basis; approximate monthly implicit subsidy for a single plan of $47 and $64 for a family plan; health care cost trends of 11% for select and 6% for ultimate with select trends reduced 0.5% each year until reaching the ultimate trend; and retirement and termination probabilities have been developed from the assumptions for the NDPERS pension plans. The funded status of the plan as of the most recent actuarial valuation dates is as follows:

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value Of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
2007	$ -	$ 30.7	$ 30.7	0.0%

JOB SERVICE NORTH DAKOTA

Job Service North Dakota engaged an actuary to determine the Agency's liability for post-employment benefits other than pensions as of June 30, 2008. The actuary determined the obligation the agency has to record as of June 30, 2009 is the difference between the Annual Required Contribution (ARC), defined as the normal cost plus an amortization for prior years unfunded liability, and the amount paid during the year.

Former employees receiving retirement benefits under the Retirement Plan for Employees of Job Service North Dakota are eligible to participate in the Retiree Health Benefits Fund, a cost-sharing multiple-employer plan, as administered by the Public Employees Retirement Board. The retired employee is provided a credit toward their monthly health insurance premium under the state health plan based upon their years of credited service. In accordance with NDCC 54-52.1-03.2, Job Service North Dakota reimburses the Retiree Health Benefits Fund monthly for credit received by members of the retirement plan established by Job Service North Dakota. This benefit is equal to $4.50 ($5.00 effective July 1, 2009) for each of the employee's, or decreased employee's years of credited service not to exceed the premium in effect for selected coverage.

Job Service North Dakota employees who had a Met Life Insurance policy in effect on December 1, 1999, when the Met Life Insurance benefit plan was discontinued for new employees, receive the following benefits: Job Service North Dakota pays 33% of the monthly Basic Met Life Insurance premium of current employees with a Met Life Insurance policy and upon retirement the employees Basic Met Life Insurance premiums are covered 100% by Job Service North Dakota. The Basic Life Insurance Benefits are equal to the employees annual salary up to a maximum of $45,000 and are decreased at a rate of 2% per month at age 65 until the benefit is 25% of the original amount.

Membership of the Other Post Retirement Benefit plans consisted of the following at July 1, 2008, the date of the latest actuarial valuation:

	Retiree Health Benefits Fund	Met Life Insurance Benefit
Retirees and beneficiaries currently receiving benefits	212	174
Terminated employees entitled to benefits but not yet receiving them	4	-
Current vested employees	38	67
Total	254	241

The funding policy of the plans thru June 30, 2009 is pay-as-you go plan, contributing annually the amount necessary to pay benefits of retirees. Below is listed the actuarial methods and assumptions which were used in the actuary report and study conducted by the Gabriel Roeder Smith & Company.

Valuation Date	July 1, 2008
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar
Remaining Amortization Period	30 years
Asset Valuation Method	Funding Value of Assets
Actuarial Assumptions:	
Investment Rate of Return	4.5%
Includes Inflation at	5%

Annual OPEB Cost and Net OPEB Obligation – The Agency's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The following table shows the components of the Agency's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Agency's net OPEB obligation:

	Retiree Health Benefits Fund	Insurance Benefit	Total
Annual required contributions	$ 282,723	$ 93,786	$ 376,509
Interest on OPEB obligation	-	-	-
Adjustment to annual required contributions	-	-	-
Annual OPEB costs	282,723	93,786	376,509
Contributions made	212,698	51,055	263,753
Increase in net OPEB obligation	70,025	42,731	112,756
Net OPEB obligations, beginning of year	59,922	41,708	101,630
Net OPEB obligations, end of year	$ 129,947	$ 84,439	$ 214,386

The following schedule presents the annual OPEB cost contributed, the net pension obligations, and the percentage contributed:

June 30	Annual Retiree Health Benefits OPEB Costs	Annual Met Life Insurance OPEB Costs	Annual Retiree Health Benefit Cost Contributed	Annual Met Life Insurance Cost Contributed	OPEB Obligation	Annual OPEB Cost Contributed
2008	$ 282,723	$ 93,786	$ 222,801	$ 52,078	$ 101,630	73.0%
2009	282,723	93,786	212,698	51,055	112,756	70.1%

Funded Status and Funding Progress – As of June 30, 2008 the most recent actuarial valuation date, the plans were unfunded. The actuarial liability for benefits was $5,746,170, and the actuarial value of assets was $0.00 resulting in an unfunded actuarial accrued liability (UAAL) of $5,746,170. The covered payroll (annual payroll of active employees covered by the plans) was $3,411,634 and the ratio of the UAAL to the covered payroll was 169.73 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer as made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present a single years information, as the standard was implemented in fiscal year 2008, when it becomes available, multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits will be displayed.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing the benefit of costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE 7 - DEFERRED COMPENSATION PLAN

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits them to defer a portion of their current salary until future years. Participation in the plan is optional. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

All compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are held in trust for the exclusive use of the employee or their beneficiary.

The related assets of the plan, held in trust, are reported at fair value as follows (expressed in thousands):

Plan Participation By:	
State of North Dakota	$ 19,060
Other Jurisdictions	2,619
Total Value	$ 21,679

NOTE 8 - 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 contract for the 2005-2007 biennium, the system deposited a total of $14,227,761 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 of $3,966,104. The system has entered into a similar contract with BCBS for the 2007-2009 biennium. The accumulated surplus and other invested funds in the amount of $5,545,634 are shown as cash on the State's financial statements. These funds are being held by BCBS.

NOTE 9 - SEGMENT INFORMATION

North Dakota Housing Finance Agency maintains two separate funds which account for general agency operations and provide loans to finance construction of rental residential housing and single-family ownership. The two funds are accounted for in a single fund, but investors in 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, 2009, was as follows (expressed in thousands):

		Home-Ownership Bond Funds
Condensed Statement of Net Assets		
Current assets – other	$	146,717
Noncurrent assets – other		818,432
Total Assets		965,149
Current liabilities – other		43,683
Noncurrent liabilities – other		831,718
Total Liabilities		875,401
Net assets – restricted		89,748
Total Net Assets	$	89,748
Condensed Statement of Revenues, Expenses and Change in Fund Net Assets		
Operating revenues	$	51,316
Operating expenses		45,037
Operating income		6,279
Change in net assets		
Total net assets, beginning of year		82,081
Equity transfer in		1,388
Total net assets, end of year	$	89,748
Condensed Statement of Cash Flows		
Net cash used for operating activities	$	(4,388)
Net cash from noncapital financing activities		(117,639)
Net cash from investing activities		(82)
Net change in cash and cash equivalents		(122,109)
Cash and cash equivalents, beginning of year		246,694
Cash and cash equivalents, end of year		124,585

NOTE 10 - MAJOR COMPONENT UNIT TRANSACTIONS

BISMARCK STATE COLLEGE AND BISMARCK STATE COLLEGE FOUNDATION

On January 25, 2007, BSC and BSC Foundation entered into a 15-year lease agreement to facilitate the construction of a Mechanical Maintenance building. Under the agreement, BSC is responsible for the payment of all rent, maintenance, and repair of the facility, maintenance of all insurance required under the lease, and restrictions of use of the facility as set forth in the lease. The amount of the rent is tied to the debt service retirement. Upon payment of all the bonds, BSC will have the option to purchase the premises for $100.

On October 19, 2007, BSC and BSC Foundation entered into a 25-year lease agreement to facilitate the construction of the National Energy Center of Excellence building. Under the agreement, BSC is responsible for payment of all rent, maintenance, and repair of the facility, maintenance of all insurance required under the lease, and restrictions of use of the facility as set forth in the lease. The amount of the rent is tied to the $5.0 million debt service retirement. Upon payment of all the bonds, BSC will have the option to purchase the premises for $100.

DICKINSON STATE UNIVERSITY AND DICKINSON STATE UNIVERSITY FOUNDATION

DSU provides personnel and other services to the foundation at no charge, as in-kind reimbursement for services provided by the foundation, including one-half salary and fringe benefits of foundation employees, payroll preparation services, postage, utilities and buildings and ground services. For the year ended June 30, 2009, DSU has valued these services at approximately $162,000.

The Dickinson State University Foundation issued two series of revenue bonds of $9,200,000 on June 4, 2009, to finance the Badland Activities Center project. The bonds will be paid off with private donations raised by the Foundation and are summarized as follows:
$5,000,000 bond at a fixed rate of 5.89%. The bond is amortized over 15 years with semi-annual payments due each January and July 20th. The payments in 2010 will

be interest only, with the first principal payment due in January of 2011.

$4,200,000 bond with a variable rate of interest, currently 1.65%. The bond is repriced every six months and has payments each January and July. The 2010 payments will be interest only, with the first principal payment due in January 2011. There are neither time limits nor prepayment penalties on this issue.

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. (component unit) 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 property owned by the city. The agreement assigned to NDSU all of RTP's obligations under the lease, including but not limited to the payment of all rent, maintenance, and repair of the facility, maintenance of all insurance required under the lease, and restrictions of use of the facility set forth in the lease. Upon payment of all the bonds, title to the facility will revert to RTP. 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 second lease agreement was for $20,450,000.

The audited financial statements of RTP for fiscal year 2009 report these transactions as an operating lease and report the related capital assets and related debt as assets and debt of RTP. Since 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, a reclassification entry was made to ending balances in the component unit consolidation financial statements to show the appropriate due from primary institution.

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 $1,525,963 through July 2013, plus utilities and insurance. Total payments under these agreements in fiscal year 2009 were approximately $2.2 million. These agreements are subject to funding and legislative appropriations. The agreement automatically extends for one-year periods unless cancelled by either party to the agreement.

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 construction 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 $304,082 in fiscal year 2009 under this agreement.

The facility is included in long-term investments 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 $3,580,000 as of June 30, 2009. Since the Development Foundation 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 the Equine Center, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

FARGODOME LEASE AND IMPROVEMENTS

In fiscal year 2006, the NDSU Development Foundation financed the construction and equipping of office space, locker rooms, meeting rooms, and related facilities in the Fargodome for use by NDSU through the sale of revenue bonds issued by Cass County. The Foundation has leased the space in the Fargodome from the City of Fargo and subleased the space, furniture, fixtures and equipment to NDSU. Under the agreement, NDSU will pay rent to the NDSU Development Foundation for use of the premises. The amount of the rent is tied to the $3.5 million debt service retirement plus the Fargodome annual space rent and all costs incurred by the Development Foundation incident to the lease, less any contributions received by the Foundation for the project. NDSU paid the Development Foundation $331,996 in fiscal year 2009 under this agreement.

The facility is included in long-term investments 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 $2,894,022 as of June 30, 2009. Since the Development Foundation 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 the Fargodome improvements, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

NDSU DOWNTOWN CAMPUS

The former Northern School Supply building was donated to the NDSU Development Foundation by NDSU alum in December 2001. During fiscal years 2003 and 2004, the NDSU Development Foundation renovated the building with the intent to lease the facility to NDSU beginning fall 2004. NDSU entered into an agreement with 650 NP Avenue, LLC and Kilbourne Design Group, LLC to lease the property for $49,583 per month through August 12, 2011, with an option to renew for two five-year periods. During fiscal year 2005, the Foundation transferred nearly the entire ownership in 650 NP Avenue, LLC and Kilbourne Design, LLC; therefore, they are no longer consolidated in the financial statements of the foundation. When the sublease with NDSU expires, the intent is to transfer the property back to the Foundation, and a new lease between the Foundation and NDSU will be negotiated.

In fiscal years 2003 and 2004, the facility was reported on the financial statements of the NDSU Development Foundation as construction in progress and a short-term liability (for the construction loan). No asset or liability is reported in fiscal year 2005 or 2006 due to the transfer of ownership. The tax credits along with the deduction for donations bring the net cost to $5.6 million, which is shown as a capital asset and capital lease liability on the books and financial statements of NDSU. The lease payments are recorded as interest only by NDSU until fiscal 2011, when the property is transferred back to the Development Foundation and lease revenue bonds will be issued to finance the acquisition.

AIRCRAFT

Effective June 28, 2007, NDSU and the NDSU Development Foundation entered into a $2,348,000, ten-year, lease agreement for the purchase of an aircraft. Under the agreement, NDSU will pay rent to the NDSU Development Foundation for use of the aircraft. The amount of the rent is equal to the amount of the principal and interest payments on the loan, for the life of the loan. The University is responsible for all costs incurred in operation and maintenance of the aircraft. Upon completion of the loan payments, ownership of the aircraft will be transferred to NDSU. Since the Development Foundation 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 the leased aircraft, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

BARRY HALL BUSINESS BUILDING AND KLAI HALL ARCHITECTURE BUILDING

Effective November 28, 2007, NDSU and the NDSU Development Foundation entered into a lease agreements for two buildings in downtown Fargo, formerly known as the ―Pioneer Mutual Building" and ―Lincoln Mutual Building". The Foundation financed the construction of the Barry Hall business building and Klai Hall architecture building projects through the sale of $18.52 million of 20-year University Facilities Revenue Bonds issue by the City of Fargo, North Dakota. The City has loaned the bond proceeds to the Foundation for payments equal to the sum of the semi-annual interest payments and installments of varying principal amounts on the variable rate bonds and the semi-annual principal and interest payment on the fixed-rate bonds. The principal payments on the variable rate bonds will be funded from payments on donor pledges restricted for the project. Under the terms of the loan, the Foundation is responsible for the real estate taxes, insurance, repairs and maintenance, and other costs incident to ownership of the property. The property is included with property in the financial statements and the bonds have been recorded as a direct obligation of the Foundation. Ownership of the property will transfer to NDSU when the bonds are repaid in full. The bonds are guaranteed by the Foundation. This property is leased to NDSU for rental equal to the sum of the semi-annual interest only payments on the variable term bonds plus the semi-annual principal and interest payments on the fixed-rate bonds for the term of the bonds, plus all the costs incurred by the Foundation incident to ownership of the property. NDSU has an option to acquire the property upon full payment of the bonds. The bonds payable have a balance of $14,604,641 at June 30, 2009.

PRESIDENT'S RESIDENCE

On September 15, 2008, the NDSU Development Foundation financed the construction of a new residence for the NDSU President through the sale of $900,000 of 30 year University Facilities Bonds. The interest rate is a fixed rate of 4.20% with semi-annual principal and interest payments. The repayment source is private donations and pledges. The bonds payable have a balance of $887,346 at June 30, 2009. The NDSU Development Foundation incurred $1,003,672 of costs related to the construction of the President's residence. In addition, donated architect services of $265,000 were contributed to the construction of the President's residence through June 30, 2009.

OTHER TRANSACTIONS

NDSU also has agreements in place with the Foundation for maintenance of the University's alumni records, for use and insurance on certain land and buildings and for lease of a vehicle. Amounts paid under these agreements in fiscal year 2009 were $1,395,110. In addition, the Development Foundation may contract with NDSU for materials and personnel in the service and utility areas and will reimburse NDSU based on separate agreements.

UNIVERSITY OF NORTH DAKOTA AND UND AEROSPACE FOUNDATION

The Aerospace Foundation reimbursed UND for salaries, building rent, aircraft rental, and goods and services under an operating agreement aggregating approximately $10.5 million in fiscal year 2009. 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. UND reimbursed the foundation for air service and hangar, CRJ, 360-degree tower, and aircraft rental of $1.2 million. These expense reimbursements represent actual costs incurred.

In addition, the Aerospace Foundation may contract with UND for materials and personnel in the service and utility areas and will reimburse UND based on separate arrangements. As of June 30, 2009, the Foundation has recorded accounts payable to UND of $881,899 for reimbursable costs and services under these arrangements.

The Aerospace Foundation entered into a sublease with UND to lease the aircraft storage hangar/ground support equipment facility. The lease term is for 20 years, commencing on July 7, 2003, until July 6, 2023. For the first 15 years of the sublease, UND will pay the Foundation monthly minimum payments of $12,672 beginning on October 1, 2003, subject to actual cost adjustments. At the end of the 15 years of the sublease, rent will be adjusted based upon an interest rate adjustment or a refinancing of the debt incurred by the Foundation in the construction of the hangar. The audited financial statements of the Foundation report the capital assets and related debt for this lease. Since the Foundation 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 this transaction, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

UNIVERSITY OF NORTH DAKOTA AND RE ARENA, INC.

RE Arena, Inc. manages, operates and maintains an arena know as the Ralph Englestad Arena, which was constructed in 2001 for the benefit of UND athletics. UND and RE Arena, Inc. enter into an annual operating agreement from July 1 to June 30. The operating agreement sets forth the facility usage, fees and services, ticket administration and revenue allocation, sponsorship sales administration and revenue allocation, and net income disposition. In accordance with this agreement: (i) RE Arena, Inc. collects all ticket revenue from ticketed UND athletic events (men's and women's hockey, football, men's and women's basketball, and volleyball), RE Arena, Inc. retains 52% of such ticket revenue and remits 48% to UND, and (ii) RE Arena, Inc. collects all sponsorship sales revenue from UND Athletic events, RE Arena, Inc. retains 64% of such sponsorship revenue, net of direct costs and remits 36% to UND. In addition, UND and RE Arena Inc. jointly utilize UND and RE Arena, Inc. marketing staff to market and promote UND athletic 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, RE Arena, Inc. retained approximately $1,802,000 in fiscal year 2009 in ticket revenue and $693,000 in sponsorship revenue from UND athletic events. Additionally, under the agreement, RE Arena, Inc. makes annual deposits to a reserve for extraordinary repairs, maintenance, and building improvements. The amount reserved in fiscal year 2009 was $500,000. On an annual basis, RE Arena, Inc. will remit to UND its net income after adding back depreciation and amortization, the funded reserve, equity retention and capital expenditures for the fiscal year. RE Arena, Inc. paid UND $450,000 under this agreement in fiscal year 2009.

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, 2009, RE Arena, Inc. has a payable to UND of $189,976 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 interest rate is 4.15 percent at June 30, 2009. The foundation may pay down principal in increments of $100,000 on interest payment dates without penalty. Principal balance outstanding at June 30, 2009, is $3,483,351. A receivable from UND and the bond payable is included on the financial reports of the foundation, and UND has recorded a capital asset and a capital lease payable as of June 30, 2009.

On July 24, 2002, UND Foundation issued lease revenue bonds of $8,595,000 on behalf of UND to i) finance the construction of an office building for EERC, ii) renovate the current EERC building, iii) finance capitalized interest, and iv) 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 2.5 to 5.0 percent and mature in 2027. The lease revenue bond has a balance of $7,150,000 at June 30, 2009. 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.

On April 16, 2008, the UND Foundation issued bonds of $2,200,000 to build a University Presidents Home and an addition to the Jodsaas Center Engineering building. Series B for the President's residence was $900,000 and Series A for the Jodsaas Center Engineering Building was $1,300,000. Semi-annual payments are required on Series A. Series B requires semi-annual payments with principal paid annually. The interest rate is fixed at 4.15%. Payments on both series are due through 2038. The bonds have a balance of $2,133,919 at June 30, 2009. The UND Foundation incurred $919,571 in costs related to the President's residence and also incurred $424,080 in costs related to infrastructure and land improvements related to the President's residence.

On December 22, 2008, the UND Foundation issued bonds of $1,200,000 to fund construction of the North Dakota Center for Human Safety. Annual payments of principal along with semi-annual payments of interest are required at a fixed interest rate of 3.5%. Payments are due through 2013. The bonds have a balance of $1,200,000 at June 30, 2009.

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 remaining term of two years. At June 30, 2009, due to timing of receipts and payments, the UND Foundation recorded a payable of $3,150 to UND.

NOTE 11 - 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	$ 653,632
Financial standby letters of credit	295,808
	$ 949,440

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.

COMMUNITY WATER FACILITY LOAN FUND

In the normal course of business, the Loan Fund makes various commitments that are not reflected in the financial statements. These commitments include commitments to extend credit of $1,762,000 at December 31, 2008.

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 $51,204,000 at June 30, 2009. 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 $1,857,000 at June 30, 2009.

PUBLIC FINANCE AUTHORITY

In the normal course of business, the Finance Authority (a component unit) makes various commitments that are not reflected in the financial statements. These commitments include commitments to extend credit of $133,108,000 at December 31, 2008.

NOTE 12 - 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.

As of June 30, 2009, the Agency did not have any swaps that had a positive fair value. 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 $13,391,000 as of June 30, 2009. 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, 2009. 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	8/28/2002	8/28/2002	5/14/2003	5/14/2003
3	Maturity Date	1/1/2034	7/1/2011	7/1/2034	1/1/2012
4.	Notional Amount	$ 11,500,000	$ 1,750,000	$ 8,990,000	$ 3,165,000
5.	Variable-rate Bonds	$ 11,500,000	$ 1,945,000	$ 8,990,000	$ 3,165,000
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	0.37000%	0.37000%	0.37000%	0.37000%
10.	Fair Value	$ (330,000)	$ (55,000)	$ (17,000)	$ (74,000)
11.	Percentage of LIBOR	0.21984%	0.22592%	0.64000%	0.64000%
12.	Synthetic Rate	4.62016%	3.08408%	3.76500%	2.19300%
13.	Actual Synthetic Rate	4.79586%	3.18287%	3.92165%	2.37624%

1.	Bond Series	2003 B	2003 B	2004 B	2004 B
2.	Issuance Date	8/27/2003	8/27/2003	4/1/2004	4/1/2004
3	Maturity Date	1/1/2012	7/1/2034	1/1/2013	7/1/2035
4.	Notional Amount	$ 3,405,000	$14,205,000	$ 5,760,000	$12,990,000
5.	Variable-rate Bonds	$ 3,405,000	$14,205,000	$ 5,760,000	$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	0.37%	0.37%	0.34%	0.34%
9.	Bonds Variable-rate	0.37000%	0.37000%	0.37000%	0.37000%
10.	Fair Value	$ (121,000)	$ (775,000)	$ (169,000)	$ (713,000)
11.	Percentage of LIBOR	0.56980%	0.56980%	0.54160%	0.54160%
12.	Synthetic Rate	2.95520%	4.33020%	2.44840%	3.80840%
13.	Actual Synthetic Rate	3.09435%	4.47020%	2.62055%	3.98241%

1.	Bond Series	2004 C	2005 A	2005 C	2006 A
2.	Issuance Date	6/10/2004	4/13/2005	9/21/2005	5/4/2006
3.	Maturity Date	1/1/2035	7/1/2024	1/1/2036	7/1/2016
4.	Notional Amount	$23,375,000	$23,100,000	$12,000,000	$30,210,000
5.	Variable-rate Bonds	$23,375,000	$23,100,000	$12,000,000	$30,210,000
6.	Fixed Rate	4.095%	3.870%	3.889%	3.955%
7.	LIBOR Percentage	63.00%	62.90%	63.00%	63.00%
8.	Additional Percentage	0.34%	0.32%	0.31%	0.31%
9.	Bonds Variable-rate	0.37000%	0.37000%	0.37000%	0.37000%
10.	Fair Value	$ (1,449,000)	$ (1,381,000)	$(790,000)	$(3,461,000)
11.	Percentage of LIBOR	0.54160%	0.52128%	0.51160%	0.51160%
12.	Synthetic Rate	3.92340%	3.71872%	3.74740%	3.81340%
13.	Actual Synthetic Rate	4.09701%	3.88206%	3.90756%	3.97857%

1.	Bond Series	2008 A	2008 B	2008 D
2.	Issuance Date	2/26/2008	2/26/2008	8/5/2008
3.	Maturity Date	1/1/2017	7/1/2038	7/1/2039
4.	Notional Amount	$13,700,000	$15,310,000	$21,850,000
5.	Variable-rate Bonds	$13,700,000	$15,310,000	$21,850,000
6.	Fixed Rate	3.198%	4.725%	3.919%
7.	LIBOR Percentage	63.00%	100.00%	63.70%
8.	Additional Percentage	0.32%	0.00%	0.20%
9.	Bonds Variable-rate	0.37000%	0.70000%	0.26000%
10.	Fair Value	$ (840,000)	$ (1,282,000)	$ (1,934,000)
11.	Percentage of LIBOR	0.52160%	0.32000%	0.40384%
12.	Synthetic Rate	3.04640%	5.10500%	3.77516%
13.	Actual Synthetic Rate	3.26909%	5.95097%	3.02054%

Using rates as of June 30, 2009, 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, 2009. 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
2010	$ 8,185	$ 746	$ 6,798	$ 15,729
2011	7,495	714	6,579	14,788
2012	6,480	684	6,382	13,546
2013	3,765	663	6,233	10,661
2014	2,720	649	6,124	9,493
2015-2019	63,395	2,551	24,675	90,621
2020-2024	19,180	1,769	18,012	38,961
2025-2029	19,670	1,448	15,108	36,226
2030-2034	41,420	803	8,785	51,008
2035-2039	24,905	188	2,343	27,436
2040-2044	4,290	-	-	4,290
	$ 201,505	$ 10,215	$ 101,039	$ 312,759

NOTE 13 – 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 14 – 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 that 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 2009, a total of $147,080,241 in claims was recognized. Incurred but not reported claims of $771,900,000 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, 2008, and June 30, 2009:

Fiscal Year	Beginning Balance	Current Year Claims and Changes In Estimates	Claims Payments	Ending Balance
2008	$ 1,917,351	$ 797,395	$ 647,716	$ 2,067,030
2009	2,067,030	377,736	478,058	1,966,078

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 that exceed the $100,000 cap. WCP pays separately for this coverage. Since the inception of WCP on July 1, 2001, eleven claims exceeded coverage by $1,318,193.

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, 2009:

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2008	$ 3,011,692	$ 3,395,670	$ 2,557,810	$ 3,849,552
2009	3,849,552	3,000,740	2,745,908	4,104,384

NOTE 15 – 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 1,085 policies to participating entities for a total building and content coverage of $8.8 billion. The Bonding Fund is used to provide fidelity bonding of public employees and officials. The Fund has issued 2,956 policies to participating entities. The total coverage for the Bonding Fund is $522.9 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 that 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 (excess of $1.0 million) 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, 2009, coverage extended to the following employers:

Annual Premium	
$250 - $5,000	15,411
$5,001 - $50,000	3,947
$50,001 - $100,000	323
Over $100,000	286
Total Employers	19,967

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 that 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, 2009, the actuary presented an estimate in the form of a range to emphasize the uncertainty for a ―long-tailed" liability insurer such as workers' compensation. These ranges are as follows (expressed in thousands):

	Low	Expected Value	High
Full Value Basis (undiscounted)	$1,165,000	$ 1,293,800	$ 1,490,000
Present Value Basis (discounted at 5% rate)	*	$ 771,900	$ 1,160,000

*Not computed by actuary.

WSI has adjusted the estimated liability for unpaid loss and loss adjustment expense to the actuary's five percent discounted expected value of $771.9 million at June 30, 2009.

The June 30, 2008, liability of $740.6 million was recorded at the discounted rate of five 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 that should have been capitalized at June 30, 2009.

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	
	2009	2008	2009	2008	2009	2008
Unpaid claims and claims adjustment expenses at the beginning of the year	$ 1,114	$ 404	$ 149	$ 501	$ 740,600	$ 730,900
Incurred claims and claims adjustment expenses:						
Provision for current fiscal year	1,744	10,548	128	(268)	168,967	131,380
Change in provision for prior fiscal year	-	-	-	-	9,427	(363)
Payments and claims and adjustment expenses attributable to:						
Current fiscal year insured events	(989)	(9,434)	61	417	(32,054)	(26,584)
Prior fiscal years' insured events	(1,114)	(404)	(149)	(501)	(81,140)	(76,933)
Total Payments	(2,103)	(9,838)	(88)	(84)	(113,194)	(103,517)
Change in provision for discount	-	-	-	-	(33,900)	(17,800)
Total unpaid claims and claims adjustment expenses at the end of the year	$ 755	$ 1,114	$ 189	$ 149	$ 771,900	$ 740,600

NOTE 16 – 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 or 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, 2009, realized gains and losses available for distribution in the current year totaled $7,644,445 for the permanent educational trusts. This amount is included in Reserved Fund Balances—Undistributed Revenue in the governmental funds balance sheet.

On June 30, 2009, the Attorney General certified to the Secretary of State that recent amendments to two federal statutes, the 1889 Enabling Act and the 1862 Morrill Act, removed any inconsistencies between these two federal laws and sections 1 and 2 of Article IX of the North Dakota State Constitution. With that certification, the historic changes that were approved by North Dakota voters as Constitutional Measure No. 1 during the November 7, 2006, general election became effective on July 1, 2009. Effective July 1, 2009, biennial distributions from the perpetual trust funds will be ten percent of the five-year average volume of trust assets, excluding the value of lands and minerals. Equal amounts must be distributed during each year of the biennium.

NOTE 17 – 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 18 – SPECIAL ITEM

Previous to July 1, 2008, legislative council contracted with a software development company to develop a legislative enterprise system. The company notified the Legislative Assembly in September 2009, cancelling the project. This resulted in a write-off of construction in progress totaling $3,314,057, which is shown as a special item on the Government-wide Statement of Activities – Governmental Activities.

NOTE 19 - COMMITMENTS AND CONTINGENCIES

A. LONG-TERM COMMITMENTS

BANK OF NORTH DAKOTA

Chapter 6-09.7 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 $8,000,000 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, 2008, the Bank of North Dakota has provided guarantees totaling $1,648,000.

Chapter 6-09.15 provides that the Bank of North Dakota provide a Beginning Entrepreneur Loan Guarantee Program. The program includes an agreement with a lender in the event that of default by a beginning entrepreneur under a note and mortgage or other loan or financing agreement, the Bank shall pay the lender the amount agreed upon up to 85 percent of the amount of principal due the lender on a loan at the time the claim is approved. The total outstanding loan that the Bank may guarantee cannot exceed $8,000,000. With an 85% guarantee maximum, the Bank may provide guarantee not exceeding $6,800,000. A lender may apply to the Bank for a loan guarantee for a loan of up to $100,000. The term of the guarantee may not exceed five years. As of December 31, 2008, the Bank has guarantee outstanding totaling $4,555,000.

Chapter 6-09-41 provides that the Bank of North Dakota establish and administer a livestock loan guarantee program that is designed to expand the livestock feeding industry in the State of North Dakota. This program is effective through June 30, 2009. The Bank may guarantee loans made by the bank, credit union, a savings and loan association, or any other lending institution in this state to the owner of a commercial livestock feeding operation or to the owner of a new or expanding dairy operation. In the event of a default, the Bank shall pay to the lender the amount agreed upon, provided that the amount may not exceed 85% of the principal due the lender at the time the claim is approved. As of December 31, 2008, the Bank has guarantees outstanding totaling $789,000.

PUBLIC EMPLOYEE RETIREMENT SYSTEM

The system has entered into agreements with Sagitec Solutions, LLC and L.R. Wechsler, Ltd for the development of its new integrated benefits administration system. The contract with Sagitec is $7.7 million and the contract with L.R. Wechsler is $1 million, and the total appropriation for this project is approximately $9.6 million, which is anticipated to be fully completed by September 2010. As of June 30, 2009, the system has paid $5.4 million towards these contracts. The remaining $4.2 million will be carried over to the 2009-2011 biennium and will be paid as the project is completed.

RETIREMENT AND INVESTMENT OFFICE (RIO)

The State Investment Board has at June 30, 2009, committed to fund certain alternative private equity partnerships for an amount of $1.17 billion. Funding of $909.1 million has been provided leaving an unfunded commitment of $256.4 million.

MANDAN REMEDIATION TRUST

As of November 23, 2004, the North Dakota Department of Health entered into a quick start contract with Legette, Brashears & Graham, Inc. (LBG) for the performance of remediation services. The amount of the contract was $149,262. A master services agreement was signed on January 18, 2005, between LBG and the North Dakota Department of Health for the performance of remediation services. Mandan Remediation Trust agrees to pay LBG for services rendered under the quick start contract and the master services agreement pursuant to the Mandan Remediation Trust Agreement. The master services agreement provides a fee schedule for consulting services and equipment use. LBG was reimbursed $754,922 during 2008 for services rendered under the contract.

INDUSTRIAL COMMISSION

Under the Lignite Vision 21 Program, the Commission has entered into an amended contract for the amount of $10,000,000 with American Lignite Energy. The purpose of the amended contract is for conducting the FEED process for a coal-to-liquids plant in McLean County. The balance outstanding at June 30, 2009, is $8,649,998. In addition, the Commission has entered into a contract with Great River Energy for the construction of a power plant at Spiritwood, ND. The balance outstanding at June 30, 2009, is $500,000.

The Commission also has various significant commitments at June 30, 2009, for the purchase of various types of research, services and other goods totaling $15,059,202.

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, 2009. One contract equals 5,000 bushels.

Futures Positions:

	Contracts			
Month	Long	Short	Avg. Price	Fair Value
September	95	-	$ 6.7399	$ 6.3375
December	281	-	7.3098	6.4625
March	68	-	6.4953	6.5875
May	69	-	6.9283	6.6500
July	14	-	7.1693	6.6950
September	9	-	6.7750	6.7150
December	6	-	6.7925	6.7975

As of June 30, 2009, the Mill had commitments to purchase 1,709,402 bushels of spring wheat and 119,706 bushels of durum. In addition, at June 30, 2009, construction commitments totaled $1,097,146 amounts authorized totaled $3,475,000 and amounts expended totaled $2,377,854.

BUILDING AUTHORITY

The Authority has committed funds to complete various construction and modernization programs at June 30, 2009, totaling $1,839,000. In addition, the 2009 Legislature authorized the Authority to bond up to $2,575,000 during the 2009-2011 biennium for the Veteran's Home construction project.

PUBLIC FINANCE AUTHORITY

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 Finance Authority 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.

The Finance Authority purchased letters of credit from the Bank of North Dakota in order to fund the reserves for the Capital Financing Program Bonds. As of December 31, 2008, $4,176,000 of credit was available through these letters of credit and no funds have been advanced.

JOB SERVICE NORTH DAKOTA

As of June 30, 2009, Job Service has commitments to pay $394,348 for purchase orders and contracts awarded for goods, services, software licenses, software support, and software server hosting to be provided in future periods.

DEPARTMENT OF HUMAN SERVICES

As of June 30, 2009, the Department of Human Services had significant commitments for the purchase of various types of services totaling $43,341,552.

STATE JUDICIARY

As of June 30, 2009, State Judiciary had significant commitments of $235,236. The majority consists of contracts to provide various types of judicial services.

PUBLIC SERVICE COMMISSION

As of June 30, 2009, the Public Service Commission had significant commitments of $1,436,553. This amount consists primarily of contractor charges associated with the Abandoned Mine Lands.

AERONAUTICS COMMISSION

As of June 30, 2009, the Aeronautics Commission had significant commitments of $575,000. This amount consists of grants to political subdivisions for maintenance and improvements of their airports.

DAIRY PRODUCTS PROMOTION COMMISSION

As of June 30, 2009, the Dairy Products Commission had significant commitments of $191,000. 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, 2009, the North Dakota Soybean Council had significant commitments of $1,487,723. This amount mainly consists of grants for the research and development of soybeans.

STATE WATER COMMISSION

As of June 30, 2009, the State Water Commission had long-term commitments of $50,333,428 for various water projects.

NORTH DAKOTA DEPARTMENT OF TRANSPORTATION

At June 30, 2009, the North Dakota Department of Transportation (Special Revenue Fund) had non-construction contract commitments of approximately $10.91 million of which $9.87 million represents federal programs which are cost reimbursable.

Construction commitments at June 30, 2009, totaled approximately $252.06 million, of which $204.93 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
DSU	$ 8,664	$ 4,320	$ 4,334
MASU	6,461	2,089	4,372
MiSU	10,653	875	9,778
NDSCS	400	296	104
NDSU	14,485	7,619	6,866
UND	3,927	3,520	407
VCSU	1,533	1,516	17

NORTH DAKOTA DEVELOPMENT FUND

The board of directors has approved equity investments, loans, grants, and guaranty of collections at June 30, 2009, for which funds have not been disbursed or written agreements entered into in the amount of $3,808,203.

OTHER CONSTRUCTION COMMITMENTS

Management and Budget	$ 20
Legislative Assembly	1,626
Human Services	715
Attorney General	194
Adjutant General	14,910
School for the Deaf	231
Health Department	60
Department of Corrections	209
Transportation	78,958
Game and Fish	979
Veterans Home	26,058
State Courts	4,760

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 $2,350,000 to $2,455,000.

The estimated gain in all the litigation brought by the State in which a gain is probable is estimated at zero.

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, 2009, in which the settlement had not been paid as of June 30, 2009.

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, 2008, was completed and issued in March of 2009. As a result of this audit, approximately $1,634,000 of identifiable questioned costs was noted. Also, there were several findings which had potentially significant, unknown, questioned costs. The State is cooperating with the federal government to resolve the findings and is optimistic these findings will not have a material impact on the State.

NOTE 20 - SUBSEQUENT EVENTS

In February 2009, the State was notified of legal action being taken against one of its investment advisors. The principals of WG Trading Company, the broker/dealer for the Westridge Capital management portfolios, were charged with securities fraud for allegedly diverting investor funds for their personal use. The State was an investor along with numerous other public and private pensions funds whose investments totaled more than $1.5 billion. Subsequent to the filing of a criminal complaint by federal prosecutors, a receiver was appointed by the court to reconstruct the alleged fraud and determine what recoverable assets exist. The receiver issued a report in May 2009, indicating that approximately $893 million of recoverable assets were identified which equaled to 60% of the investors' account values. The State, through the State Investment Board, held three portfolios with Westridge/WG Trading at the time the fraud was discovered. The three portfolios had been valued at a combined $161.3 million in the month prior to the court actions. $23.3 million was recovered immediately through liquidation of futures and related collateral positions at Westridge. The remaining assets were held for WG Trading and were frozen by the courts and remain frozen as of the balance sheet date. The market value reported on the balance sheet reflects a reduction of 40% of the last known market value, based on the receiver's initial report, and will remain at the value until further information is received from the State's legal representatives or the federal courts.

HOUSING FINANCE

Subsequent to June 30, 2009, the agency issued the 2009 Series A and B Housing Finance Program Bonds. The 2009 Series A and B bond issuance was $130,530,000.

UNIVERSITY OF NORTH DAKOTA

Subsequent to June 30, 2009, UND issued the Series 2009, State Board of Higher Education Revenue Bonds. Total issuance was $1,500,000.

NORTH DAKOTA STATE UNIVERSITY

Subsequent to June 30, 2009, NDSU issued Series 2009 Housing and Auxiliary Facilities Revenue Bonds. Total issuance was $26,245,000.

NOTE 21 – NEW PRONOUNCEMENTS

The State implemented the following new pronouncement for fiscal year 2009:

GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," was issued in November 2006. This statement provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. The provisions of this statement are effective for periods beginning after December 15, 2007.

GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments," was issued in November 2007. This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. The statement will require endowments to report their land and other real estate investments at fair value. The provisions of this statement are effective for periods beginning after June 15, 2008.

The State will implement the following new pronouncements for fiscal years ending after 2009:

GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets," was issued in June 2007. This statement establishes criteria that governments will use to establish accounting and financial reporting requirements for intangible assets. The provisions of this statement are effective for periods beginning after June 15, 2009.

GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments" was issued in June 2008. This statement requires that the fair value of financial arrangements called "derivatives" or "derivative instruments" be reported in the financial statements of state and local governments. Additional information about derivatives is disclosed in the notes to the financial statements, including identification of the risks to which hedging derivative instruments themselves expose the State. The provisions of this statement are effective for periods beginning after June 15, 2009.

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", was issued in March 2009. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The provisions of this statement are effective for periods beginning after June 15, 2010.

APPENDIX D

General Information Concerning Job Service North Dakota

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GENERAL INFORMATION

Job Service North Dakota is a state agency, authorized under North Dakota Century Code Title 52, whose mission is to provide customer-focused services to meet the current and emerging workforce needs of the state. Job Service North Dakota administers the state and federal unemployment insurance program, provides the state's public labor exchange, provides labor market information, delivers workforce training and reemployment services and provides specific services to targeted workforce sectors.

Job Service North Dakota is organized into three areas: Planning and Support which includes finance, human resources, IT, facilities management and labor market information, Unemployment Insurance, and Customer Service which includes workforce programs. As North Dakota's One-Stop Career Center, Job Service North Dakota delivers services online via jobsnd.com and through a network of local offices located in Beulah, Bismarck-Mandan, Devils Lake, Dickinson, Fargo, Grafton, Grand Forks, Harvey, Jamestown, Minot, New Town, Oakes, Rolla, Valley City, Wahpeton, and Williston. Job Service North Dakota employs approximately 265 employees.

Maren Daley, Job Service North Dakota Executive Director, was appointed by former Governor John Hoeven in December 2000 and currently serves under Governor Jack Dalrymple. Prior to accepting this appointment, Ms. Daley had an 18-year career as a banker and lawyer with First National Bank North Dakota in Grand Forks, now known as Alerus Financial. Ms. Daley earned a bachelor of science degree in business administration from the University of North Dakota in 1980 She earned her law degree from the University of North Dakota in 1983.

The Job Service North Dakota 2009-2011 biennium budget totals $71,859,463 with the funding sources consisting of:

General Fund	$ 1,567,532
Other Funds	$70,291,931

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<u>APPENDIX E</u>

General Information Concerning the North Dakota State Department of Health

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GENERAL INFORMATION

The Department of Health is a diverse state agency, providing services from before birth to after death and covering a broad spectrum of public health issues from water quality to child passenger safety. The Department of Health employees about 300 people dedicated to making North Dakota a healthier place to live. The Department of Health's programs are administrated as seven sections: Administrative Support; Medical Services; Community Health; Health Resources; Environmental Health; Emergency Preparedness and Response and Special Populations. The mission of the North Dakota Department of Health is to protect and enhance the health and safety of all North Dakotans and the environment in which we live. To accomplish our mission, the North Dakota Department of Health is committed to improving the health status of the people of North Dakota, improving access to and delivery of quality health care, preserving and improving the quality of the environment, promoting a state of emergency readiness and response, and achieving strategic outcomes within available resources. The North Dakota Department of Health values excellence in providing services to the citizens of North Dakota; credibility in providing accurate information and appropriate services; respect for our employees, our coworkers, our stakeholders and the public; creativity in developing solutions to address our strategic initiatives and efficiency and effectiveness in achieving strategic outcomes.

The seven sections of the Department are under the administrative supervision of the State Health Officer. The Governor appoints the State Health Officer; Governor John Hoeven appointed Dr. Terry Dwelle as the State Health Officer in October 2001. Previously, Dr. Dwelle served as chief medical officer for the department. Dr. Dwelle earned his medical degree from St. Louis University School of Medicine, graduating cum laude. He later received a master's degree in public health and tropical medicine from Tulane University. A Garrison, N.D. native, Dr. Dwelle has worked with the University of North Dakota School of Medicine, the Centers for Disease Control and Prevention and the Indian Health Service. In addition, he practiced pediatrics in Bismarck, N.D., for many years. Most recently, Dr. Dwelle headed development of the Community Health Evangelism Program in East Africa.

The State Health Council serves as the advisory council for the Department and consists of 11 members appointed by the Governor. Four members are appointed from the health care provider community, five from the public sector, one from the energy industry and one from the manufacturing and processing industry.

Within the Administrative Support Section are the Divisions of Accounting; Human Resources; Public Information; Information Technology; Education Technology; Vital Records and Local Public Health. Within the Community Health Section are the Divisions of Cancer Prevention and Control; Chronic Disease; Family Health; Injury Prevention and Control; Nutrition and Physical Activity. Within the Emergency Preparedness and Response Section are the Divisions of Public Health Preparedness; Hospital Preparedness and Emergency Medical Services and Trauma. The Special Populations Section includes the Division of Children's Special Health Services and the Office for the Elimination of Health Disparities. Within the Health Resources Section are the Divisions of Health Facilities; Food and Lodging and Life Safety and Construction. The Medical Services Section includes the Divisions of Disease Control; State Epidemiologist and State Forensic Examiner. Within the Environmental Health Section are the Divisions of Water Quality; Laboratory Services; Waste Management; Air Quality and Municipal Facilities. North Dakota's public health system is made up of 28 single-and multi-county local public health units (LPHUs). Services offered by each public health unit vary, but all health units provide services in the areas of maternal and child health, health promotion and education, and disease prevention and control. Some local public health units maintain environmental health programs; others partner with the North Dakota Department of Health to provide environmental services such as public water system inspections, nuisance and hazard abatement, and food service inspections.

The Department of Health budget for the 2009-2011 biennium totals $217,662,160. The funding sources for the budget are:

General Fund	$ 27,234,262
Other Funds	$190,427,898

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<u>APPENDIX F</u>

General Information Concerning Veterans' Home

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GENERAL INFORMATION

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

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

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

FACILITIES

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

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

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

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

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

PROGRAMS AND SERVICES

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

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

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

PROJECT

The Veterans' Home will construct a new state of the art Veterans Home designed in the household/neighborhood concept. The new home, which will have 52 skilled nursing beds and 98 basic care beds, focuses on individual households designed for 12-13 residents. The facility will have 142 private rooms and 4 semi-private rooms, each room with its own private bathroom. The household centers around a large living room area, open kitchen and dining area. Each household looks and feels like a home, with few medical signposts. The Veterans Home is scheduled to open in Spring 2011.

APPENDIX G

Form of Legal Opinion

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December 28, 2010

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

____

NORTH DAKOTA BUILDING AUTHORITY
TAXABLE FACILITIES IMPROVEMENT BONDS
(RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS)
2010 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, Taxable Facilities Improvement Bonds (Recovery Zone Economic Development Bonds), 2010 Series A, dated December 28, 2010 (the "**Bonds**"). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to Senate Bill No. 2003, adopted by the Sixty-first Legislative Assembly of North Dakota, North Dakota Century Code (the "**NDCC**"), Chapter 54-17.2, the Trust Indenture dated as of December 1, 2010 between the Issuer and the Bank of North Dakota as Trustee (the "**Indenture**") and the General Authorization Resolution adopted on December 1, 2010 (the "**Resolution**"). The Issuer and the Veterans Home Governing Board, a state agency (the "**Agency**") have entered into a loan agreement dated as of December 1, 2010 (the "**Loan Agreement**"). Under the Loan Agreement, the Agency has covenanted to make payments to the Issuer to be used to pay when due the principal of, premium (if any) and interest on the Bonds (the "**Revenues**"). Under the Indenture, the Issuer has pledged the Revenues as security for the Bonds.

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

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

1. The Issuer validly exists under State law with the power to enter into and perform its obligations under the Indenture and the Loan Agreement and to issue the Bonds.

2. The Resolution has been duly adopted by the Issuer, and the Indenture and the Loan Agreement have been duly authorized by the Issuer and constitute valid and binding obligations of the Issuer enforceable against the Issuer. The Indenture creates a valid lien on the Revenues and other funds pledged by the Indenture for the security for the Bonds.

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 Revenues and other funds provided therefore in the Indenture. The Bonds are not a debt of the State of North Dakota or any political subdivision thereof. Neither the faith and credit nor the taxing power of the State of North Dakota or any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds.

4. Interest on the Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

6. The statements contained in the Official Statement under the headings "Tax Matters" and Appendix H are correct are correct and do not omit any matter which, in our opinion, should be included or referred to therein and which is not included elsewhere in the Official Statement. As Bond Counsel, we have not been called upon to examine, nor have we attempted to examine or verify, any section of the Official Statement, other than those specifically identified herein, and we express no opinion with respect thereto.

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 regarding tax consequences arising with respect to the Bonds other than as expressly set forth herein.

In order to ensure compliance with Treasury Circular 230, please note that: (i) this opinion was intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer, and (ii) each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Respectfully submitted,

COOK WEGNER PC **ARNTSON & STEWART, P.C.**

December 28, 2010

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

____

NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT REFUNDING BONDS
2010 SERIES B - $__________

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 Refunding Bonds, 2010 Series B, dated December 28, 2010 (the "**Bonds**"). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to North Dakota Century Code (the "**NDCC**"), Chapter 54-17.2, the Trust Indenture dated as of December 1, 2010 between the Issuer and the Bank of North Dakota as Trustee (the "**Indenture**") and the General Authorization Resolution adopted on December 1, 2010 (the "**Resolution**"). The Issuer and certain state agencies (the "**Agencies**") have entered into loan agreements dated as of December 1, 2010 (the "**Loan Agreements**"). Under the Loan Agreements, the Agencies have covenanted to make payments to the Issuer to be used to pay when due the principal of, premium (if any) and interest on the Bonds (the "**Revenues**"). Under the Indenture, the Issuer has pledged the Revenues as security for the Bonds.

Regarding questions of fact material to our opinion, we have relied upon representations of the Issuer and the Agencies contained in the Loan Agreements and the Indenture, and in the certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

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

1. The Issuer validly exists under State law with the power to enter into and perform its obligations under the Indenture and the Loan Agreements and to issue the Bonds.

2. The Resolution has been duly adopted by the Issuer, and the Indenture and the Loan Agreements have been duly authorized by the Issuer and constitute valid and binding obligations of the Issuer enforceable against the Issuer. The Indenture creates a valid lien on the Revenues and other funds pledged by the Indenture for the security for the Bonds.

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 Revenues and other funds provided therefore in the Indenture. The Bonds are not a debt of the State of North Dakota or any political subdivision thereof. Neither the faith and credit nor the taxing power of the State of North Dakota or any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds.

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 this paragraph is subject to the condition that the Issuer 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 has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause 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 NDCC Chapter 57-35.3).

6. The statements contained in the Official Statement under the headings "Tax Matters" and Appendix H are correct are correct and do not omit any matter which, in our opinion, should be included or referred to therein and which is not included elsewhere in the Official Statement. As Bond Counsel, we have not been called upon to examine, nor have we attempted to examine or verify, any section of the Official Statement, other than those specifically identified herein, and we express no opinion with respect thereto.

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 regarding tax consequences arising with respect to the Bonds other than as expressly set forth herein.

Respectfully submitted,

COOK WEGNER PC **ARNTSON & STEWART, P.C.**

APPENDIX H

Form of Undertaking to Provide Continuing Disclosure

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NORTH DAKOTA BUILDING AUTHORITY
TAXABLE FACILITIES IMPROVEMENT BONDS
(RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS)
2010 SERIES A -- $_____________

AND

NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT REFUNDING BONDS
2010 SERIES B -- $_____________

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 2010 Series A Trust Indenture dated as of December ____, 2010, and the 2010 Series B Trust Indenture dated December ____, 2010 (the "**Indentures**"), 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 2011, to the Trustee and to the MSRB by filings made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org, together with such identifying information as prescribed by the MSRB, or to DisclosureUSA. 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 the MSRB and the Trustee the Annual Financial Information by specific reference to documents previously provided to the MSRB or filed with the Securities and Exchange Commission and, if such a document is a final official statement within the meaning of the Rule, available from the MSRB.

B. (i) If a Material Event occurs while any Bonds are Outstanding, the Authority shall provide a Material Event Notice in a timely manner but not in excess of ten business days to the Trustee and the MSRB. Each Material Event Notice shall be in an electronic format accompanied by such identifying information as is prescribed by the MSRB.

(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 notice of any failure by the Authority while any Bonds are Outstanding to provide the Trustee Annual Financial Information on or before the Report Date. For the purposes of determining whether information received from the Authority is Annual Financial Information, the Trustee shall be entitled conclusively to rely on the Authority's written representation made pursuant to Section 3(A) of this Undertaking.

Section 4. The following are the definitions of the capitalized terms used herein and not otherwise defined in this Undertaking.

"Agency" or **"Agencies"** mean the ______________________________.

"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 Agency 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.

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

(1) Principal and interest payment delinquencies;

(2) Non-payment related defaults, if material;

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

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

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

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

(7) Modifications to rights of security holders, if material;

(8) Bond calls, if material, and tender offers;

(9) Defeasances;

(10) Release, substitution, or sale of property securing repayment of the securities, if material;

(11) Rating changes;

(12) Bankruptcy, insolvency, receivership or similar event of the obligated person;

Note to paragraph (12): For the purposes of the event identified in subparagraph (12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person;

(13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

"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.

"Rule" means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Exchange Act, as the same may be amended from time to time.

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 the MSRB.

Section 7.

A. In the event of a failure of the Authority to provide to the MSRB 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 December, 2010.

North Dakota Building Authority

By: ___________________________________
An Authorized Officer

Bank of North Dakota, as Trustee

By: ___________________________________
An Authorized Officer