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 Arntson Stewart Wegner PC, Fargo, North Dakota, Bond Counsel, according to existing North Dakota and federal laws, regulations, rulings and judicial decisions, and assuming compliance with certain covenants, as of their date of issuance, interest on the 2017 Series A Bonds is excluded from gross income for purposes of federal income taxation, and is exempt from taxable income for State of North Dakota income tax purposes. Interest on the 2017 Series A Bonds is not a specific preference item for purposes of the federal alternative minimum tax for individuals or corporations, but is included in computing adjusted current earnings when calculating the alternative minimum tax on corporations. See "TAX MATTERS" herein.

NORTH DAKOTA BUILDING AUTHORITY

$18,430,000

FACILITIES IMPROVEMENT REFUNDING BONDS, 2017 SERIES A

(the "2017 Series A Bonds" or the "Bonds")

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

The 2017 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 2017 Series A Bonds. Purchases of 2017 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 2017 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 2017 Series A Bonds. Interest is payable on June 1, 2018 and on each June 1 and December 1 thereafter. So long as DTC or its nominee is the registered owner of the 2017 Series A Bonds, payments of the principal or redemption price of and interest on the 2017 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 2017 Series A Bonds are subject to extraordinary optional redemption prior to maturity upon the occurrence of certain events as described under "THE 2017 SERIES A BONDS - Redemption" herein.

The 2017 Series A Bonds are being issued to refund, on a current basis, the $37,955,000 Facilities Improvement Bonds, 2005 Series A (the "2005 Series A Bonds"), the $10,460,000 Lease Revenue Refunding Bonds, 2006 Series A (the "2006 Series A Bonds") and the $9,770,000 Lease Revenue Bonds, 2006 Series B (the "2006 Series B Bonds", collectively, the "Refunded Bonds") issued by the Industrial Commission, acting as the North Dakota Building Authority (the "Issuer" or "Authority"), as described under "PLAN OF REFUNDING" herein. The 2005 Series A Bonds were originally issued to finance the acquisition, improving, equipping or construction of certain facilities (the "2005 Series A Projects") for the Office of Management and Budget, the Office of the Attorney General, the State Board of Higher Education, the Department of Corrections and Rehabilitation, the State Historical Society and the Parks and Recreation Department. The 2006 Series A Bonds were originally issued to advance refund the $8,360,000 Lease Revenue Bonds, 1998 Series A which were originally issued to finance the acquisition, construction, improvement or equipping of certain facilities for the State Board of Higher Education and the Department of Corrections and Rehabilitation (the "1998 Series A Projects"), and to advance refund the $4,430,000 Lease Revenue Bonds, 2000 Series A which were originally issued to finance a portion of the construction of an Animal Research Facility at North Dakota State University for the State Board of Higher Education and to fund a portion of the renovation of the Pine Cottage at the North Dakota Youth Correctional Center for the Department of Corrections and Rehabilitation (the "2000 Series A Projects"). The 2006 Series B Bonds were originally issued to advance refund the $13,165,000 Lease Revenue Bonds, 2001 Series A which were originally issued to finance the acquisition, construction, improvement or equipping of certain facilities for the North Dakota State Board of Higher Education (the "2001 Series A Projects") (collectively, the "Projects"). The Industrial Commission of North Dakota, acting as the North Dakota Building Authority, will loan the proceeds of the 2017 Series A Bonds to the Agencies pursuant to the loan agreements between the Issuer and the North Dakota Office of the Attorney General (the "Loan Agreement I"), the North Dakota State Board of Higher Education (the "Loan Agreement II"), the North Dakota Office of Management and Budget (the "Loan Agreement III"), the North Dakota State Historical Society (the "Loan Agreement IV"), the North Dakota Department of Corrections and Rehabilitation (the "Loan Agreement V") and the North Dakota Parks and Recreation Department (the "Loan Agreement VI") (collectively, the "Loan Agreements") under which the aggregate of the semiannual loan payments due under the Loan Agreements (the "Loan Payments") to be paid by the Agencies will be sufficient in amount and payable at such times to pay principal of and interest on the 2017 Series A Bonds when due.

The 2017 Series A Bonds are issued under and are equally and ratably secured by the Trust Indenture (the "2017 Series A Indenture") between the Issuer and the Bank of North Dakota as trustee (the "Trustee"). The 2017 Series A 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 2017 Series A 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 2017 Series A Loan Payments thereunder and that the Agencies shall not be obligated to pay such 2017 Series A Loan Payments except to the extent appropriated for each biennium. THE OBLIGATION OF THE AGENCIES TO PAY THE 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 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 2017 SERIES A BONDS DOES NOT DIRECTLY OR CONTINGENTLY OBLIGATE THE AGENCIES TO PAY THE LOAN PAYMENTS BEYOND THAT APPROPRIATED FOR THE CURRENT BIENNIUM OF THE STATE. THE ISSUER HAS NO TAXING POWER. See "BONDOWNERS' RISKS" herein.

The 2017 Series A Bonds are offered when, as and if issued by the Issuer subject to the approving legal opinion of Arntson Stewart Wegner PC, 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 2017 Series A Bonds will be available for delivery at The Depository Trust Company in New York, New York on or about November 21, 2017.

Fifth Third Securities, Inc. has agreed to purchase the 2017 Series A Bonds from the Authority for the purchase price of **$20,487,616.73.**

The date of this Official Statement is November 7, 2017.

Fifth Third Securities, Inc.

NORTH DAKOTA BUILDING AUTHORITY

$18,430,000
Facilities Improvement Refunding Bonds, 2017 Series A

MATURITY SCHEDULE

Maturity (December 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP
2018	$3,855,000	5.000%	1.100%	658905 DZ4
2019	3,020,000	5.000%	1.200%	658905 EA8
2020	3,190,000	5.000%	1.300%	658905 EB6
2021	3,070,000	5.000%	1.400%	658905 EC4
2022	2,580,000	5.000%	1.550%	658905 ED2
2023	2,715,000	5.000%	1.670%	658905 EE0

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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	Doug Burgum
Lieutenant Governor	Brent Sanford
Secretary of State	Alvin A. Jaeger
Attorney General	Wayne Stenehjem
Public Service Commissioner	Randy Christmann
Public Service Commissioner	Julie Fedorchak
Public Service Commissioner	Brian Kroshus
Agriculture Commissioner	Doug Goehring
Tax Commissioner	Ryan Rauschenberger
State Auditor	Joshua C. Gallion
Insurance Commissioner	Jon Godfread
Superintendent of Public Instruction	Kirsten Baesler
State Treasurer	Kelly Schmidt

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

MEMBERS

Governor Doug Burgum	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

BOND COUNSEL
Arntson Stewart Wegner PC
Fargo, North Dakota
Bismarck, North Dakota

FINANCIAL ADVISOR TO THE INDUSTRIAL COMMISSION
PFM Financial Advisors LLC
Minneapolis, Minnesota

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

INTRODUCTION TO THE OFFICIAL STATEMENT

The following information is furnished solely to provide limited introductory information regarding the North Dakota Building Authority's (the "Issuer" or "Authority") $18,430,000 Facilities Improvement Refunding Bonds, 2017 Series A (the "2017 Series A Bonds" or "Bonds") and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto.

Issuer:	The Industrial Commission of North Dakota, acting as the North Dakota Building Authority.
Dated Date:	Date of delivery.
Purpose:	The 2017 Series A Bonds are being issued to refund, on a current basis, the $37,955,000 Facilities Improvement Bonds, 2005 Series A (the "2005 Series A Bonds"), the $10,460,000 Lease Revenue Refunding Bonds, 2006 Series A (the "2006 Series A Bonds") and the $9,770,000 Lease Revenue Bonds, 2006 Series B (the "2006 Series B Bonds", collectively, the "Refunded Bonds"). The maturities to be refunded are the December 1, 2017 through 2024 maturities of the 2005 Series A Bonds, December 1, 2017 through 2019 of the 2006 Series A Bonds, and the December 1, 2017 through 2022 of the 2006 Series B Bonds (the "Refunding Bonds"). See "PLAN OF REFUNDING" herein.
Security:	The 2017 Series A Bonds are issued pursuant to a Trust Indenture (the "Indenture") dated as of November 1, 2017 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 November 1, 2017 for the payment of the principal of and interest on the Bonds. The Bonds are limited obligations of the Issuer payable solely from revenues received pursuant to the Loan Agreements which are produced from biennial appropriations by the North Dakota Legislative Assembly. See "SECURITY FOR THE BONDS." Summary definitions of certain capitalized terms appear below.
Optional Redemption:	The 2017 Series A 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:	Due annually on December 1, 2018 through 2023.	
Interest Payments:	Semiannually on June 1 and December 1 of each year, commencing June 1, 2018.	
Tax Status:	The 2017 Series A Bonds are generally exempt from federal and North Dakota income taxes (see "TAX MATTERS" herein). The 2017 Series A Bonds will not be designated qualified tax-exempt obligations under Section 265(b)(3) of the Code.	
Professional Consultants:	*Bond Counsel:*	Arntson Stewart Wegner PC Fargo, North Dakota Bismarck, North Dakota
	Financial Advisor:	PFM Financial Advisors LLC Minneapolis, Minnesota
	Trustee, Registrar and Paying Agent:	Bank of North Dakota Bismarck, North Dakota

Legal Matters: Legal matters incident to the authorization and issuance of the Bonds are subject to the opinion of Arntson Stewart Wegner PC, Bond Counsel, as to validity and tax exemption. The opinion will be substantially in the form set forth in Appendix J attached hereto.

Authority for Issuance: The Bonds are being issued pursuant to Chapter 54-17.2 of the North Dakota Century Code.

Continuing Disclosure: The Issuer has agreed with the Bondholders to provide ongoing disclosure of certain information. See "CONTINUING DISCLOSURE" herein.

Conditions Affecting Issuance of Bonds: The Bonds are offered when, as and if issued, subject to the approving legal opinion of Arntson Stewart Wegner PC, Fargo, North Dakota and Bismarck, North Dakota.

Delivery: On or about November 21, 2017.

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

Selected Definitions:

	"Additional Payments"	Additional amounts due under the Loan Agreements relating to administrative matters under the Indenture and certain costs of operating and maintaining the subject of the Projects.
	"Agencies"	The North Dakota Office of Attorney General, the North Dakota State Board of Higher Education, the North Dakota Office of the Management and Budget , the North Dakota State Historical Society , the North Dakota Department of Corrections and the North Dakota Parks and Recreation Department.
	"Indenture"	The Trust Indenture, including the 2017 Series A Indenture dated as of November 1, 2017 between the Issuer and the Bank of North Dakota, as trustee.

"Loan Agreements"	Loan Agreement I, Loan Agreement II, Loan Agreement III, Loan Agreement IV, Loan Agreement V and Loan Agreement VI dated as of November 1, 2017 between the Issuer and the North Dakota Office of Attorney General, the North Dakota State Board of Higher Education, the North Dakota Office of the Management and Budget , the North Dakota State Historical Society , the North Dakota Department of Corrections and the North Dakota Parks and Recreation Department, respectively.
"Loan Payments"	Semiannual loan payments due under the Loan Agreements.
"Trustee"	Bank of North Dakota.

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

Questions regarding the Bonds or the Official Statement can be directed to, and additional copies of the Official Statement, the Issuer's audited financial reports and the Indenture, Loan Agreements and General Authorization Resolution may be obtained from, PFM Financial Advisors LLC, 50 South 6th Street, Suite 2250, Minneapolis, Minnesota 55402 (612) 338-3535, the Issuer's financial advisor, or Karlene Fine, Executive Director and Secretary, Industrial Commission of North Dakota, State Capitol, 600 East Boulevard, Bismarck, North Dakota 58505 (701) 328-3722.

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OFFICIAL STATEMENT

NORTH DAKOTA BUILDING AUTHORITY

$18,430,000
FACILITIES IMPROVEMENT REFUNDING BONDS, 2017 SERIES A

This Official Statement, including the cover page and Appendices hereto (the "Official Statement"), is furnished to prospective purchasers in connection with the sale and delivery by the Industrial Commission of North Dakota acting as the North Dakota Building Authority (the "Issuer" or "Authority") of $18,430,000 aggregate principal amount of Facilities Improvement Refunding Bonds, 2017 Series A (the "2017 Series A Bonds" or "Bonds"). The Issuer was created pursuant to Chapter 571 of the 1985 Session Laws of the State of North Dakota for the purpose of acquiring, owning, constructing, reconstructing, extending, rehabilitating or improving buildings, related structures, parking facilities, equipment, improvements, real and personal property and interests therein primarily for the use of the State of North Dakota (the "State") and its agencies and instrumentalities. See "The Industrial Commission of North Dakota" at Appendix A.

The 2017 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 an authorizing resolution of the Issuer adopted on October 24, 2017 (the "General Authorization Resolution"). Proceeds of the 2017 Series A Bonds, along with other available funds, will be used to (i) currently refund the Refunded Bonds and (ii) pay certain costs and expenses associated with the issuance of the 2017 Series A Bonds and the refunding of the Refunded Bonds. See "PLAN OF REFUNDING" herein.

The 2017 Series A Bonds are issued under and are equally and ratably secured by the Trust Indenture (the "Indenture) dated as of November 1, 2017, by and between the Issuer and the Bank of North Dakota, as trustee (the "Trustee"). Pursuant to the Indenture, the Issuer has pledged and assigned to the Trustee Loan Payments payable under the Loan Agreement as security for the payment of the principal of and interest on the 2017 Series A Bonds.

Under the Loan Agreements, the Agencies have agreed to make semiannual loan payments ("Loan Payments"). The aggregate of the 2017 Series A Loan Payments payable under the Loan Agreements will be sufficient to pay the principal of and interest on the 2017 Series A 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 2017 Series A Loan Payments plus such additional amounts related to administrative matters under the Indenture and, if necessary, certain costs to operate and maintain each of the Projects (the "Additional Payment") as are required to be paid pursuant to the Loan Agreements.

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

The 2017 Series A 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 2017 Series A Bonds under the Indenture and/or any other funds available and authorized by law. The Loan Agreements specifically provide that nothing therein shall be construed to require the Legislative Assembly to appropriate any moneys to pay the Loan Payments thereunder and that the Agencies shall not be obligated to pay the Loan Payments except to the extent appropriated for each biennium. THE OBLIGATION OF THE AGENCIES TO PAY THE LOAN PAYMENTS UNDER THE LOAN AGREEMENTS IS SUBJECT TO BIENNIAL APPROPRIATION BY THE LEGISLATIVE ASSEMBLY AS PROVIDED IN THE LOAN AGREEMENTS. NEITHER THE OBLIGATION OF THE AGENCIES TO PAY THE LOAN PAYMENTS NOR THE OBLIGATION OF THE ISSUER TO PAY THE 2017 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 2017 SERIES A BONDS DOES NOT DIRECTLY OR CONTINGENTLY OBLIGATE THE AGENCIES TO PAY THE LOAN PAYMENTS BEYOND THAT APPROPRIATED FOR THE CURRENT BIENNIUM OF THE STATE. THE ISSUER HAS NO TAXING POWER. For certain economic and financial information with respect to the State, see Appendix A and Appendix C hereto.

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

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

BONDOWNERS' RISKS

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

Limited Obligations

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

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

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

No Security Interest in Physical Assets

The Bonds are not secured by any security interest in or lien on the physical assets comprising the Projects. Accordingly, upon the occurrence of an Event of Default under the Loan Agreements or the Indenture resulting in nonpayment of principal and interest on the Bonds, the remedies available to the Trustee are limited. If the Agencies do not make Loan Payments in amounts sufficient to pay principal and interest on the Bonds when due, there is no other source of funds or collateral available for such purpose.

Bond Ratings

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

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PLAN OF REFUNDING

The 2017 Series A Bonds will be issued, in part, to provide the moneys necessary, together with other legally available moneys, if any, to effect a current refunding and a defeasance of the outstanding 2005 Series A Bonds, the 2006 Series A Bonds and the 2006 Series B Bonds in order to realize debt service savings. The proceeds of the 2017 Series A Bonds, along with other available funds, will be used to (i) refund and defease the Refunded Bonds and (ii) pay certain costs and expenses associated with the issuance of the 2017 Series A Bonds and the refunding of the Refunded Bonds.

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

Series	Issue Date	Refunded Par Amount	Maturities Refunded/Defeased	Redemption Date	Redemption Price
2005 Series A	September 28, 2005	$22,190,000	2017-2024	12/22/17	100%
2006 Series A	February 15, 2006	2,340,000	2017-2019	12/22/17	100%
2006 Series B	November 15, 2006	5,260,000	2017-2022	12/22/17	100%

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds:	
Principal Amount of Bonds	$ 18,430,000
Premium	2,108,259
Cash Contribution from Refunded Bonds Debt Service Reserve Fund	5,311,628
Cash Contribution from Refunded Bonds Debt Service Fund	4,830,644
Total Sources	$ 30,680,531
Uses of Funds:	
Deposit to the Bond Account	$ 30,489,668
Underwriter's Discount	50,642
Costs of Issuance	115,000
Contingency	25,221
Total Uses	$ 30,680,531

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THE BONDS

General Provisions

The 2017 Series A Bonds will be issued in the aggregate principal amount of $18,430,000, 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, 2018 and semiannually thereafter on June 1 and December 1 of each year (collectively, the "2017 Series A Bond Payment Dates"), and mature on the dates, all as set forth on the inside cover page of this Official Statement. The 2017 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 2017 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 Indenture, upon presentation and surrender thereof. Interest on the 2017 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 2017 Series A Bond Payment Date (the "2017 Series A Record Date") and will be paid by moneys wired by the Trustee to DTC or its nominee, as registered owner of such 2017 Series A Bonds, which interest to be redistributed by DTC, or by any paying agent appointed by the Issuer as provided in the Indenture, on each 2017 Series A Bond Payment Date notwithstanding the cancellation of such 2017 Series A Bond upon any exchange or transfer thereof subsequent to the 2017 Series A Record Date and prior to such 2017 Series A Bond Payment Date. The principal of, if any, and interest on the 2017 Series A 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 Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity, specified on the cover page hereof, in the aggregate principal amount of such maturity and will be deposited with DTC.

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

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

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 Bonds 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 Bonds 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 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC's receipt of funds and corresponding detail information from the 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 Bonds 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 BONDS UNDER THE RESOLUTION; (III) THE SELECTION BY DTC OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE BONDS; OR (VI) ANY OTHER MATTER.

Redemption Provisions

Optional Redemption. The 2017 Series A 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 2017 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 2017 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 2017 Series A Bonds rather than to repair or rebuild the Projects.

Notice of Redemption. Notice of redemption shall be given by the Trustee in accordance with the requirements of DTC, so long as the 2017 Series A Bonds are held in book entry form with Cede & Co. as the nominee registered owner.

Payment of the Bonds

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

The following table shows the scheduled Loan Payments payable under the Loan Agreements, which are equal to the payments of principal of and interest on the Bonds:

Scheduled Loan Payments

Fiscal Year Ending June 30	Principal Component	Interest Component	Total Loan Payments
2018	$ --	$ 486,347	$ 486,347
2019	3,855,000	825,125	4,680,125
2020	3,020,000	653,250	3,673,250
2021	3,190,000	498,000	3,688,000
2022	3,070,000	341,500	3,411,500
2023	2,580,000	200,250	2,780,250
2024	2,715,000	67,875	2,782,875
Total	$18,430,000	$3,072,347	$21,502,347

SECURITY FOR THE BONDS

The Loan Agreements and the Indenture

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

The Issuer will assign to the Trustee its interest under the Loan Agreements and all Loan Payments payable under the Loan Agreements for the benefit of the owners of the Bonds. The Issuer has granted to the Trustee for the benefit of the owners of the Bonds certain specified funds held under the Indenture. The Issuer has not granted to the Trustee for the benefit of the owners of the Bonds a mortgage lien on, or a security interest in, or both, in the 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 Indenture that, upon notification from the Trustee, the Issuer will request that the Legislative Assembly include in the executive budget of the State a sufficient amount for payment of Loan Payments pursuant to the Loan Agreements if any Agency has failed to comply with its covenant to request such an appropriation as described above.

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

Maintenance and Insurance of the Projects

The Agencies have 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 Insurance of Project" in Appendix B hereto. If the Projects or any part thereof is 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.

TAX MATTERS

In the opinion of Bond Counsel, based upon existing statutes, regulations, rulings and court decisions, interest on the 2017 Series A Bonds is excludable from gross income for federal and State of North Dakota income tax purposes. A copy of the proposed opinion of Bond Counsel is set forth in Appendix J hereto.

Noncompliance following issuance of the 2017 Series A Bonds with certain requirements of the Code may result in the inclusion of interest on the 2017 Series A Bonds in gross income for federal and North Dakota income tax purposes retroactive to the date of issuance of the 2017 Series A 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 2017 Series A Bonds may adversely affect the value of, or the tax status of interest on the 2017 Series A Bonds.

The Code imposes an alternative minimum tax with respect to individuals and corporations on alternative minimum taxable income. Interest on the 2017 Series A Bonds will not be treated as a preference item in calculating the federal alternative minimum taxable income of individuals and corporations. The Code provides, however, that 75 percent of the interest on bonds held by corporations will be included for purposes of calculating the alternative minimum tax that may be imposed with respect to corporations.

Although Bond Counsel is of the opinion that interest on the 2017 Series A Bonds is excludable from the gross income of the owners thereof for purposes of federal and State of North Dakota income taxation, the ownership or disposition of, or the accrual or receipt of interest on, the 2017 Series A 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 2017 Series A Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the 2017 Series A Bonds from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the 2017 Series A 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 2017 Series A Bonds for audit examination, or the course or result of any IRS examination of the 2017 Series A Bonds, or obligations which present similar tax issues, will not affect the market price for the 2017 Series A Bonds.

Original Issue Premium:

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of a Bond, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and 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 Indenture, (ii) in any way contesting or affecting the authority for the issuance of the Bonds, the validity of the Bonds, the Loan Agreements or the Indenture, or (iii) in any way contesting the organization, existence or powers of the Issuer.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization, validity and enforceability of the Loan Agreements, as to the Issuer and the Agencies and the authorization and issuance of the Bonds are subject to the unqualified approving opinion of Arntson Stewart Wegner PC, Fargo, North Dakota and Bismarck, North Dakota, Bond Counsel. The form of opinion of Bond Counsel is attached to this Official Statement as Appendix J. Copies of the opinion will be available at the time of the initial delivery of the Bonds. Certain legal matters will be passed upon for the Issuer by the Attorney General. Bond Counsel has not participated in the preparation of this Official Statement.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (the "Rule), the Issuer shall covenant pursuant to the General Authorization Resolution adopted by the Governing Body to enter into an undertaking (the "Undertaking") for the benefit of holders of the Obligations to provide certain financial information and operating data relating to the issuer to certain information repositories annually, and to provide notices of the occurrence of certain events enumerated in the Rule to certain information repositories or the Municipal Securities Rulemaking Board. The details and terms of the Undertaking, as well as the information to be contained in the annual report or the notices of material events are set forth in the Continuing Disclosure to be executed and delivered by the Authority at the time the Obligations are delivered. Such Certificate will be in substantially the form attached hereto as Appendix K. A failure by the Authority to comply with the Undertaking will not constitute an event of default on the Obligations (although holders will have any available remedy at law or in equity). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Obligations in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Obligations and their market price. Prior continuing disclosure agreements required annual reports to be filed on or before each December 15.

The Authority did not file its annual report on or before December 15 for the following years:

Year Ended June 30,	Date of Filing
2012	December 17, 2012
2013	December 16, 2013

The Authority did file its annual report for 2014 on December 15, 2014. On December 31, 2014, the Authority updated its filing. Additionally, the Authority did not file the material event notice in connection with its rating downgrade on a timely basis. On February 18, 2016, Standard & Poor's Rating Services downgraded the State of North Dakota's issuer credit rating to "AA+" from "AAA", the North Dakota Building Authority facility improvement debt to "AA" from "AA+", and the Lease Revenue Refunding Bonds, 2006 Series A and Series B to "AA" from "AA+". The S&P report was unclear as to which agencies' bonds had been downgraded so the notice of the rating downgrade was not filed within the required 10-day period. The material event notice was filed on July 27, 2016, and the notice of failure to file the material event notice on a timely basis was filed July 28, 2016.

OFFICIAL STATEMENTS

A copy of the Issuer's Preliminary Official Statement dated November 1, 2017 may be obtained at www.pfm.com or by contacting PFM Financial Advisors LLC, 50 South 6th Street, Suite 2250, 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 Bonds at public sale to Fifth Third Securities, Inc., as Underwriter, for a price of $20,487,616.73 and accrued interest, if any.

FINANCIAL ADVISOR

PFM Financial Advisors LLC, 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 PFM Financial Advisors LLC, Minneapolis, Minnesota. This Official Statement is not to be construed as a contract or agreement between the Underwriter and the purchasers or owners of the Bonds.

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

STATE OF NORTH DAKOTA

/s/ Karlene Fine
Authorized Officer
North Dakota Building Authority

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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 Division and Geological Survey, the Renewable Energy Program, the Outdoor Heritage Fund, the North Dakota Pipeline Authority, the North Dakota Transmission Authority, the Agricultural Revenue Bond Program, and the North Dakota Student Loan Trust. The Commission performs regulatory functions through its Department of Mineral Resources. The Commission, effective July 1, 1991, among other powers, has the authority to borrow money and issue evidences of indebtedness for the purpose of funding lignite research, development and marketing projects, processes or activities directly related to lignite and products derived from lignite.

The members of the Commission are the Governor, the Attorney General and the Agriculture Commissioner of the State. The Governor is the Chairman of the Commission, and a quorum for the transaction of business of the Commission consists of the Governor and one additional member. The present members of the Commission, all of whom have been elected to office for terms expiring December 14, 2020 (with respect to the Governor) and December 31, 2018 (with respect to the other two members), are:

Doug Burgum , Governor
Wayne Stenehjem, Attorney General
Doug Goehring, Agriculture Commissioner

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

The Commission's mailing address is the Industrial Commission of North Dakota, State Capitol 14th Flr, 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 Sixty-second Session of the Legislative Assembly (2012 N.D. Sp. Sess. Laws ch. 582), 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 17 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 2016 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. After general fund allotments totaling at least 3 percent have been made under Section 54-44.1-12, the Governor may order a transfer of up to an amount equal to 3 percent of general fund appropriations. Additional transfers of 2 percent, 3 percent, and the remainder of the fund may be made for subsequent general fund budget allotments of one percent.

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

As of June 30, 2017, the Budget Stabilization Fund totaled $38,324,292. The law states that the amount transferred to and the balance maintained in the Budget Stabilization Fund may not be greater than 15.0 percent of the current biennial State General Fund budget. 15.0 percent of the 2017-2019 General Fund budget is $646,539,396.

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 and the department of career and technical education for grants to school districts may only be allotted to the extent that the allotment can be offset by transfers from the foundation aid stabilization fund. After allotments of 2.5 percent have been ordered during a biennium, the Director may exempt the following appropriations from up to 1% of an allotment each biennium: Department of Corrections and Rehabilitation and

Department of Human Services for direct care programs. 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 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.

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				
	2012	2013	2014	2015	2016
Revenues					
Taxes	2,982,809,361	3,186,274,671	3,728,997,721	3,156,454,917	2,304,119,664
Licences & Permits	17,572,408	16,957,171	18,075,192	18,826,307	19,214,994
Intergovernmental	1,702,321	736,078	1,596,872	1,062,546	1,184,183
Sales and Services	3,113,011	5,596,903	3,586,456	3,178,279	3,002,249
Royalties and Rents	48,471,678	31,869,063	26,379,996	23,404,842	14,692,623
Fines and Forfeits	4,180,473	6,199,825	6,169,764	5,688,772	5,475,453
Interest and Investment Income	16,763,027	16,910,569	128,240,349	115,888,359	61,921,883
Miscellaneous	1,423,072	2,701,224	1,578,467	1,172,316	1,559,616
TOTAL REVENUES	3,076,035,351	3,267,245,504	3,914,624,817	3,325,676,338	2,411,170,665
Expenditures					
General Government	173,893,001	227,924,769	219,564,581	238,246,097	266,074,830
Education	622,193,199	662,339,477	853,427,512	894,242,490	826,264,368
Health and Human Services	464,573,758	510,622,025	584,560,563	627,143,710	645,420,941
Regulatory	13,520,141	14,186,476	16,389,394	19,278,611	19,977,674
Public Safety and Corrections	109,837,391	129,103,247	138,418,498	138,595,109	153,690,513
Agriculture and Commerce	20,126,589	20,164,064	29,081,654	28,455,644	30,667,380
Natural Resources	20,555,126	18,759,127	14,625,414	13,446,718	17,246,252
Transportation	2,522,274	107,150,447	629,956,854	92,381,210	41,862,412
Intergovernmental	1,695,832	1,780,629	2,290,963	2,674,447	3,143,803
Capital Outlay	43,198,940	38,952,464	79,944,895	89,364,521	25,301,283
Debt Service	2,104,803	2,103,794	1,294,176	584,612	528,370
TOTAL EXPENDITURES	1,474,221,054	1,733,086,519	2,569,554,504	2,144,413,169	2,030,177,826
Other Financing Sources (Uses)					
Operating Transfers In	701,833,137	343,605,281	19,684,986	555,867,066	172,242,303
Operating Transfers Out	(796,283,602)	(447,239,265)	(467,636,484)	(1,112,546,051)	(1,094,369,840)
Operating Transfers to Component Units	--	--	--	--	--
Other	86,265	121,616	17,402	158,993	98,653
Total Other Financing Sources (Uses)	(94,364,200)	(103,512,368)	(447,934,096)	(556,519,992)	(922,028,884)
Revenues and Other Sources Over Expenditures and Other Uses	216,554,986	149,475,949	79,277,578	(28,205,588)	494,934,776
Beginning Cash Balance	421,908,429	638,463,415	787,939,364	867,216,942	904,436,646
FUND BALANCE – END OF YEAR	638,463,415	787,939,364	867,216,942	839,011,354	1,399,371,422

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 2013 through Fiscal Year 2017 (dollars in millions).

Quarter	Fiscal 2013[(1)]	Fiscal 2014	Fiscal 2015[(2)]	Fiscal 2016	Fiscal 2017
First	$1,472.2	$1,501.9	$503.6	$844.3	$31.2
Second	1,356.8	1,216.3	323.9	608.3	69.0
Third	1,587.8	1,122.0	770.4	338.5	43.6
Fourth	1,909.9	1,327.9	973.8	433.4	254.6

(1) Pursuant to NDCC 54-27.2-02, $181.1 million of the general fund balance was transferred to the Budget Stabilization Fund.

(2) Pursuant to NDCC 54-27.2-02 $23.33 million was transferred from the Budget Stabilization Fund to the General Fund in June 2015. This was done to reduce the Budget Stabilization Fund balance to its maximum balance of 9.5 percent of 2015-17 general fund appropriations.

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 2007 to 2009, 2009 to 2011, 2011 to 2013 and 2013 to 2015.

	2007-09	2009-11	2011-13	2013-15
Cash Balance Beginning July 1	$ 804,012,625	$ 1,468,000,625	$ 2,050,895,477	$ 3,261,369,070
Collections	12,504,744,013	16,119,965,396	24,930,717,383	31,621,221,587
Disbursements	(11,840,756,013)	(15,537,070,544)	(23,720,243,790)	(30,950,026,532)
Cash Balance Ending June 30	$ 1,468,000,625	$ 2,050,895,477	$ 3,261,369,070	$ 3,932,564,125

Source: Biennial Reports of the State of North Dakota, Office of the Treasurer; July 1, 2007 to June 30, 2009; July 1, 2009 to June 30, 2011; July 1, 2011 to June 30, 2013; and July 1, 2013 to June 30, 2015.

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2017-2019 General Fund Appropriations

Purpose		Appropriation
General Government		$ 315,167,384
Education:		2,108,456,020
Public Institutions and Other	$1,482,659,240	
Higher Education	625,796,780	
Health and Human Services		1,394,429,314
Regulatory		37,428,449
Public Safety		282,750,554
Agricultural, Economic Development, Extension and Research:		139,138,124
Extension and Research	97,791,057	
Other Agricultural & Economic Development	41,347,067	
Natural Resources		32,892,796
Transportation		--
TOTAL		$4,310,262,641

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Sources of General Fund Revenues

Actual collections for the General Fund portion of State revenues for the 2011-13, the 2013-15, 2015-2017 biennia and the State's legislative forecasted revenue projections for the 2017-2019 biennium are shown below.

Revenue Source	2011-2013 Actual Collections	2013-2015 Actual Collections	2015-2017 Actual Collections	2017-2019 Legislative Forecast
Sales and Use Tax	$2,196,977,793	$2,478,246,782	$1,717,867,835	$1,701,747,285
Motor Vehicle	252,725,403	277,152,752	221,784,455	220,003,000
Individual Income Tax	1,046,161,236	1,050,062,577	66,659,666	698,728,000
Corporate Income Tax	385,814,247	435,243,053	166,806,391	102,088,415
Financial Institutions Tax	11,236,510	(4,985,620)	1,309,357	0
Cigarette and Tobacco Tax	53,723,649	60,262,693	56,398,692	53,247,000
Oil and Gas Production Tax	133,834,000	146,071,108	127,164,783	163,000,000
Oil Extraction Tax	166,166,000	153,928,892	172,835,217	237,000,000
Coal Conversion Tax	38,399,414	40,767,149	43,669,236	39,564,000
Insurance Premium Tax	82,857,729	92,526,177	110,725,700	129,637,121
Wholesale Liquor Tax	17,617,501	18,704,869	17,897,487	18,083,000
Gaming Tax	11,136,421	7,195,937	6,722,714	7,301,480
Lottery	14,300,000	13,300,000	15,780,000	15,000,000
Departmental Collections	76,994,265	83,270,753	83,175,546	81,983,864
Interest Income	13,671,280	38,103,283	15,547,723	8,000,000
Mineral Leasing Fees	43,052,074	41,348,389	29,039,291	30,500,000
State Mill Transfers	9,448,922	6,817,200	9,051,496	18,566,604
Gas Tax Administration	1,485,000	1,991,513	2,030,496	2,016,120
Other Transfers (1)	1,290,188,705	861,790,000	1,484,739,325	803,350,000
Total	$5,845,790,149	$5,801,797,507	$4,349,205,410	$4,329,815,889

(1) Other transfers for the 2011-2013 biennium include $295,000,000 from the Property Tax Relief Sustainability Fund and $305,000,000 from the Strategic Investment and Improvements Fund and $253,115 from miscellaneous transfers. The Legislative Assembly in 2011 repealed the Permanent Oil Tax Trust Fund and provided for a transfer of the balance in the Fund to the General Fund at the end of the 2009-11 biennium. That one-time transfer, in the amount of $689,935,590, took place during FY 2012 and for the purposes of this report is reflected under other transfers for the 2011-2013 biennium. Other transfers for the 2013-15 biennium include $520,000,000 from the Strategic Investment and Improvements Fund and $341,790,000 from the Property Tax Relief Fund. Other transfers for the 2015-2017 biennium include $657,000,000 from the Property Tax Relief Fund, $572,485,454 from the Budget Stabilization Fund, $155,000,000 from the Strategic Investment and Improvements Fund, $100,000,000 from the Bank of North Dakota profits and $253,870 from miscellaneous transfers. Other transfers for the 2017-2019 biennium include $248,000,000 from the Strategic Investment and Improvements Fund, $140,000,000 from the Bank of North Dakota profits, $200,000,000 from the Legacy Fund, $183,000,000 from the Property Tax Relief Fund, $4,000,000 from Research ND Fund, $25,000,000 from a loan repayment and $3,350,000 from miscellaneous transfers.

Source: Office of Management and Budget.

Sources of Total State Appropriations

A comparison of the sources for the total appropriations made for the 2011-13, 2013-15, 2015-17 and 2017-19 biennia is presented below:

	2011-2013 Legislative Appropriation	2013-2015 Legislative Appropriation	2015-2017[(1)] Legislative Appropriation	2017-2019 Legislative Appropriation
General Fund	$ 4,236,686,460	$ 6,862,587,354	$ 5,650,139,018	$ 4,310,262,641
Special Funds	6,362,287,420	6,881,674,956	8,174,234,116	9,243,123,811
Total	$10,598,973,880	$13,744,262,310	$13,824,373,134	$13,553,386,452

(1) As adopted during the August, 2016 Special Session

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:

> 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.
>
> 2011 Session exempted agrichemical tank cleaners and foam markers used in crop spraying. The Legislative Assembly also exempted purchases of equipment by licensed dealers used to sell green diesel and the gross receipts from coin-operated amusement devices.
>
> 2013 Session extended the exemption timeframe for tangible personal property used to construct a windpowered electrical generating facility from 2015 to 2017. The Legislative Assembly also expanded the exemption for gas processing equipment. The intent of this sales tax exemption is to encourage the capture and use of natural gas and to reduce the amount of gas flared during the production of crude oil in the state.

2015 Session exempted enterprise computer equipment and software used in qualified data centers. The Legislative Assembly also exempted chemical processing plants, new coal mines, molds used in manufacturing, and internet access fees.

Individual Income Tax. A tax on income (defined as federal taxable income with adjustments) is imposed upon individuals and fiduciaries. The 2015 rates and brackets for married taxpayers filing joint return are as follows:

	2015
Up to $62,600	Computed at 1.10%
$62,600 to $151,200	$688.60 plus 2.04% of excess over $60,600
$151,200 to $230,450	$2,496.04 plus 2.27% of excess over $151,200
$230,450 to $411,500	$4,295.02 plus 2.64% of excess over $230,450
Over $379,150	$9,074.74 plus 2.90% of excess over $411,500

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.

The 2011 Legislative Assembly continued its reduction in the individual income tax rates. The rates were reduced 18.2 percent in all tax brackets.

The 2013 Legislative Assembly continued its reduction in the individual income tax rates. The rates were reduced 19.3 percent in all tax brackets.

The 2015 Legislative Assembly continued its reduction in the individual income tax rates the Rates were reduced 10.0 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 January 1, 2015 The tax is:
Over	But not over	
$0	$25,000	1.41% of N.D. taxable income
$3,000	$50,000	$352.50 + 3.55% of the amount over $25,000
$50,000		$1,240.50 + 4.31% of the amount over $50,000

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.

The 2011 Legislative Assembly reduced corporate taxes by 19.5%.

The 2013 Legislative Assembly reduced corporate taxes by 11.9%.

The 2015 Legislative Assembly reduced corporate taxes by 5.0%. The Legislative Assembly also authorized a voluntary, phased-in change to a 100% sales factor for corporations that choose to make the election.

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.

The 2013 Legislative Assembly expanded the oil extraction tax exemption for oil production from a stripper well by increasing the allowable production from the state's deepest wells from 30 to 35 barrels of oil produced per day.

The 2015 Legislative Assembly removed nearly all triggered exemptions and permanently lowered the oil extraction tax base rate from 6.5% to 5.0% effective January 1, 2016. Sustained oil prices in excess of $90 will trigger an increase in the oil extraction tax rate from 5% to 6%.

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 were increased from $300.0 million to $400.0 million only for the 2017-2019 biennium. . In addition an allocation of $75.0 million was also authorized for the Budget Stabilization Fund. All revenues in excess of $475 million are transferred to other funds, Property Tax Relief Fund, Strategic Investment and Improvements Fund, Foundation Aid Stabilization Fund, Common Schools Trust Fund, Resources Trust Fund, Renewable Energy Development Fund, Energy Conservation Fund, Impact Grant Fund, ND Outdoor Heritage Fund, Well Plugging & Site Reclamation Fund, Oil and Gas Research Fund, Lignite Research Fund and the Legacy Fund. These transfers are made after counties and cities and tribal allocations have been made.

Effective for oil and gas production after June 30, 2011 thirty percent of all oil and gas production and extraction revenues are deposited into the constitutionally established Legacy Fund. During the 2011-2013 biennium $1.278 billion was deposited into the Legacy Fund. During the 2013-2015 biennium $1.882 billion was deposited into the Legacy Fund. As of June, 2015 the total balance in the Legacy Fund was $3.325 billion which includes the interest earnings on the Fund. As of June, 2017 the total balance in the Legacy Fund was $4.685 billion. It is anticipated in the May legislative forecast that during the 2017-2019 biennium $865.8 million will be deposited into the Legacy Fund excluding the interest earnings.

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 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.

The 2011 Legislative Assembly reduced the Financial Institutions Tax by an average tax reduction of seven percent.

The 2013 Legislative Assembly eliminated the Financial Institutions Tax and imposed the corporation income tax on financial institutions. Revenue deposited in the State Aid Distribution Fund was increased to make up for the loss of Financial Institutions Tax revenue that had been distributed to local political subdivisions prior to the repeal of the tax.

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, 2013, the State had rights to approximately 2,598, 118 acres, of which approximately 30.8% 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, 2013 TO 2017

TAX TYPE	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Sales and Use Taxes(1)	$ 1,408,934,591	$ 1,469,906,144	$ 1,541,296,146	$ 1,134,028,473	$ 998,246,203
Oil Extraction Tax	1,277,370,124	1,754,824,617	1,514,332,592	732,866,348	693,306,400
Gross Production Tax	1,130,369,449	1,492,982,452	1,286,652,421	750,474,504	766,430,836
Motor Fuels Taxes	212,323,479	228,694,030	232,501,342	197,177,741	189,517,844
Individual Income Tax	617,933,162	516,139,885	537,606,872	355,512,173	314,192,157
Corporation Income Tax	187,067,476	239,404,247	195,838,806	97,580,800	69,225,592
Coal Taxes(2)	35,892,807	36,171,289	38,547,031	37,734,264	36,849,713
All Other Taxes and Fees(3)	300,605,396	320,946,047	343,319,515	330,962,935	318,027,550
Total Net Collections(4)	$5,170,496,484	$6,059,068,711	$5,690,094,725	$3,636,337,238	$3,385,796,295

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

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

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

(4) May not add due to rounding.

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 November 21, 2017 Bonds as follows:

2005 Series A	
4.25% to 4.50% Serial Bonds, due December 1, 2017-2024	22,190,000[(1)]
2006 Series A	
4.00% Serial Bonds, due December 1, 2017-2019	2,340,000[(2)]
2006 Series B	
4.00% to 4.25% Serial Bonds, due December 1, 2017-2022	5,260,000[(3)]
2010 Series A	
4.00% to 4.75% Serial Bonds, due December 1, 2017-2020	540,000
5.75% Term Bond, due December 1, 2025	775,000
6.25% Term Bond, due December 1, 2030	910,000
2010 Series B	
3.00% to 4.00% Serial Bonds, due December 1, 2017-2022	2,470,000
2012 Series A	
1.50% to 3.00% Serial Bonds due December 1, 2017-2021	4,250,000
Total Outstanding (Excluding the Bonds)	**$38,735,000**

(1) 2005 Series A Bonds maturing December 1, 2017 will be paid from the bond accounts established for the Prior Bonds on December 1, 2017. 2005 Series A Bonds maturing December 1, 2018 through 2024 will be refunded by 2017 Series A Bonds on December 22, 2017.

(2) 2006 Series A Bonds maturing December 1, 2017 will be paid from the bond accounts established for the Prior Bonds on December 1, 2017. 2006 Series A Bonds maturing December 1, 2018 through 2019 will be refunded by 2017 Series A Bonds on December 22, 2017.

(3) 2006 Series B Bonds maturing December 1, 2017 will be paid from the bond accounts established for the Prior Bonds on December 1, 2017. 2006 Series B Bonds maturing December 1, 2018 through 2022 will be refunded by 2017 Series A Bonds on December 22, 2017.

The 2005 Series A 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 2006 Series A 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 2006 Series B 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 were called December 1, 2010.

The 2010 Series A Bonds were issued to finance a portion of the construction of a new facility for the Veterans' Home.

The 2010 Series B Bonds were issued to finance a portion of the construction of a new facility for the Veterans' Home and to advance refunding a portion of the 2002 Series A Bonds. The 2002 Series A Bonds were called December 1, 2011.

The 2012 Series A Bonds were issued to refund on a current basis the outstanding maturities of the 2002 Series C Bonds totaling $3,140,000, the outstanding maturities of the 2002 Series D Bonds totaling $6,730,000, the outstanding maturities of the Series 2003 B Bonds totaling $9,025,000, and the Series 2003 Series C Bonds totaling $5,110,000. The Series 2002 C Bonds were called on August 15, 2012. The Series 2002 D Bonds and the Series 2003 C Bonds were called on June 4, 2012. The Series 2003 B Bonds were called on December 1, 2013.

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.

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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 a portion of the Public Finance Authority Bonds listed below include a moral obligation provision. Such outstanding debt as of November 1, 2017 is shown below:

	Outstanding
State of North Dakota Student Loan Trust	$ 1,000,000
State Fair Association	2,078,000[2]
North Dakota Public Finance Authority[1]	402,100,000
North Dakota Housing Finance Agency	706,200,000
North Dakota State Board of Higher Education[2]	239,209,000[2]
North Dakota State Water Commission[3] [4]	39,728,000
North Dakota Department of Transportation	14,470,000
Total	$1,404,785,000

[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. State Revolving Fund Program Bonds totaling $229,810,000 do not include the moral obligation. 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, 2016.

[3] The amount outstanding represents a loan from the Bank of North Dakota.

[4] As of June 30, 2017.

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RETIREMENT SYSTEM

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. 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. Effective August 1, 2015, current and newly eligible members of the National Guard System will transfer to the Law Enforcement System. 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, 2016, the number of participating political subdivisions in PERS was:

Cities	89
Counties	49
School Districts	123
Other	75
Total Participating Local Political Subdivisions	336

Administration

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.

Responsibility for administration of the three defined benefit pension plans is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; two members of the legislative assemble appointed by a chairman of the legislative management, three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees.

The costs of administering the plan are financed through the contributions and investment earnings of the plan.

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. Members are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equals or exceeds 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64, with three or more years of service. Supreme and district court judges are entitled to unreduced monthly pension benefits beginning at the normal retirement age (65) or Rule of 85. The monthly pension benefit for Supreme and district court judges is equal to a percentage of average monthly salary using the highest 36 consecutive months out of the last 180 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 the average monthly salary times the second 10 years of service, plus 1.25% of 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 plan permits early retirement at ages 55-64, with five or more years of service for supreme and district court judges. The monthly pension benefit for National Guard at normal retirement age (55). Effective August 1, 2015, the National Guard System will become part of the Law Enforcement System. Members of the Law Enforcement are entitled to unreduced monthly pension benefits at normal retirement age (55) or the rule of 85. The monthly pension benefit for the National Guard/Law Enforcement is equal to 2.00 percent of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 50-55 with three or more years of service for members. Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members 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.

Contributions

Contribution rates are set by state statute and are a percentage of salaries and wages.

In 2011, the Legislative Assembly passed an increase in the employee and employer contribution rates for the PERS, Judges and Law Enforcement plans. Both the employee and employer contribution rates increased for each of the plans by an additional 1% (.5% for the Law Enforcement Plans for political subdivisions) effective January 2012 and January 2013. The 2013 Legislative Assembly also passed an increase in the employee and employer contribution rates for the PERS, Judges, National Guard and Law Enforcement plans. Effective January 2014, both the employee and employer contribution rates were increased for each of the plans by an additional 1% (.5% for the National Guard and Law Enforcement Plans for political subdivisions). Members that made a qualifying election under Senate Bill 2015 to move from the Defined Contribution Plan back to the Defined Benefit Plan have a 2% increase on employee contributions.

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Member contributions are set by state statue and are a percentage of salaries and wages. During the 1983-1985 biennium, the State implemented the employer pickup provision of the IRS code, whereby a portion or all of the required member contributions are made by the employer. The State is paying 4% of the full member contribution. Some of the political subdivisions are paying all or part of the member contributions. Employer contributions are set by statue except the contribution rates for the National Guard/Law Enforcement Plans which are set by the Board. Contribution rates are established as a percent of covered compensation as follows:

	Member Contributions	Employer Contributions
PERS*	7.00%	7.12%
Judges Retirement System	8.00%	17.52%
Law Enforcement with previous service		
State – BCI Plan**	6.00%	10.31%
State – National Guard	5.50%	9.81%
Political subdivisions	5.50%	9.81%
Law Enforcement without previous service	5.50%	7.93%

*Members making the election to move from the Defined Contribution Plan back to the Defined Benefit Plan as a result of Senate Bill 2015 pay a 9.00% employee contribution.

**Effective July1, 2016, the BCI membership contribution will be 6.00% and the employer rate will be 9.81%.

The entry age normal cost method 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.

Except for Supreme and district court judges, the member's account balance includes the vested employer contributions equal to the members 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. Currently, the present rate of contributions for the PERS and Law Enforcement without previous service plans are not sufficient to meet the actuarially determined requirement for 2016-2017.

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.

Administration

The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDHPRS. See PERS Administration note for composition of the Retirement Board. Benefit and contribution provisions are administered in accordance with chapter 39-03 of the North Dakota Century Code.

The costs of administering the plan are financed through the contributions and investment earnings of the plan.

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. Members are entitled to unreduced pension benefits upon attainment of age 55 and 10 years of eligible employment 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 180 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.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members 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 members' accumulated contributions plus interest.

Contributions

Contribution rates for NDHPRS are set by state statute and are a percentage of salaries and wages. The State is paying 10.3% of the member contribution. The member contribution rate is 13.3% and the employer rate is 19.7%.

The entry age normal cost method 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.

An open period of 20 years to fund accrued liabilities for the NDHPRS has been adopted for the July 1, 1996 valuation. Currently, the present rate of contributions is not sufficient to meet the actuarially determined requirement for 2016-2017.

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 by the Board. This plan document, as amended, is authorized by the Plan Administrator, who is the Executive Director of the agency. JSND issues a publicly available financial report that may be obtained by writing to Job Service North Dakota, PO Box 5507, Bismarck, North Dakota 58506-5507.

Participation in the plan is limited to employees participating in the plan as of September 30, 1980.

Administration

On August 1, 2003, the administrative authority and the net position 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.

The costs of administering the plan are financed through the contributions and investment earnings of the plan.

Benefits

Benefits are established through the plan document, as amended by the Board. The System provides a post-retirement cost-of living adjustment each year based on the Consumer Price Index. 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.

Contributions

Contribution rates for the Job Service Retirement Plan are established in the plan document, as amended, which prescribes that they are actuarially determined using the frozen initial liability actuarial cost method which is the same as the aggregate cost method.

Member and employer contributions are set by statute and are established as a percent of covered compensation. Member contribution rates are 3% and employer contribution, on behalf of member, rates are 4% of covered compensation. 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 funding policy of the plan provides for employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. 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 all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, death and disability benefits. The cost to administer the TFFR plan is financed by investment income and contributions.

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, 2016, the number of participating employer units in TFFR was:

Type	Number
Public School Districts	176
County Superintendents	6
Special Education Units	19
Vocational Education Units	5
Other	8
Total	214

Administration

Responsibility for administration of the TFFR benefits program is assigned to a seven-member Board of Trustees (Board). The Board consists of the State Treasurer, the Superintendent of Public Instruction, and five members appointed by the Governor. The appointed members serve five-year terms which end on June 30 of alternate years. The appointed Board members must include two active teachers, one active school administrator, and two retired members. The Board submits any necessary or desirable changes in statues relating to the administration of the fund, including benefit terms, to the Legislative Assembly for consideration. The Legislative Assembly has final authority for changes to benefit terms and contributions rates.

Benefits

For purposes of determining pension benefits, members are classified within one of three categories. Tier 1 grandfathered and Tier 1 non-grandfathered members are those with service credit on file as of July 1, 2008. Tier 2 members are those newly employed and returning refunded members on or after July 1, 2008.

Tier 1 Grandfathered - A Tier 1 grandfathered member is entitled to receive unreduced 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.

Tier 1 Non-grandfathered - A Tier 1 non-grandfathered member is entitled to receive unreduced 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 the member has reached the age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55-64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. 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 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.

Tier 2 – A Tier 2 member is entitled to receive unreduced 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 has reached age 60 and 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 8% per year from the earlier of age 60/Rule of 90 or age 65. 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.

Contributions

Member and employer 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 11.75% 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 12.75% of the teacher's salary. Member and employer contributions will be reduced to 7.75% each when the fund reaches 100% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% or defer pay- ment until eligible for pension benefits. A nonvested member who terminates covered employment must claim a refund of contributions paid before 70½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstance defined by state statue.

EMPLOYEE MEMBERSHIP DATA

The following table summarizes employee membership information by plan at the actuarial valuation date:

	PERS	NDHPRS	JSND	TFFR
Retirees and beneficiaries currently receiving benefits:	10,513	123	206	8,249
Special prior service retirees:	3	-	-	-
Terminated Employees:				
Vested	5,456	18	1	1,601
Nonvested	5,277	8	-	779
Active Employees:				
Vested	16,018	67	9	7,433
Nonvested	7,398	89	-	3,380
Total plan membership	44,667	305	216	21,442
Date of annual valuation	July 1, 2016	July 1, 2016	July 1, 2016	July 1, 2016

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.

INVESTMENT POLICY

The System's Board is responsible for establishing the investment policy for the fund assets, which includes setting investment goals and specifying the percentage of assets to be invested in various types of investments for PERS, NDHPRS and JSND. The investment goals are viewed over the long term. The Board recognizes the plans' performance objectives, benefit projections, and capital market expectations when determining the asset allocation. The SIB is responsible for managing the System's investments in accordance with the investment policy.

The TFFR Board is responsible for establishing investment policy for the fund assets under NDCC 15-39.1-05.2. Benefit payments are projected to occur over a long period of time. This allows TFFR to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset- liability analysis designed to assist the Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting established impact of funded status and contribution rates.

The following was the asset allocation policy as of June 30, 2016:

	Target Allocation		
	PERS and NDHPRS	JSND	TFFR
Domestic equities	31.0%	31.0%	0.0%
International equities	21.0%	9.0%	0.0%
Private equity	5.0%	0.0%	0.0%
Domestic fixed income	17.0%	55.0%	0.0%
International fixed income	5.0%	5.0%	0.0%
Global real assets	20.0%	0.0%	18.0%
Global equity*	0.0%	0.0%	58.0%
Global fixed income	0.0%	0.0%	23.0%
Cash equivalents	1.0%	0.0%	1.0%
Total	100.00%	100.00%	100.00%

*Private equity is included in the Global Equity asset class.

INVESTMENT RATE OF RETURN

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was as follows for June 30, 2016:

PERS	0.49%
NDHPRS	0.48%
JSND	5.14%
TFFR	0.39%

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.

REALIZED GAINS AND LOSSES

Realized gains and losses on sales of investments are components of net change in fair value of investments and are computed as described in note 1. For the year ended June 30, 2016, the following are the net realized gains (losses):

PERS	$66,822,688
NDHPRS	1,872,550
JSND	506,503
TFFR	60,426,737
Retiree Health Insurance Credit	3,305,180
Defined Contribution	(70,697)
Deferred Compensation	77,215

Funding Status and Progress

NET PENSION LIABILITY OF THE PLANS

The components of the net pension liability of the Plans at June 30, 2016 were as follows (expressed in thousands):

	PERS	NDHPRS	JSND	TFFR
Total pension liability	$ 3,396,566	$ 87,922	$ 61,205	$ 3,589,394
Plan fiduciary net position	(2,414,896)	(65,811)	(96,534)	(2,124,335)
Net pension liability (asset)	$ 981,670	$ 22,111	$ (35,329)	$ 1,465,059
Plan fiduciary net position as a percentage of the total pension liability	71.10%	74.85%	157.72%	59.20%

ACTUARIAL ASSUMPTIONS

PERS AND HPRS

The total pension liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions:

Inflation: 3.50%

Salary Increase (Payroll Growth): 4.50% per annum for Highway Patrol, Main System, National Guard and Law Enforcement; 4% per annum for Judges.

Investment Rate of Return: 8.00%, net of investments expense, including inflation.

Mortality Rates: Mortality rates for active members, inactive members and healthy retirees were based on the RP-2000 Combined Healthy Mortality Table, set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP- 2000 Disabled Mortality Table, set back one year for males (no setback for females) multiplied by 125%.

JSND

The total pension liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions:

Inflation: 3.50%

Salary Increase (Payroll Growth): 3.50% per annum

Investment Rate of Return: 7.00%, net of investment expense, including inflation.

Cost of Living Adjustment: 3.00 per annum

Mortality Rates - Mortality rates for active members, inactive members and healthy retirees were based on the RP-2000 Combined Healthy Mortality Table, set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP- 2000 Disabled Mortality Table, set back one year for males, (no setback for females) multiplied by 125%.

TFFR

The total pension liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions:

Inflation: 2.75%

Salary Increase (Payroll Growth): 4.25% - 14.50%; varying by service, including inflation and productivity.

Investment Rate of Return: 7.75%, net of investments expense.

Cost of Living Adjustment: None

Mortality Rates: For active members, mortality rates were based on the RP-2014 Employee Mortality Table, projected generationally using Scale MP-2014. For healthy retirees, mortality rates were based on the RP-2015 Health Annuitant Mortality Table set back one year, multiplied by 50% for ages under 75 and grading up to , 100% by age 80, projected generationally using Scale MP-2014. For disabled retirees, mortality rates were based on the RP-2014 Disabled Mortality Table set forward four years.

<u>INVESTMENT RATE OF RETURN</u>

The long-term expected rate of return on investments was determined using a building-block method in which best- estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates to return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the pension plan's target asset allocation is summarized in the following tables:

PERS and NDHPRS	Long-Term Expected Real Rate of Return	JSND	Long-Term Expected Real Rate of Return	TFFR	Long Term Expected Real Rate of Return
Domestic equity	6.60%	Domestic equities	7.16%	Global equity	7.30%
International equity	7.30%	Core fixed income	4.26%	Global fixed income	0.90%
Private equity	10.90%	Limited duration fixed income	3.18%	Global real assets	5.30%
Domestic fixed income	1.49%	Global Equity	7.11%	Cash equivalents	0.00%
International fixed income	-0.45%	Diversified short-term fixed income	3.54%		
Global real assets	5.24%	Short-term corporate fixed income	2.48%		
Cash equivalents	0.00%	US high yield	6.13%		
		Emerging market debt	7.45%		

DISCOUNT RATE

The discount rate used to measure the total pension liability was as follows: 8.00% for PERS and NDHPRS, 7.00% for JSND and 7.75%% for TFFR. The projection of cash flows used to determine the discount rate assumed plan member and employer contributions will be made at rates equal to those based on the July 1, 2016 Actuarial Valuation Reports. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the services costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions (For JSND, it is assumed no future contribution will be made.), the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

SENSITIVITY OF NET PENSION LIABILITY

The following presents the net pension liability of the Plans as of June 30, 2016, calculated using the discount rate as follows: 8.00% for PERS and NDHPRS, 7.00% for JSND and 7.75%% for TFFR, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

Net Pension Liability (Asset) As of June 30, 2016	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
PERS	$ 1,401,158,232	$ 981,669,810	$ 628,295,237
NDHPRS	33,272,054	22,110,623	12,830,376

Net Pension Liability (Asset) As of June 30, 2016	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
JSND	$ (29,386,845)	$ (35,329,182)	$ (40,412,093)

Net Pension Liability (Asset) As of June 30, 2016	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
TFFR	$ 1,900,291,033	$ 1,465,058,563	$ 1,102,551,032

Single Employer Pension Plans

Below are the changes in net pension liability for the State's (primary government) single-employer plans:

Single-employer Plans
Changes in Net Pension Liability
Increases (Decreases)
For the Year June 30, 2016*

Total pension liability (asset)	JSND	NDHPRS
Service cost	$ 127,743	$ 2,038,291
Interest	5.026,167	6,007,875
Change of benefit terms	-	-
Difference between expected and actual experience	(1,806,271)	984,241
Changes of assumptions	(309,878)	394,419
Benefit payments, including refund of employee contributions	(4,694,171)	(4,745,510)
Net change in total pension liability (asset)	(1,656,419)	4,679,316
Total pension liability (asset) - beginning	65,046,433	75,432,901
Total pension liability (asset) - ending (a)	$ 63,390,014	$ 80,112,217
Plan fiduciary net position		
Contributions - employer	$ -	$ 2,002,291
Contributions – employee	50,142	1,351,798
Contributions – service credit repurchase	-	96,429
Contributions – other	-	-
Net investment income	3,260,507	2,334,780
Benefit payments, including refund of employee contributions	(4,694,171)	(4,745,5100
Administrative expense	(30,214)	(30,925)
Net change in plan fiduciary net position	(1,413,736)	1,008,863
Plan fiduciary net position - beginning	97,696,628	65,666,865
Plan fiduciary net position - ending (b)	$ 96,282,892	$ 66,675,728
Net pension liability (asset) - ending (a) - (b)	$ (32,892,878)	$ 13,436,489
Plan fiduciary net position as a percentage of the total pension liability (asset)	151.89%	83.23%
Covered employee payroll	$ 673,836	$ 10,145,713
Plan net pension liability (asset) as a percentage of covered employee payroll	-4,881.44%	132.44%

*The 2016 information presented has a measurement date of June 30, 2015.

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JOB SERVICE NORTH DAKOTA (JSND)

Net Pension Asset

At June 30, 2016, the State recorded a net pension asset of $32,892,878 for all of the Job Service North Dakota pension plan. The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date.

Deferred Inflows and Outflows of Resources

For the year ended June 30, 2016 the State recognized pension expense of $(4,705,352). At June 30, 2016 the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

State of North Dakota
Deferred Outflows and Inflows of Resources June 30, 2016
(Dollars Expressed in Thousands)

	Primary Government		Discrete Component Unit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -	$ -	$ -
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	(590)	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-	-	-
Employer contributions subsequent to the measure date	-	-	-	-
Total	$ -	$ (590)	$ -	$ -

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year end June 30:

	Primary Government	Component Units
2017	$ (94)	$ -
2018	(94)	-
2019	(94)	-
2020	872	-
Total	$ (590)	$ -

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.

The following presents the State's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	**Current Discount Rate (8%)**	**1% Increase (9%)**
State's proportionate share of the net pension asset	$ (26,578,200)	$ (32,892,878)	$ (38,280,035)

NORTH DAKOTA HIGHWAY PATROLMEN'S RETIREMENT SYSTEM (NDHPRS)

Net Pension Liability

At June 30, 2016, the State recorded a net pension liability of $13,436,489 for all of the North Dakota Highway Patrolmen's Retirement System pension plan. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date.

Deferred Inflows and Outflows of Resources

For the year ended June 30, 2016 the State recognized pension expense of $1,203,461. At June 30, 2016 the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

State of North Dakota
Deferred Outflows and Inflows of Resources June 30, 2016

	Primary Government		Discrete Component Unit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 849,598	$ (206,808)	$ -	$ -
Changes of assumptions	340,463	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	(528,226)	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(171)	-	-
Employer contributions subsequent to the measure date	2,127,355	-	-	-
Total	$ 3,317,416	$ (732,205)	$ -	$ -

$2,127,355 reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

	Primary Government	Component Units
2016	$ (225,090)	$ -
2017	(225,090)	-
2018	(225,088)	-
2019	715,126	-
2020	168,103	-
Thereafter	246,895	-
Total	$ 454,856	$ -

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.

The following presents the State's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	**Current Discount Rate (8%)**	**1% Increase (9%)**
State’s proportionate share of the net pension asset	$ 23,140,230	$ 13,436,489	$ 5,494,139

Cost Sharing Employer Pension Plans

NORTH DAKOTA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM

Proportionate Share of Net Pension Asset and Liability

The North Dakota Public Employees' Retirement System (PERS) provides retirement benefits to employees of the primary government and its discrete component units as well as to other political subdivision 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. Effective August 1, 2016, current and newly eligible members of the National Guard System will transfer to the Law Enforcement System.

At June 30, 2016, the State recorded a net pension liability of $365,945,102 for all of the PERS system. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on the State's share of covered payroll in the PERS pension plan relative to the covered payroll of all participating employers. At June 30, 2015 the State's proportion was 54.82419036 percent, which is a decrease of 0.33039764 percent from the prior year.

The State’s discrete component unit, North Dakota Public Finance Authority, also participates in. At June 30, 2016, the discrete component units recorded a net pension liability of $122,000 for all of the PERS system. The net pension liability was measured as of June 30, 2015 and the total pension liability and asset used to calculate the net pension liability was determined by an actuarial valuation as of that date. The discrete component units’ proportion of the net pension liability was based on the their share of covered payroll in the PERS pension plan relative to the covered payroll of all participating employers. At June 30, 2015 the discrete component unit’s proportion was 0.017889 percent, which is an increase of 0.000236 percent from the prior year.

Deferred Inflows and Outflows of Resources

For the year ended June 30, 2016 the State recognized pension expense of $33,901,091 and the component unit recognized pension expense of $12,000. At June 30, 2016 the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

State of North Dakota
Deferred Outflows and Inflows of
Resources June 30, 2016

	Primary Government		Discrete Component Unit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$10,986,680	$ (370,452)	$ 3,000	$ -
Changes of assumptions	-	(34,097,209)	-	(11,000)
Net difference between projected and actual earnings on pension plan investments	782,000	(9,722,251)	14,000	(16,000)
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,309,073	(9,052,911)	1,000	(1,000)
Employer contributions subsequent to the measure date	44,421,875	-	10,000	-
Total	$58,499,628	$(53,242,823)	$ 28,000	$ (28,000)

$44,421,875 and $10,000 reported as deferred outflows of resources related to pensions resulting from State and component unit contributions, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

	Primary Government	Component Units
2016	$ (12,565,098)	$ (3,000)
2017	(12,485,033)	(3,000)
2018	(12,406,970)	(3,000)
2019	5,690,009	2,000
2020	(7,367,609)	(3,000)
Thereafter	(30,369)	-
Total	$ (39,165,070)	$ (10,000)

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.

The following presents the State's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	**Current Discount Rate (8%)**	**1% Increase (9%)**
State's proportionate share of the net pension liability	$ 568,137,440	$ 365,945,102	$ 200,349,700
Component's proportionate share of the net pension liability	187,000	122,000	69,000

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

Proportionate Share of Net Pension Asset and Liability

The North Dakota Teachers' Fund for Retirement (TFFR) provides retirement benefits to North Dakota public teachers and certain other teachers who meet various requirements. At June 30, 2016, the State recorded a net pension liability of $8,872,607 for all of the TFFR. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on the State's share of covered payroll in the TFFR pension plan relative to the covered payroll of all participating employers. At June 30, 2015 the State's proportion was 0.678409 percent, which is an increase of 0.061884 percent from the prior year.

Deferred Inflows and Outflows of Resources

For the year ended June 30, 2016 the State recognized pension expense of $691,032. At June 30, 2016 the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

State of North Dakota
Deferred Outflows and Inflows of
Resources June 30, 2016

	Primary Government		Discrete Component Unit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 58,142	$ -	$ -	$ -
Changes of assumptions	996,242	(132,088)	-	-
Net difference between projected and actual earnings on pension plan investments	-	(100,051)	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	746,781	-	-	-
Employer contributions subsequent to the measure date	528,217	-	-	-
Total	$2,329,382	$ (232,139)	$ -	$ -

$528,217 reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

	Primary Government	Component Units
2016	$ 204,205	$ -
2017	204,205	-
2018	204,205	-
2019	406,090	-
2020	279,689	-
Thereafter	270,632	-
Total	$ 1,569,026	$ -

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.

The following presents the State's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	**Current Discount Rate (7.75%)**	**1% Increase (8.75%)**
State's proportionate share of the net pension liability	$ 11,725,571	$ 8,872,607	$ 6,493,297

Pension Expense

For the year ended June 30, 2016, the State recognized pension expense as follows:

Pension Plan	Pension Expense
Job Service North Dakota	$ (4,705,352)
ND Highway Patrolmen's Retirement System	1,203,461
ND Public Employees' Retirement System	33,901,091
ND Teachers' Fund for Retirement	691,032
Total	$ 31,090,232

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 elect to participate in the plan. Effective October 1, 2013, eligibility was expanded to include all state employees hired on or after October 1, 2013 through July 31, 2017, with the exception of employees eligible for the Highway Patrol Retirement System, Teachers Fund for Retirement or the alternative retirement plan of the Board of Higher Education. The Defined Contribution Plan had 178 participants as of June 30, 2016.

The administrative costs of the Defined Contribution Plan are funded by forfeitures of non-vested employees and administrative fees charged to individual participant accounts.

Benefits

Benefits are set by statute. Members are entitled to their vested account balance. A participating member is immediately 100% vested in the employee's contributions. A participating member vests in the employer contributions made on the member'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%

Members may elect to receive their account balance in a lump sum, lump sum direct rollover, or periodic distribution.

Contributions

Contributions are set by state statute and are a percentage of covered compensation. The State is paying 4% of the member contribution. The member contribution rate is 7.00% and the employer rate is 7.12%. Employer contributions totaled $0.87 million for the year ended June 30, 2016.

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.

Other Post-Retirement Benefits

RETIREE HEALTH INSURANCE CREDIT FUND

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. Effective July 1, 2015, the credit will also be available to apply towards monthly premiums under the state dental, vision and long term care plan and any other health insurance. The Retiree Health Insurance Credit Fund is advance- funded on an actuarially determined basis.

Employee membership is as follows:

Retirees receiving benefit	10,320
Active participants	23,664
Total membership	33,984

The Retiree Health Insurance Credit Fund has 23,664 active participants at June 30, 2016. The employers' actuarially required contribution was $7,543,743, and the actual employer contributions were $12,349,883 for the periods ended June 30, 2016.

The following are the changes in actuarial assumptions, plan provisions and plan experience of the employer's contribution rates expressed as a percent of covered payroll, and the dollar impact on the actuarial accrued liability:

	ER Contribution Rate as % of Covered Payroll	Actuarial Accrued Liability
Changes in actuarial assumptions	0.29%	$ 38,441,297
Changes in plan provisions	0.00%	-
Changes in plan experience during the year	0.00%	-
	0.29%	$ 38,441,297

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 1.14 percent of covered compensation. The employer contribution for employees of the State Board of Career and Technical Education is 2.99 percent of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14 percent of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "prefunded credit applied" on the Statement of Changes in Plan Net Position for the pension trust funds.

Retiree health benefits and death and disability 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 or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving the surviving spouse benefit of if the member selected a joint and survivor option are eligible to receive credit toward their monthly health insurance premium under the state health plan. Effective July 1, 2015, the credit will also be available to apply towards monthly premiums under the state dental, vision and long term care plan and any other health insurance plan. The benefits are equal to $5.00 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.

Funded Status and Funding Progress

The funded status of the plans as of the most recent actuarial valuation date is as follows (in millions):

Schedule Of Funding Progress (Dollars In Millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Value Accrued Liability (UAAL)	Funded Ration	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
June 30, 2014	$77.9	$116.6	$38.7	66.8%	$1,001.2	3.9%
June 30, 2015	89.4	128.9	39.5	69.4%	1,052.7	8.0%
June 30, 2016	97.8	176.6	78.8	55.4%	1,142.4	8.0%

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear funding trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits, as obtained from the System's independent actuary's annual valuation reports.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the plan is becoming financially stronger or weaker. Generally, the greater the percentage the stronger the retirement plan. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of annual covered payroll aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage the stronger the retirement plan.

The accompanying schedule of employer contributions, presented as required supplementary information following the notes to the financial statements, presents trend information about the amounts contributed to the plans by employers in comparison to the Annual Required Contribution (ARC). The ARC is actuarially determined in accordance with the parameters of GASB Statement 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Under the Projected Unit Credit Actuarial Cost Method, benefits are projected to each assumed occurrence of decrement (death, disability, retirement) using service as of the valuation date. The normal cost is equal to the actuarial present value of the benefits allocated to the current year. The actuarial accrued liability for active members is equal to the actuarial present value of the benefits allocated to all prior years. The actuarial accrued liability for members currently receiving benefits and for participants entitled to deferred benefits is the actuarial present value of the benefits expected to be paid. The unfunded actuarial accrued liability is equal to the actuarial accrued liability minus the actuarial value of assets. This amount is amortized as a level percentage of payroll over a fixed period of 40 years, of which 15 years remain.

Actuarial valuations for other postretirement employee benefit plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations of other postretirement employee benefit plans reflect a long-term perspective.

The actuarial methods and assumptions for the other postretirement employee benefit plan include techniques that are designed to reduce short-term volatility in the actuarial accrued liabilities and the actuarial value of assets.

Advance Funded Plan

For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized over a five-year period.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2016, the date of the latest actuarial valuation include:

Mortality Rates: The RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, and the RP-2000 Disabled Retiree Mortality Table set back one year for males (not set back for females), multiplied by 125%.

Withdrawal Rates: 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 an investigation of actual plan experience.

Interest Rate: 8.00% per annum, net of investment expenses.

Inflation: 3.50% per annum.

Expenses: Prior year expenses, adjusted for inflation.

IMPLICITY SUBSIDY UNFUNDED PLAN

The Implicit Subsidy Unfunded Plan provides health insurance coverage to eligible retirees who are not eligible for Medicare. The premiums for this coverage are set under North Dakota Century Code 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 this 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 2015-17 biennium will continue in the future.

A retiree must be receiving a retirement allowance from PERS, ND TFFR or TIAA-CREF to be eligible for the retiree health care coverage. Effective July 1, 2015, eligibility for this coverage is limited to employees who retired prior to July 2015 and/or former Legislators.

Funded Status and Funding Progress

The funded status of the plans as of the most recent actuarial valuation date is as follows (in millions):

Schedule Of Funding Progress
(Dollars In Millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Value Accrued Liability (UAAL)	Funded Ration	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
June 30, 2015	$ -	$8.9	$8.9	0.00%	$ -	0.00%

*See Retiree Health Insurance Credit Fund above for additional discussion on the Funded Status and Funding Progress

Significant actuarial assumptions employed by the actuary for funding purposes as of July 1, 2015, the date of the latest actuarial valuation include:

Mortality Rates: RP-2000 Combined Healthy Mortality Table, set back three years for males and females (set back one year for Highway Patrol). RP-2000 Disabled Retiree Mortality Table, set back one year for males (not set back for females) multiplied by 125%.

Withdrawal Rates: 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 an investigation of actual plan experience.

Interest Rate: 8$ per annum

Inflation: 3.5% per annum

Expenses: Prior year expense, adjusted for inflation

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, 2016. The actuary determined the obligation the agency has to record as of June 30, 2016 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 $5.00 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.

Job Service has authority to change the funding and benefit policy of this plan. Membership of the Other Post Retirement Benefit plans consisted of the following at July 1, 2016, the date of the latest actuarial valuation:

	Retiree Health Benefits Fund	Met Life Insurance Benefit
Retirees and beneficiaries currently receiving benefits	200	180
Terminated employees entitled to benefits but not yet receiving them	1	-
Current vested employees	9	18
Total	210	198

The funding policy of the plans thru June 30, 2016 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 Bryan, Pendleton, Swats & McAllister, LLC.

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	15-Year Amortization Open
Remaining Amortized Period	15 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	4.5%
Includes Inflation at	5.0%

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	$ 384,274	$ 86,264	$ 470,538
Interest on OPEB obligation	28,220	19,768	47,988
Adjustment to annual required contributions	(57,122)	(40,013)	(97,135)
Annual OPEB costs	355,372	66,019	421,391
Contributions made	279,187	51,061	330,248
Increase in net OPEB obligation	76,185	14,958	91,143
Net OPEB obligations, beginning of year	627,116	439,288	1,066,404
Net OPEB obligations, end of year	$ 703,301	$ 454,246	$ 1,157,547

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
2014	$ 360,521	$ 110,585	$ 256,911	$ 51,980	$ 162,215	65.6%
2015	360,521	110,585	260,155	52,019	158,932	66.3%
2016	355,372	66,019	279,187	51,061	91,143	78.4%

Funded Status and Funding Progress – As of June 30, 2016, the most recent actuarial valuation date, the plans were unfunded. The actuarial liability for benefits was $5,154,497, and the actuarial value of assets was $0.00 resulting in an unfunded actuarial accrued liability (UAAL) of $5,154,497. The covered payroll (annual payroll of active employees covered by the plans) was $1,281,180 and the ratio of the UAAL to the covered payroll was 402.32 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.

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.

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.

Below is a table which lists the major crops of North Dakota in 2016, 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 2016

Crop	Rank in Nation	Percent of U.S. Production
Flaxseed	1st	91.20%
Canola	1st	86.50%
Pinto	1st	59.60%
Durum Wheat	1st	56.00%
Spring Wheat	1st	50.40%
Sunflower Oil	1st	44.50%
Dry edible peas	1st	44.20%
Sunflower, all	1st	43%
Navy	1st	37.60%
Dry Beans, all	1st	31%
Sunflower, non-oil	2nd	29.80%
Lentils	2nd	29.70%
Wheat, all	2nd	14.40%
Barley	3rd	21.50%
Sugarbeets	3rd	16.90%
Oats	3rd	11.20%

Source: North Dakota Agricultural Statistics Service.

Energy and Mineral Resources

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

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

The downward slide in crude oil production that began in 1985 continued through 1994, when production hit its lowest point since 1979. Production in 1994 was 27.6 million barrels with a daily average of 75,826 barrels. Exploration for new oil and production of existing resources continued to lag through much of the 1990's, a result of low crude oil prices. With improved technology oil reserves in the Bakken and Three Forks formations have become accessible. North Dakota is the nation's 2nd ranking oil-producing state, producing more than one million barrels a day. North Dakota's all-time oil production high was Dec 2014 at 1,227,483 barrels a day. 95% of North Dakota's oil production is from the Bakken and Three Forks formations.

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. Over the last ten years, North Dakota coal production has averaged around 30 million tons. In 2016, coal production was approximately 28 million tons. North Dakota ranks as one of the 10 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% is used to generate synthetic natural gas, and 7% is used to produce fertilizer products and 1% for home heating, soil amendments, and oil well drilling mud). Electricity from lignite-fired power plants is one of North Dakota's leading exports.

North Dakota has more than 3,000 MW of wind energy capacity installed throughout the state, consisting of more than 1,500 wind turbines. North Dakota's wind resource is ranked sixth in the country, and the state ranks 11th for installed wind capacity, getting more than 20 percent of its power from wind resources.

Source: North Dakota Industrial Commission, North Dakota Department of Mineral Resources – Geological Survey.

Population and Labor Force

The 2010 population of North Dakota as reported by the United States Census Bureau is 674,526. 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, 1950-2010, 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%
2010	674,526	--
2016	757,952	--

2010 Population by Age

Age	Population	Percent
0-19	171,935	25.6%
20-24	58,956	8.8%
25-44	165,747	24.6%
45-64	178,476	26.5%
65+	97,477	14.5%
Total	672,591	100.0%

Source: U.S. Census Bureau and Job Service North Dakota.

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Total average nonagricultural employment in the State in 2016 was approximately 434,900. Below is a table with North Dakota annual nonagricultural employment for the years 2009 through 2010.

North Dakota Annual Average Total Nonagricultural Employment

	2012	2013	2014	2015	2016
Construction	29,900	32,800	35,200	34,700	32,100
Educational and Health Services	57,700	58,800	59,300	60,300	62,000
Financial Activities	21,900	22,900	24,100	24,400	24,100
Government	79,400	79,900	80,200	81,300	83,300
Information	6,900	6,800	6,800	6,600	6,700
Leisure and Hospitality	38,100	39,200	40,500	40,500	39,400
Manufacturing	25,200	25,400	26,000	25,500	24,600
Natural Resources & Mining	24,400	26,200	30,000	23,300	15,300
Other Services	16,100	16,400	16,700	16,600	16,000
Professional and Business Services	32,600	34,300	36,300	36,300	34,800
Retail Trade	47,100	49,000	50,700	50,800	49,200
Transportation, Warehousing and Utilities	24,500	26,200	28,200	26,700	22,800
Wholesale Trade	25,100	26,400	27,300	26,700	24,600
Employment	428,900	444,300	461,300	453,700	434,900

Source: North Dakota Job Service.

Annual Average
Unemployment Rates

	2011	2012	2013	2014	2015	2016
United States	8.9%	8.6%	7.4%	6.2%	5.3%	4.9%
North Dakota	3.5%	3.1%	2.9%	2.7%	2.8%	3.2%
Bismarck MSA	3.5%	3.1%	2.8%	2.8%	2.6%	2.9%
Fargo MSA	3.9%	3.5%	3.2%	2.7%	2.5%	2.6%
Grand Forks MSA	4.7%	4.3%	3.8%	3.4%	3.0%	3.0%

Source: Job Service North Dakota.

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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

	2000	2010	2011	2012	2013	2014	2015	2016	2016 Rank
United States	30,602	40,277	42,461	44,282	44,493	46,494	48,451	49,246	--
North Dakota	26,004	43,661	48,589	56,188	55,657	58,104	55,498	54,627	10th
Other Northern Plains States									
Minnesota	32,247	42,119	44,617	47,213	47,253	49,243	51,146	52,038	13th
Iowa	27,512	37,946	40,857	42,580	43,189	44,315	45,748	46,000	26th
South Dakota	26,808	41,063	44,628	45,041	44,630	45,921	47,665	47,834	22nd
Montana	23,315	35,458	37,781	39,820	39,509	40,745	42,482	42,947	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 fiscal years 2012-2016.

Sales Category	2012	2013	2014	2015	2016
Mining, Construction, & Manufacturing	$ 7,460,554,985	$ 6,706,437,436	$ 7,687,175,799	$ 5,338,090,544	$ 3,014,123,342
Transportation, Communication, & Public Utilities[1]	1,370,816,950	1,339,366,739	1,417,885,239	1,394,254,267	1,181,854,675
Wholesale & Retail Trade	12,335,865,864	13,008,181,632	14,291,991,433	11,973,448,607	9,701,512,849
Services	1,604,160,338	1,766,773,855	1,949,100,727	1,489,236,820	1,021,946,250
Accommodation & Food Service	1,706,097,731	1,758,613,141	1,928,607,097	1,840,417,888	1,705,940,154
Other	813,180,939	893,214,630	947,671,156	862,831,985	703,190,552
Total	$25,290,676,807	$25,472,587,433	$28,222,431,451	$22,898,280,111	$17,328,567,822

(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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<u>APPENDIX B</u>

The Indenture and a Form of the Loan Agreement

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$18,430,000
NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT REFUNDING BONDS
2017 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 November 1, 2017

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

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PREAMBLE

THIS TRUST INDENTURE dated as of November 1, 2017, 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 issued its $10,460,000 North Dakota Building Authority, Lease Revenue Refunding Bonds, 2006 Series A on February 15, 2006 (the "**2006 Series A Bonds**"); $9,770,000 North Dakota Building Authority, Lease Revenue Refunding Bonds, 2006 Series B on November 15, 2006 (the "**2006 Series B Bonds**"); and $37,955,000 North Dakota Building Authority, Facilities Improvement Bonds, 2005 Series A on September 28, 2005 (the "**2005 Series A Bonds**") (collectively, the "**Prior Bonds**"); and

WHEREAS, the Issuer has deemed it advisable to current refund the Prior Bonds; and

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 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 Refunding Bonds, 2017 Series A". The aggregate principal amount of Bonds that may be authenticated and delivered under this Indenture is limited to and shall not exceed $18,430,000.

The Bonds shall be dated the date of closing, 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) refund the Prior Bonds and (ii) pay Costs of Issuance.

Section 2.03. Deposit of Bond Proceeds. The $18,430,000.00 principal amount of the Bonds, less an Underwriters Discount of $50,641.92 plus a premium of $2,108,258.65, plus transferred proceeds from the reserve accounts established for the Prior Bonds in the amount of $5,311,628.14, plus transferred proceeds from the bond accounts established for the Prior Bonds in the amount of $4,830,643.76, shall be deposited with the Trustee as follows:

(a)	To the Bond Account:	$25,221.12
(b)	To the Administration Account	$115,000.00
(c)	To the Bank of North Dakota for deposit in the Prior Bonds Bond Fund pursuant to the Prior Bonds Indenture	$20,347,395.61 (transferred proceeds) + $10,142,271.90

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. 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 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
RESERVED

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) money transferred pursuant to Sections 3.01 and 3.02 hereof for redemption of the Bonds, and (vi) 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. [RESERVED].

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 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. <u>Repair and Replacement Account</u>. 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. 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.

ARTICLE VII
EVENTS OF DEFAULT; REMEDIES

Section 7.01. Events of Default. Each of the following events is hereby defined as, and is declared to be and to constitute an "Event of Default":

(a) If Default shall be made in the due and punctual payment of any Debt Service of any Bond, whether at the Stated Maturity thereof, or at the date fixed for redemption thereof (including, but not limited to, redemption of Term Bonds), or upon the Maturity thereof by declaration; or

(b) If an "Event of Default" (as defined herein) occurs under Section 8.1(a) of the Loan Agreements or any other provision of the Loan 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. Acceleration of Maturity. Upon the occurrence of a Default in Payment, the Trustee may, by notice in writing delivered to the Issuer and the Agency declare the principal of all then Outstanding Bonds immediately due and payable, and such principal shall thereupon become and be immediately due and payable. Upon the occurrence of any Event of Default other than a Default in Payment, the Trustee shall at the written request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding, by similar notice declare the principal of all Bonds then Outstanding immediately due and payable, and such principal shall thereupon become and be immediately due and payable.

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

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

Upon the happening and continuance of an Event of Default, the Trustee may, and the Trustee shall upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of then Outstanding Bonds, proceed forthwith by suit or suits at law or in equity or by any other appropriate remedy to enforce payment of the Bonds, to enforce application to such payment of the funds, revenues and income appropriated thereto by this Indenture and by the Bonds, to exercise the remedies of the Issuer under the Loan 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. No Amendment May Reduce Loan Payments. Under no circumstances shall any amendment to the Loan Agreements reduce the Loan Payments payable under the Loan Agreements to an amount which together with the credits against Loan Payments provided for in Section 5.8 of the Loan Agreements is less than the amount necessary to pay Debt Service on the Bonds without the consent of the Owners of all the Bonds then Outstanding.

ARTICLE XIII
MISCELLANEOUS

Section 13.01. Covenants of Issuer Bind Successors and Assigns. All the covenants, stipulations, promises and agreements in this Indenture contained, by or in behalf of the Issuer, shall bind and inure to the benefit of its successors and assigns, whether so expressed or not.

Section 13.02. Immunity of Officers. No recourse for the payment of any part of the Debt Service on any Bond or for the satisfaction of any liability arising from, founded upon or existing by reason of the issue, purchase or ownership of the Bonds shall be had against any officer, member or agent of the Issuer, the Commission, the State or the Agency, as such, all such liability being hereby expressly released and waived as a condition of and as a part of the consideration for the execution of this Indenture and the issuance of the Bonds.

Section 13.03. No Benefits to Outside Parties. Nothing in this Indenture, express or implied, is intended or shall be construed to confer upon or to give to any Person, other than the Agency, the parties hereto and the Owners of the Bonds issued hereunder, any right, remedy or claim under or by reason of this Indenture or any covenant, condition or stipulation hereof; and the covenants, stipulations and agreements in this Indenture contained are and shall be for the sole and exclusive benefit of the Agency, the parties hereto, their successors and assigns, and the Owners of the Bonds.

Section 13.04. Separability of Indenture Provisions. In case any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Indenture, but this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

Section 13.05. Execution of Indenture in Counterparts. This Indenture may be simultaneously executed in several counterparts, each of which, when so executed, shall be deemed to be an original, and such counterparts shall together constitute one and the same instrument.

Section 13.06. Headings Not Controlling. The headings of the several Articles and Sections hereof are inserted for the convenience of reference only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 13.07. Notices to Trustee, Issuer, and Agency. Any request, demand, authorization, direction, notice, consent of Bondholders or other document provided or permitted by this Indenture shall be sufficient for any purpose under this Indenture or the Loan Agreements, when mailed registered or certified mail, return receipt requested, postage prepaid (except as otherwise provided in this Indenture) (with a copy to the other parties) at the following addresses (or such other address as may be provided by any party by notice) and shall be deemed to be effective upon receipt:

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

To the Trustee: Bank of North Dakota
1200 Memorial Highway
PO Box 5509
Bismarck, ND 58506-5509
Attn: Trust Department

To the Agency: As set forth in the respective Loan Agreements

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. [RESERVED].

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

____
Doug Bergum, Governor
and Chairman

ATTEST:

____
Karlene K. Fine
Executive Director and Secretary

(S E A L)

BANK OF NORTH DAKOTA
Bismarck, North Dakota, as Trustee

By______________________________

Title______________________________

Appendix A

DEFINITIONS

Defined Terms. Unless the context otherwise requires, the terms herein defined shall, for all purposes of this Indenture and of any indenture supplemental hereto, have the meanings herein specified. Any terms defined in the Loan 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.

"**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 State Board of Higher Education, North Dakota Department of Corrections and Rehabilitation, Office of Management and Budget, Office of Attorney General, State Historical Society of North Dakota and North Dakota Parks and Recreation Department.

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

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

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

"**Bank of North Dakota**" means the State doing business as the Bank of North Dakota pursuant to 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 adopted by the Issuer on October 24, 2017, 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 Refunding Bonds, 2017 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 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, 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.

"**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 (i) June 1 and December 1 in each year commencing June 1, 2018, the date on which interest is payable on any Bond, and (ii) any date on which interest is payable, upon redemption or 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 Agreements**" means Loan Agreement I, dated as of November 1, 2017, between the Issuer and the Office of the Attorney General; Loan Agreement II, dated as of November 1, 2017, between the Issuer and the State Board of Higher Education of the State of North Dakota; Loan Agreement III, dated as of November 1, 2017, between the Issuer and the Office of Management and Budget; Loan Agreement IV, dated of as November 1, 2017, between the Issuer and the State

Historical Society of North Dakota; Loan Agreement V, dated as of November 1, 2017, between the Issuer and the North Dakota Department of Corrections and Rehabilitation; and Loan Agreement VI, dated as of November 1, 2017, between the Issuer and the North Dakota Park and Recreation Department.

"**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 Fifth Third Securities, Inc., Cincinnati, Ohio.

"**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:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (2) below);

(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; or

(3) Deposits in the Bank of North Dakota which, as provided by NDCC Section 6-09-10, are guaranteed by the State.

(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 Section 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 the $10,460,000 North Dakota Building Authority, Lease Revenue Refunding Bonds, 2006 Series A; $9,770,000 North Dakota Building Authority, Lease Revenue Refunding Bonds, 2006 Series B; and $37,955,000 North Dakota Building Authority, Facilities Improvement Bonds, 2005 Series A.

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

“**Prior Bonds Indenture**” means the Trust Indenture and Assignment of Lease Rentals dated as of October 26, 2006 between the Issuer and the Trustee, relating to the 2006 Series B Bonds; the Trust Indenture and Assignment of Lease Rentals dated as of February 1, 2006 between the Issuer and the Trustee, relating to the 2006 Series A Bonds; and the Trust Indenture and Assignment of Loan Payments dated as of September 19, 2005 between the Issuer and the Trustee, relating to the 2005 Series A Bonds.

"**Project**" or "**Projects**" means the projects described in the Loan Agreements between the Issuer and the Agency financed with proceeds of the Prior Bonds.

"**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.

"**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 <u>Schedule 1</u> 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 <u>Schedule 1</u> attached hereto and payable through sinking installment redemption in amounts set out in Section 2.01 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

$18,430,000
NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT REFUNDING BONDS
2017 SERIES A

MATURITIES, AMOUNTS AND INTEREST RATES

Maturity December 1	Principal Amount	Interest Rate
2018	$3,855,000	5.00%
2019	3,020,000	5.00%
2020	3,190,000	5,00%
2021	3,070,000	5.00%
2022	2,580,000	5.00%
2023	2,715,000	5.00%

Attachment 1

BOND FORM

R–1

NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT REFUNDING BONDS
2017 SERIES A

BOOK ENTRY SERIAL BOND

Principal Amount:	__________________ Dollars ($_______)		
Registered Holder:	Cede & Co.		
Dated Date November __, 2017	Maturity Date December 1, 20__	Interest Rate _____%	CUSIP
Interest Payment Dates June 1 and December 1	Initial Interest Payment Date	Registrar/Paying Agent 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 November 1, 2017 (the "**Indenture**") and the General Authorization Resolution adopted October 24, 2017. 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 not subject to optional redemption prior to maturity;

(iii) are subject to extraordinary optional redemption prior to maturity as a whole or in part at such time or times, under such circumstances and in such manner as is set forth in the Indenture; and

(iv) 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.

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 in NDCC Chapter 54-17.2. 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

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LOAN AGREEMENT I

between

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

and

STATE OF NORTH DAKOTA
OFFICE OF ATTORNEY GENERAL

Dated as of November 1, 2017

NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT REFUNDING BONDS
2017 SERIES A

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

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LOAN AGREEMENT

THIS LOAN AGREEMENT dated as of November 1, 2017, 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 OFFICE OF ATTORNEY GENERAL** (the "**Agency**").

WITNESSETH:

WHEREAS, pursuant to North Dakota Century Code, Chapter 54-17.2 and acts of the legislative assembly of the State of North Dakota (together the "**Act**"), the Issuer issued its $37,955,000 North Dakota Building Authority, Facilities Improvement Bonds, 2005 Series A (the "**Prior Bonds**"); and

WHEREAS, pursuant to a Loan Agreement and Acknowledgement of the Assignment of Loan Payments dated as of September 28, 2005 (2005 Series A), proceeds of the Prior Bonds were used, in part, to finance construction of Phase III of the Master Plan development of the State Crime Laboratory (the "**Project**"); and

WHEREAS, the Issuer proposes to issue its North Dakota Building Authority, Facilities Improvement Refunding Bonds, 2017 Series A (the "**Bonds**"), to refund the Prior Bonds and pay costs of issuance.

NOW, THEREFORE, 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 North Dakota Building Authority, Facilities Improvement Refunding Bonds, 2017 Series A, and any additional bonds authorized to be issued hereunder and any issued to refund the Bonds in whole or in part.

"**Bond Account**" means the bond account 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 Trust Indenture relating to the Bonds, dated as of November 1, 2017 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.

"**Project**" means Phase III of the Master Plan development of the State Crime Laboratory.

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 October 24, 2017, has duly authorized the execution and delivery of this Loan Agreement, the Bonds, and the Indenture.

(b) Under existing statutes and decisions, no taxes on income or profits are imposed on the Issuer.

(c) The Issuer will not knowingly take or omit to take any action reasonably within its control which action or omission would impair the exclusion of interest paid on the Bonds from the federal gross income of the Owners of the Bonds.

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

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

(f) There is no litigation or proceeding pending, or to the knowledge of the Issuer after due inquiry threatened, against the Issuer, or affecting it, which could adversely and materially affect the validity of this Loan Agreement, the Indenture or the Bonds or the ability of the

Issuer to comply with its obligations under this Loan Agreement, the Indenture or the Bonds.

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

(h) The Issuer hereby finds and determines that, based on representations of the Agency, all requirements of the Act have been complied with and that refunding the Prior Bonds 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 has no reason to believe that the State legislature will discontinue the Agency; however, the legislature has the power to alter the statutory laws regarding the Agency. Therefore, the Agency agrees to advise the State legislature of the obligations under this Loan Agreement in the event there is in the future any legislative proposal or amendment that would have a material adverse impact on any of the obligations of the Agency under this Loan Agreement.

Section 2.3. Special Representations of the Agency Relating to the Tax-Exempt Status of the Bonds. The Agency shall take no action authorized to be taken under this Loan Agreement which shall in any manner violate or otherwise contradict or cause to be violated the requirements of the Tax Certificate on file with the Agency and Issuer or otherwise cause the Trustee or Issuer to violate or in any way fail to maintain compliance with the Tax Certificate. 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 Bonds to be includable in the gross income of the Bondholders for federal income tax purposes, including leasing space in a building, the construction of which was financed by the proceeds of the Bonds, to an entity other than a state or local government agency or institution.

Section 2.4. Special Representation of the Agency to Request Appropriation. The Agency shall include in its submission to the governor of the State for inclusion by the governor in the biennial executive budget of the State for each year of the respective biennium during the term or 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 the applicable Appendix of the Official Statement describing the Agency. 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
RESERVED

ARTICLE IV
ISSUANCE OF BONDS; LOAN TO AGENCY

Section 4.1. Issuance of Bonds; Loan to Agency. In order to refund the Prior Bonds, and to finance the Agency's proportionate share of the costs of issuance of the Bonds and the funding of a reserve fund, if any, 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 refund the Prior Bonds, including the Agency's proportionate share of the costs of issuance of the Bonds and the funding of a reserve fund, if any, 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 November 21, 2017, 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, 2018, 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 (to the extent not prohibited by NDCC Section 28-26-04), 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 (to the extent not prohibited by NDCC Section 28-26-04), 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) In the event a Reserve Fund is established, 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 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, or 2) Loan Payments the Agency paid to the Issuer, in accordance with Section 7.01(e) of the Indenture, which were derived from legally available sources other than appropriations. The issuance of the Bonds will not directly or indirectly or contingently obligate the Issuer or the State to levy or pledge any form of taxation whatsoever or to make any appropriation for their payment. Neither the Issuer, nor any member, director, officer, employee or agent of the Issuer or any person executing the Bonds shall be liable personally for the Bonds or be subject to any personal liability or accountability by reason of the issuance of the Bonds.

ARTICLE VII
ASSIGNMENT

Section 7.1. Assignment by Agency. To the extent permitted by law, the Agency may assign or allow to be transferred its rights and obligations under this Loan Agreement to a successor agency with the prior written consent of the Trustee and the Issuer, but such assignment will not relieve the successor agency from liability for any obligations owed or incurred by the Agency under this Loan Agreement.

Section 7.2. Assignment by Issuer. The Issuer will assign its rights under and interest in this Loan Agreement to the Trustee pursuant to the Indenture as security for the payment of the Bonds. Otherwise, the Issuer will not sell, assign or otherwise dispose of its rights under or interest in this Loan Agreement, nor create or permit to exist any lien, encumbrance or other security interest in or on such rights or interest.

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

ARTICLE VIII
EVENTS OF DEFAULT AND REMEDIES

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

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

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

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

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

(a) By written notice to the Agency, declare Loan Payments in an amount equal to all amounts due and payable on its proportionate share of 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 (to the extent not prohibited by NDCC Section 28-26-04), 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 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, if any, 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, Director, Agent 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, director, agent 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, director, agent 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: Office of Attorney General
State Capitol, 1st Floor
600 East Boulevard Avenue
Bismarck, ND 58505-0040
Attention: Deputy Attorney General

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

____
Doug Burgum, Governor
Chairman

Attest:

____
Karlene K. Fine
Executive Director and Secretary

(SEAL)

STATE OF NORTH DAKOTA
OFFICE OF ATTORNEY GENERAL

____
Deputy Attorney General

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APPENDIX C

Audited General Purpose Financial Statements
of the State of North Dakota
For the Fiscal Year Ended June 30, 2016

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Basic Financial Statements

STATE OF NORTH DAKOTA

Statement of Net Position
June 30, 2016

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Units (GASB Based)
ASSETS				
Cash and Cash Equivalents	$ 48,227,761	$ 485,490,571	$ 533,718,332	$ 19,562,062
Investments	8,567,400,879	4,560,357,185	13,127,758,064	764,518
Accounts Receivable - Net	100,541,818	148,846,423	249,388,241	771,301
Taxes Receivable - Net	441,632,776	-	441,632,776	-
Interest Receivable - Net	32,708,419	55,127,708	87,836,127	65,531
Intergovernmental Receivable - Net	289,586,493	36,456,007	326,042,500	-
Internal Receivable	3,503,416,893	-	-	-
Due from Component Units	-	36,321,785	36,321,785	-
Due from Primary Government	-	-	-	380,000
Prepaid Items	14,391,066	3,509,131	17,900,197	-
Inventory	23,725,385	33,558,454	57,283,839	-
Loans and Notes Receivable - Net	344,157,821	4,320,619,318	4,664,777,139	9,856,180
Pension Assets	32,892,878	-	32,892,878	-
Other Assets	-	21,579,252	21,579,252	183,038
Restricted Assets:				
Cash and Cash Equivalents	11,875,288	202,121,370	213,996,658	46,346,000
Investments	-	23,072,493	23,072,493	891,782,000
Interest Receivable - Net	-	2,831,000	2,831,000	4,996,000
Loans and Notes Receivable - Net	-	756,767,000	756,767,000	-
Capital Assets:				
Nondepreciable	1,766,076,846	155,380,974	1,921,457,820	-
Depreciable, Net	2,600,217,398	1,296,563,659	3,896,781,057	19,933
Total Assets	17,776,851,721	12,138,602,330	26,412,037,158	974,726,563
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Loss on Bond Refunding	1,370,000	2,518,868	3,888,868	4,196,000
Decrease in Fair Value of Hedging Derivatives	-	149,387	149,387	-
Financial Derivative Instrument	-	7,633,000	7,633,000	-
Unrealized Loss on Interest Rate Swap	-	5,064,000	5,064,000	-
Derived from Pensions	45,873,991	18,862,837	64,736,828	28,000
Total Deferred Outflows of Resources	47,243,991	34,228,092	81,472,083	4,224,000

* **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 Position
June 30, 2016

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Units (GASB Based)
LIABILITIES				
Accounts Payable	377,675,293	57,222,195	434,897,488	1,454,210
Accrued Payroll	55,370,702	43,504,502	98,875,204	5,076
Securities Lending Collateral	213,680,009	18,536,658	232,216,667	-
Interest Payable	888,025	11,342,702	12,230,727	3,837,000
Intergovernmental Payable	190,342,986	12,224,439	202,567,425	-
Tax Refunds Payable	169,759,077	-	169,759,077	-
Internal Payable	-	4,177,227,733	673,810,840	-
Due to Component Units	-	45,490,447	45,490,447	-
Contracts Payable	23,887,432	8,556,093	32,443,525	-
Federal Funds Purchased	-	119,500,000	119,500,000	-
Other Deposits	-	1,031,986,772	1,031,986,772	-
Amounts Held In Custody for Others	-	17,453,692	17,453,692	-
Unearned Revenue	4,747,743	166,451,041	171,198,784	129,859
Financial Derivative Instrument	-	7,782,387	7,782,387	-
Net Pension Liability	289,853,350	98,400,849	388,254,199	122,000
Other Liabilities	-	27,109,561	27,109,561	158,334
Long-Term Liabilities				
Due within one year	16,391,890	550,417,402	566,809,292	23,260,147
Due in more than one year	112,417,737	2,546,905,468	2,659,323,205	456,377,000
Total Liabilities	1,455,014,244	8,940,111,941	6,891,709,292	485,343,626
DEFERRED INFLOWS OF RESOURCES				
Grant Received Prior to Time Requirements	-	59,553	59,553	-
Unrealized Gain on Interest Rate Swap	-	863,000	863,000	-
Derived from Pensions	40,684,396	13,525,852	54,210,248	28,000
Total Deferred Inflows of Resources	40,684,396	14,448,405	55,132,801	28,000
NET POSITION				
Net Investment in Capital Assets	4,299,696,899	1,155,758,401	5,455,455,300	19,933
Restricted for:				
General Government	17,937,474	-	17,937,474	-
Education	4,337,812,656	-	4,337,812,656	-
Health and Human Services	22,544,161	-	22,544,161	-
Regulatory Purposes	79,271,325	-	79,271,325	-
Public Safety & Corrections	2,908,264	-	2,908,264	-
Agriculture and Commerce	45,624,024	-	45,624,024	-
Cultural and Natural Resources	569,762,914	-	569,762,914	-
Transportation	1,053,683,033	-	1,053,683,033	-
Capital Projects	-	-	-	1,417,570
Debt Service	7,844,977	161,538,193	169,383,170	152,588,000
Loan Purposes	-	45,275,952	45,275,952	309,298,000
Pledged Assets	-	170,684,000	170,684,000	-
Unemployment Compensation	-	101,882,702	101,882,702	-
Pension Benefits	32,892,878	-	32,892,878	-
Permanent Fund and University System - Nonexp	67,997,836	17,376,625	85,374,461	127,000
University System - Expendable	-	29,663,187	29,663,187	-
Other	8,593,770	7,243,614	15,837,384	-
Unrestricted	5,781,826,861	1,528,847,402	7,310,674,263	30,128,434
Total Net Position	$ 16,328,397,072	$ 3,218,270,076	$ 19,546,667,148	$ 493,578,937

The Accompanying Notes are an Integral Part of the Financial Statements

Statement of Activities
For the Fiscal Year Ended June 30, 2016

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental Activities:				
General Government	$ 1,055,377,601	$ 36,278,126	$ 5,342,772	$ -
Education	1,175,550,087	7,071,212	267,008,310	-
Health and Human Services	1,776,822,167	42,982,802	1,121,200,710	1,328,865
Regulatory	69,084,070	52,583,727	5,336,815	-
Public Safety and Corrections	227,617,802	24,446,658	62,215,678	-
Agriculture and Commerce	106,845,611	38,222,183	24,846,203	-
Natural Resources	321,992,458	35,142,635	19,598,521	2,000,000
Transportation	679,070,102	122,699,922	249,990,587	87,473
Interest on Long Term Debt	1,334,285	-	-	-
Total Governmental Activities	5,413,694,183	359,427,265	1,755,539,596	3,416,338
Business-Type Activities:				
Bank of North Dakota	85,822,027	207,836,000	-	-
Housing Finance	40,245,934	36,286,659	12,193,000	-
Loan Programs	17,322,830	12,212,352	226,695	-
State Lottery	26,038,434	35,736,460	2,992	-
Unemployment Compensation	225,358,209	147,802,377	2,678,317	-
University System	1,211,438,892	537,645,053	211,512,088	29,609,083
Workforce Safety & Insurance	366,662,703	308,682,776	69,501,734	-
Other	569,432,422	573,829,155	2,488,328	-
Total Business-Type Activities	2,542,321,451	1,860,030,832	298,603,154	29,609,083
Total Primary Government	$ 7,956,015,634	$ 2,219,458,097	$ 2,054,142,750	$ 33,025,421
Component Units (GASB Based):	$ 32,218,183	$ 9,445,725	$ 37,723,761	$ -

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 Position, Beginning of Year, as Restated
Net Position, Ending

Net (Expense) Revenue and Change in Net Position			
Primary Government			Component
Governmental Activities	Business-Type Activities	Total	Units (GASB Based)
$ (1,013,756,703)		$ (1,013,756,703)	
(901,470,565)		(901,470,565)	
(611,309,790)		(611,309,790)	
(11,163,528)		(11,163,528)	
(140,955,466)		(140,955,466)	
(43,777,225)		(43,777,225)	
(265,251,302)		(265,251,302)	
(306,292,120)		(306,292,120)	
(1,334,285)		(1,334,285)	
(3,295,310,984)		(3,295,310,984)	
	122,013,973	122,013,973	
	8,233,725	8,233,725	
	(4,883,783)	(4,883,783)	
	9,701,018	9,701,018	
	(74,877,515)	(74,877,515)	
	(432,672,668)	(432,672,668)	
	11,521,807	11,521,807	
	6,885,061	6,885,061	
-	(354,078,382)	(354,078,382)	
(3,295,310,984)	(354,078,382)	(3,649,389,366)	
			$ 14,951,303
414,964,865	-	414,964,865	-
1,348,342,960	-	1,348,342,960	-
1,457,361,212	-	1,457,361,212	-
99,295,506	-	99,295,506	-
64,347,477	-	64,347,477	-
22,776,760	-	22,776,760	-
119,545,563	93,003	119,638,566	-
15,637,987	-	15,637,987	-
(4,948,596)	-	(4,948,596)	-
(603,556,908)	611,332,622	7,775,714	-
2,933,766,826	611,425,625	3,545,192,451	-
(361,544,158)	257,347,243	(104,196,915)	14,951,303
16,689,941,230	2,960,922,833	19,650,864,063	478,627,634
$ 16,328,397,072	$ 3,218,270,076	$ 19,546,667,148	$ 493,578,937

The Accompanying Notes are an Integral Part of the Financial Statements

Statement of Net Assets
Component Units - University System Foundation
FASB Basis
June 30, 2016

	Major University System Foundation	Nonmajor University System Foundation
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 49,755,518	$ 9,139,743
Receivable from Primary Institution - Current	3,525,217	50,852
Investments	11,073,652	13,235,057
Accounts Receivable - Net	7,322,826	397,204
Unconditional Promises to Give - Net	14,088,891	754,346
Inventory	994,137	
Other Assets- Current	2,956,624	54,422
Total Current Assets	89,716,865	23,631,624
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	6,097,862	166,600
Contributions Receivable	629,725	
Investments:		
Investments, Net of Current Portion	354,100,730	27,023,745
Investments, Restricted	5,287,020	-
Investments Held In Trust	31,253,910	3,114,532
Beneficial Interest In Trust	15,148,293	-
Charitable Gift Annuity Investments	6,067,499	-
Charitable Remainder Trust Account Investments	18,978,441	-
Real Estate and Equipment Held for Investment - Net	22,262,918	5,749,595
Other Long-Term Investments	7,389,811	1,351,315
Contracts for Deed & Notes Receivable, Net of Current Portion	962,250	-
Long-Term Pledges Receivable	41,901,371	2,527,924
Other Receivables	116,709	-
Receivable from Primary Institution	41,445,541	266,242
Notes Receivable - Net	6,490,000	799,952
Other Assets - Noncurrent	1,433,285	521,341
Capital Assets - Net	158,597,346	12,675,686
Total Noncurrent Assets	718,162,711	54,196,932
Total Assets	807,879,576	77,828,556
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	4,097,690	220,443
Investments Held on Behalf of Institutions	50,511	
Payable to University	9,180,163	1,198,425
Accrued Payroll	822,047	17,034
Gift Annuities & Life Income Agreements - Current	2,969,817	40,618
Unearned Revenue - Current	8,615,653	750,847
Other Liabilities - Current	394,437	2,918
Long-Term Liabilities - Current	5,659,463	439,417
Total Current Liabilities	31,789,781	2,669,702
Noncurrent Liabilities:		
Deposits	2,998,997	-
Gift Annuities & Life Income Agreements - Noncurrent	21,425,942	288,173
Obligations Under Split-Interest Agreement	5,520,953	-
Investments Held on Behalf of Institutions	22,106,318	3,114,532
Other Liabilities - Noncurrent	196,237	-
Long-Term Liabilities - Noncurrent	70,270,844	10,389,636
Total Noncurrent Liabilities	122,519,291	13,792,341
Total Liabilities	154,309,072	16,462,043
Net Assets		
Temporarily Restricted	77,265,868	15,873,621
Permanently Restricted	359,883,754	39,038,699
Net Investment in Property & Equipment	65,210,194	-
Unrestricted	151,210,688	6,454,193
Total Net Asset	653,570,504	61,366,513
Total Liabilities and Net Assets	$ 807,879,576	$ 77,828,556

Statement of Revenues, Expenses and Changes in Fund Net Assets
Component Units - University System Foundation
FASB Basis
For the Fiscal Year Ended June 30, 2016

	Major University System Foundation	Nonmajor University System Foundation
Support and Revenue		
Gifts and Contributions	$ 50,186,278	$ 9,271,244
Investment Income	89,093	1,316,750
Net Realized and Unrealized Losses on Investment Securities	(4,962,169)	(404,190)
Program and Event Income	47,127,429	5,139,308
Other Income	6,739,354	5,407,727
Total Support and Revenue	99,179,985	20,730,839
EXPENSES		
Program Services	$ 49,663,359	$ 4,598,509
Supporting Services	52,433,161	8,948,779
Fund Raising Expense	2,774,002	-
Total Expenses	104,870,522	13,547,288
Changes in Net Assets	$ (5,690,537)	$ 7,183,551
Total Net Assets - Beginning of Year , as restated	$ 659,261,041	$ 54,182,962
Total Net Assets - End of Year	$ 653,570,504	$ 61,366,513

The Accompanying Notes are an Integral Part of the Financial Statements

Balance Sheet
Governmental Funds
June 30, 2016

	General	Special Revenue Federal	Special Revenue State	Nonmajor Governmental Funds	Total
ASSETS					
Cash Deposits at the Bank of ND	$ 593,922,105	$ -	$ 2,382,075,035	$ 2,105,349	$ 2,978,102,489
Cash and Cash Equivalents	30,925,039	-	17,295,204	-	48,220,243
Investments at the Bank of ND	81,143,786	-	490,458,793	5,975,000	577,577,579
Investments	4,318,734,293	-	4,224,825,913	12,165,669	8,555,725,875
Accounts Receivable - Net	11,285,919	18,079,538	71,000,117	-	100,365,574
Taxes Receivable - Net	319,248,467	-	122,121,148	263,161	441,632,776
Interest Receivable - Net	18,916,501	-	13,653,461	88,483	32,658,445
Intergovernmental Receivable - Net	-	277,092,770	12,264,851	-	289,357,621
Due from Other Funds	229,431,705	59,015,590	27,469,868	4,000	315,921,163
Prepaid Items	3,060,077	872,450	4,838,040	-	8,770,567
Inventory	3,261,067	11,093,006	9,251,483	-	23,605,556
Loans and Notes Receivable - Net	168,178,523	5,001	119,146,029	56,828,270	344,157,823
Total Assets	5,778,107,482	366,158,355	7,494,399,942	77,429,932	13,716,095,711
DEFERRED OUTFLOWS OF RESOURCES					
Total Deferred Outflows of Resources	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	$ 5,778,107,482	$ 366,158,355	$ 7,494,399,942	$ 77,429,932	$ 13,716,095,711
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	$ 62,774,575	$ 147,448,386	$ 165,494,742	$ 3,737	$ 375,721,440
Accrued Payroll	33,227,135	6,765,656	12,778,853	-	52,771,644
Securities Lending Collateral	51,821,385	-	160,665,607	1,027,109	213,514,101
Interest Payable	-	-	612,885	-	612,885
Intergovernmental Payable	7,713,766	25,685,169	156,943,949	-	190,342,884
Tax Refunds Payable	160,791,942	-	8,967,135	-	169,759,077
Due to Other Funds	52,773,043	165,602,010	145,011,671	349,931	363,736,655
Contracts Payable	356,032	4,871,054	18,660,346	-	23,887,432
Unearned Revenues	-	4,583,491	96,181	-	4,679,672
Total Liabilities	369,457,878	354,955,766	669,231,369	1,380,777	1,395,025,790
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	80,654,925	2,608,819	19,062,598	-	102,326,342
Total Deferred Inflows of Resources	80,654,925	2,608,819	19,062,598	-	102,326,342
Fund Balances:					
Nonspendable					
Inventory	3,261,067	11,093,006	9,251,483	-	23,605,556
Long - Term Receivables	25,135,777	5,000	103,394,833	-	128,535,610
Prepaid Expenditures	3,060,077	872,450	4,838,040	-	8,770,567
Legal Requirements	3,877,340,334	-	-	-	3,877,340,334
Permanent Trust Fund	-	-	-	67,997,836	67,997,836
Restricted	-	-	5,992,204,028	7,844,974	6,000,049,002
Committed	997,494,805	-	616,905,194	206,345	1,614,606,344
Assigned	-	-	79,512,397	-	79,512,397
Unassigned	421,702,619	(3,376,686)	-	-	418,325,933
Total Fund Balances	5,327,994,679	8,593,770	6,806,105,975	76,049,155	12,218,743,579
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	$ 5,778,107,482	$ 366,158,355	$ 7,494,399,942	$ 77,429,932	$ 13,716,095,711

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

June 30, 2016

Total Fund Balances-Governmental Funds		$ 12,218,743,579
Amounts reported for governmental activities in the statement of net position 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 $7,491,696,368 and the accumulated depreciation is $3,225,587,754		4,266,108,614
Other assets not available in the current period and therefore are not reported in the governmental funds:		
Net Pension Asset		32,892,878
Deferred outflows of resources are not reported in the governmental funds:		
Loss on bond refunding	1,370,000	
Related to pensions	43,873,898	
Total Deferred Outflows		45,243,898
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 unavailable in the funds.		102,258,271
Internal service funds are used to charge the costs of certain activities to individual funds. The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the internal service funds are included in governmental activities in the statement of net position.		91,767,647
Deferred inflows of resources are not reported in the governmental funds:		
Related to pensions		(38,386,907)
Long-term liabilities and related accrued interest 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	(64,048,919)	
Notes Payable	(3,891,368)	
Accrued Interest on Long-Term Liabilities	(265,516)	
Compensated Absences	(45,143,449)	
Capital Leases	(404,013)	
Other Postemployment Benefit Obligation, net	(1,156,657)	
Net Pension Liability	(274,215,325)	
Claims and Judgments	(1,105,661)	
Total Long-Term Liabilities		(390,230,908)
Net Position of Governmental Activities		$ 16,328,397,072

STATE OF NORTH DAKOTA

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Special Revenue Federal	Special Revenue State	Nonmajor Governmental Funds	Total
REVENUES					
Individual and Corporate Income Taxes	$ 422,631,075	$ -	$ 1,598,681	$ -	$ 424,229,756
Sales and Use Taxes	1,058,346,870	-	295,608,910	-	1,353,955,780
Oil, Gas, and Coal Taxes	759,747,553	-	694,207,436	3,131,146	1,457,086,135
Business and Other Taxes	63,394,166	-	36,348,851	-	99,743,017
Licenses, Permits and Fees	19,214,994	-	187,948,129	-	207,163,123
Intergovernmental	1,184,183	1,618,003,233	19,942,582	4,301,834	1,643,431,832
Sales and Services	3,002,249	1,154,805	53,225,803	-	57,382,857
Royalties and Rents	14,692,623	6,679	222,680,222	-	237,379,524
Fines and Forfeits	5,475,453	-	17,503,924	-	22,979,377
Interest and Investment Income	61,921,883	1,370	693,403	998,464	63,615,120
Tobacco Settlement	-	-	31,872,848	-	31,872,848
Commodity Assessments	-	-	25,007,037	-	25,007,037
Miscellaneous	1,559,616	5,175,078	36,856,844	-	43,591,538
Total Revenues	2,411,170,665	1,624,341,165	1,623,494,670	8,431,444	5,667,437,944
EXPENDITURES					
Current:					
General Government	266,074,830	2,300,017	95,019,693	16,261	363,410,801
Education	826,264,368	146,946,993	201,716,953	-	1,174,928,314
Health and Human Services	645,420,941	1,064,065,516	64,575,255	-	1,774,061,712
Regulatory	19,977,674	5,266,983	34,916,441	-	60,161,098
Public Safety and Corrections	153,690,513	53,442,403	9,221,542	-	216,354,458
Agriculture and Commerce	30,667,380	23,305,507	52,818,586	-	106,791,473
Natural Resources	17,246,252	16,572,264	273,851,010	-	307,669,526
Transportation	41,862,412	147,905,190	424,048,325	-	613,815,927
Intergovernmental - Revenue Sharing	3,143,803	-	690,649,322	-	693,793,125
Capital Outlay	25,301,283	164,248,915	580,506,070	-	770,056,268
Debt Service:					
Principal	394,734	58,624	247,953	63,065,000	63,766,311
Interest and Other Charges	133,636	5,700	65,791	4,339,140	4,544,267
Total Expenditures	2,030,177,826	1,624,118,112	2,427,636,941	67,420,401	6,149,353,280
Revenues over (under) Expenditures	380,992,839	223,053	(804,142,271)	(58,988,957)	(481,915,336)
OTHER FINANCING SOURCES (USES)					
Capital Lease Acquisitions	71,653	71,584	6,654	-	149,891
Sale of Capital Assets	27,000	-	5,685,951	-	5,712,951
Transfers In	172,242,303	1,919,068	607,996,639	56,724,823	838,882,833
Transfers Out	(1,094,369,840)	(24,143,772)	(319,522,031)	(5,363,599)	(1,443,399,242)
Total Other Financing Sources (Uses)	(922,028,884)	(22,153,120)	294,167,213	51,361,224	(598,653,567)
Net Change in Fund Balances	(541,036,045)	(21,930,067)	(509,975,058)	(7,627,733)	(1,080,568,903)
Fund Balances - Beginning of Year, as Adjusted	5,869,030,724	30,523,837	7,316,081,033	83,676,888	13,299,312,482
Fund Balances - End of Year	$ 5,327,994,679	$ 8,593,770	$ 6,806,105,975	$ 76,049,155	$ 12,218,743,579

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, 2016

Net Change in Fund Balances-Total Governmental Funds		$ (1,080,568,903)
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	770,056,268	
Depreciation expense	(120,223,364)	
Excess of capital outlay over depreciation expense		649,832,904
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 position differs from the change in fund balance by the book value of the assets sold.		(724,712)
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 position.		(155,343)
Based on receipt dates, some revenues are not considered "available" revenues and are unavailable in the governmental funds. Unavailable revenues increased/decreased by this amount this year.		(14,236,761)
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		7,705,023
The pension assets resulting from contributions in excess of annual required contribution are not financial resources and, therefore, are not reported in the funds.		242,683
Deferred outflows of resources do not provide current financial resources		
Amortization of deferred loss on bond refunding	(229,000)	
Related to pension	5,599,231	
Total deferred outflows		5,370,231
Deferred pension inflows are not considered current cash expenses and are not reported as an expenditure in the funds		21,081,595
The net pension liability relating to retirement plans		(15,798,718)
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 position. In the current year, these amounts consist of:		
Bond principal retirement	65,295,874	
Note payments	520,324	
Capital lease payments	317,620	
Total long-term debt repayment		66,133,818
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. This adjustment combines the net changes of the following:		
Accrued Interest	1,128,004	
Compensated Absences	(1,514,559)	
Other Postemployment Benefit Obligation Costs, net	(91,143)	
Claims and Judgments	51,723	
Total additional expenditures		(425,975)
Change in Net Position of Governmental Activities		$ (361,544,158)

STATE OF NORTH DAKOTA

Statement of Net Position
Proprietary Funds
June 30, 2016

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Bank of North Dakota	Housing Finance	University System	Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds
ASSETS							
Current Assets:							
Cash Deposits at the Bank of ND		$ 4,181,000	$ 166,121,175	$ 2,009,802	$ 138,249,795	$ 310,561,772	$ 13,564,503
Cash and Cash Equivalents		-	15,409,269	-	73,822,302	89,231,571	7,518
Investments at the Bank of ND		-	101,472,849	-	42,286,000	143,758,849	-
Investments		-	116,730	1,839,698,248	57,227,579	1,897,042,557	11,675,004
Accounts Receivable - Net		518,000	17,045,687	46,280,753	84,988,658	148,833,098	176,244
Interest Receivable - Net		74,000	-	9,667,915	1,107,793	10,849,708	49,912
Intergovernmental Receivable - Net		145,000	29,007,137	-	7,303,870	36,456,007	228,872
Due from Other Funds		3,000	34,609,848	-	1,073,702	35,686,550	6,721,604
Due from Fiduciary Funds		-	-	-	13,325	13,325	-
Due from Component Units		-	10,191,183	-	-	10,191,183	-
Prepaid Items		57,000	-	316,513	3,135,618	3,509,131	5,620,499
Inventory		-	8,830,400	-	24,728,054	33,558,454	119,829
Loans and Notes Receivable - Net		-	7,840,719	-	8,495,974	16,336,693	-
Other Assets		514,000	1,767,122	-	21,969	2,303,091	-
Restricted Cash at the Bank of ND		13,142,000	-	-	4,846,838	17,988,838	-
Restricted Cash and Cash Equivalents		202,111,000	-	-	-	202,111,000	-
Restricted Investments at the Bank of ND		-	-	-	2,500,000	2,500,000	-
Restricted Investments		9,018,000	-	-	-	9,018,000	-
Restricted Interest Receivable - Net		2,831,000	-	-	-	2,831,000	-
Restricted Loans Receivable - Net		17,915,000	-	-	-	17,915,000	-
Total Current Assets		250,509,000	392,412,119	1,897,973,231	449,801,477	2,990,695,827	38,163,985
Noncurrent Assets:							
Restricted Cash at the Bank of ND		-	3,154,839	-	-	3,154,839	-
Restricted Cash and Cash Equivalents		-	10,370	-	-	10,370	-
Restricted Investments at the Bank of ND		-	5,226,502	-	-	5,226,502	-
Restricted Investments		9,587,000	4,467,493	-	-	14,054,493	-
Investments at the Bank of ND		-	74,200,000	-	-	74,200,000	-
Investments		-	10,260,628	-	-	10,260,628	-
Due from Component Units		-	26,126,602	-	-	26,126,602	-
Loans and Notes Receivable - Net		-	24,586,752	-	87,746,873	112,333,625	-
Restricted Loans Receivable - Net		737,852,000	-	-	1,000,000	738,852,000	-
Other Noncurrent Assets		3,169,000	579,548	-	5,216,613	8,965,161	-
Capital Assets:							
Nondepreciable		-	120,063,273	1,494,595	31,374,106	152,931,974	-
Depreciable, Net		-	1,203,633,621	10,393,691	73,419,347	1,287,446,659	100,185,631
Total Noncurrent Assets		750,608,000	1,472,309,628	11,888,286	198,756,939	2,433,562,853	100,185,631
Bank Related Assets:							
Cash and Cash Equivalents	$ 396,259,000					$ 396,259,000	
Investments	2,653,054,000					2,653,054,000	
Interest Receivable - Net	44,278,000					44,278,000	
Due from Other Funds	85,476,000					85,476,000	
Due from Fiduciary Funds	-					-	
Due from Component Units	4,000					4,000	
Loans and Notes Receivable - Net	4,191,949,000					4,191,949,000	
Other Assets	10,311,000					10,311,000	
Capital Assets:							
Nondepreciable	2,449,000					2,449,000	
Depreciable, Net	9,117,000					9,117,000	
Total Bank Related Assets	7,392,897,000					7,392,897,000	
Total Assets	7,392,897,000	1,001,117,000	1,864,721,747	1,909,861,517	648,558,416	12,817,155,680	138,349,616
DEFERRED OUTFLOWS OF RESOURCES							
Deferred Loss on Bond Refunding	-	-	2,518,868	-	-	2,518,868	-
Decrease in Fair Value of Hedging Derivatives	-	-	-	-	149,387	149,387	-
Financial Derivative Instrument	-	7,633,000	-	-	-	7,633,000	-
Unrealized Loss on Interest Rate Swap	5,064,000	-	-	-	-	5,064,000	-
Derived from Pensions	1,631,000	213,000	14,631,835	892,196	1,494,806	18,862,837	2,000,093
Total Deferred Outflows of Resources	6,695,000	7,846,000	17,150,703	892,196	1,644,193	34,228,092	2,000,093

The Accompanying Notes are an Integral Part of the Financial Statements

STATE OF NORTH DAKOTA

Statement of Net Position
Proprietary Funds
June 30, 2016

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Bank of North Dakota	Housing Finance	University System	Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds
LIABILITIES							
Current Liabilities:							
Accounts Payable		776,000	26,224,524	4,400,732	25,460,561	56,861,817	1,953,818
Accrued Payroll		-	42,754,051	-	750,451	43,504,502	2,599,058
Securities Lending Collateral		-	-	18,235,067	301,591	18,536,658	165,908
Interest Payable		9,939,000	1,107,745	-	19,776	11,066,521	9,624
Intergovernmental Payable		18,000	356,403	-	17,050,945	17,425,348	102
Due to Other Funds		13,471,000	2,485,480	198,631	74,636,858	90,791,969	1,656,706
Due to Fiduciary Funds		-	-	-	360,379	360,379	-
Due to Component Units		-	3,214,158	-	-	3,214,158	-
Contracts Payable		-	8,474,589	-	81,504	8,556,093	-
Other Deposits		-	5,166,730	-	-	5,166,730	-
Amounts Held in Custody for Others		11,938,000	-	-	5,515,692	17,453,692	-
Claims/Judgments Payable		-	-	133,408,574	2,285,196	135,693,770	1,870,374
Dividends Payable		-	-	156,837,761	-	156,837,761	-
Compensated Absences Payable		178,000	2,330,466	1,324,517	138,116	3,971,099	175,861
Notes Payable		-	959,025	-	-	959,025	-
Capital Leases Payable		-	2,834,037	-	-	2,834,037	25,081
Bonds Payable		28,560,000	8,656,801	-	110,000	37,326,801	-
Unearned Revenue		97,000	21,396,279	144,577,275	380,487	166,451,041	-
Other Current Liabilities		22,000	-	-	44,877	66,877	-
Total Current Liabilities		64,999,000	125,960,288	458,982,557	127,136,433	777,078,278	8,456,532
Noncurrent Liabilities:							
Intergovernmental Payable		13,000	4,052,827	-	-	4,065,827	-
Due to Component Units		-	41,896,289	-	-	41,896,289	-
Claims/Judgments Payable		-	-	978,329,541	-	978,329,541	8,715,335
Compensated Absences Payable		141,000	29,664,244	215,619	1,161,971	31,182,834	2,234,402
Notes Payable		-	18,968,079	-	-	18,968,079	-
Capital Leases Payable		-	14,059,497	-	-	14,059,497	37,616
Bonds Payable		769,172,000	207,687,116	-	2,968,574	979,827,690	-
Financial Derivative Instrument		7,633,000	-	-	149,387	7,782,387	-
Net Pension Liability		1,655,000	75,351,114	6,282,403	8,343,332	91,631,849	15,638,025
Other Noncurrent Liabilities		4,376,000	232,684	-	15,833,000	20,441,684	-
Total Noncurrent Liabilities		782,990,000	391,911,850	984,827,563	28,456,264	2,188,185,677	26,625,378
Bank Related Liabilities:							
Interest Payable	270,074					270,074	
Due to Other Funds	875,926					875,926	
Due to Component Units	380,000					380,000	
Federal Funds Purchased	119,500,000					119,500,000	
Deposits Held for Other Funds	4,857,348,256					4,857,348,256	
Net Pension Liability	6,769,000					6,769,000	
Other Deposits	944,793,744					944,793,744	
Other Liabilities	6,601,000					6,601,000	
Long Term Liabilities:							
Due within one year	207,594,000					207,594,000	
Due in more than one year	520,472,000					520,472,000	
Total Bank Related Liabilities	6,664,604,000					6,664,604,000	
Total Liabilities	6,664,604,000	847,989,000	517,872,138	1,443,810,120	155,592,697	9,629,867,955	35,081,910
DEFERRED INFLOWS OF RESOURCES							
Grants Received Prior to Time Requirements	-	-	59,553	-	-	59,553	-
Unrealized Gain on Interest Rate Swap	863,000	-	-	-	-	863,000	-
Derived from Pensions	1,539,000	242,000	9,866,303	794,575	1,083,974	13,525,852	2,297,489
Total Deferred Inflows of Resources	2,402,000	242,000	9,925,856	794,575	1,083,974	14,448,405	2,297,489
NET POSITION							
Net Investment in Capital Assets	11,566,000	-	1,029,589,236	11,888,286	102,714,879	1,155,758,401	100,122,935
Restricted for:							
Debt Service	-	153,199,000	7,942,193	-	397,000	161,538,193	-
Loan Purposes	-	-	44,693,805	-	582,147	45,275,952	-
Pledged Assets	170,684,000	-	-	-	-	170,684,000	-
Unemployment Compensation	-	-	-	-	101,882,702	101,882,702	-
University System-Nonexpendable	-	-	17,376,625	-	-	17,376,625	-
University System-Expendable	-	-	29,663,187	-	-	29,663,187	-
Other	-	-	216,717	-	7,026,897	7,243,614	-
Unrestricted	550,336,000	7,533,000	224,592,693	454,260,732	280,922,313	1,517,644,738	2,847,375
Total Net Position	$ 732,586,000	$ 160,732,000	$ 1,354,074,456	$ 466,149,018	$ 493,525,938	$ 3,207,067,412	$ 102,970,310

Reconciliation of the Proprietary Funds Statement of Net Position
to the Statement of Net Position
June 30, 2016

Total Net Position - Enterprise Funds	$ 3,207,067,412
Amounts reported for business-type activities in the statement of net position are different because:	
Prior year net assets restatement and reduction of current year expenses based on the allocation of internal service fund's net income	11,202,664
Net Position of Business-Type Activities	$ 3,218,270,076

STATE OF NORTH DAKOTA

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Bank of North Dakota	Housing Finance	University System	Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES							
Sales and Services	$ 7,648,000	$ 4,067,659	$ 105,289,840	$ 303,833,840	$ 767,457,377	$ 1,188,296,716	$ 100,040,960
Auxiliary Sales Pledges for Bonds	-	-	109,650,297	-	-	109,650,297	-
Tuition and Fees	-	-	316,119,973	-	-	316,119,973	-
Grants and Contributions	-	-	131,344,089	-	-	131,344,089	-
Royalties and Rents	-	-	-	851,446	163,419	1,014,865	-
Fines and Forfeits	-	-	-	3,997,490	-	3,997,490	-
Interest and Investment Income	200,188,000	32,219,000	-	-	1,768,856	234,175,856	-
Miscellaneous	-	-	1,909,634	-	141,496	2,051,130	40,139
Total Operating Revenues	207,836,000	36,286,659	664,313,833	308,682,776	769,531,148	1,986,650,416	100,081,099
OPERATING EXPENSES							
Cost of Sales and Services	-	-	25,653,492	-	187,595,274	213,248,766	1,110,606
Salaries and Benefits	14,563,000	3,410,000	785,252,714	24,115,593	20,294,138	847,635,445	32,048,615
Operating	38,572,000	6,201,000	277,832,193	3,142,870	394,873,672	720,621,735	37,629,674
Claims	-	-	-	197,467,710	228,352,711	425,820,421	7,610,747
Scholarships and Fellowships	-	-	33,560,729	-	-	33,560,729	-
Interest	32,164,000	18,375,000	-	-	10,000	50,549,000	-
Depreciation	742,000	-	68,660,916	398,680	5,857,837	75,659,433	15,720,863
Miscellaneous	-	-	9,439,751	-	5,000	9,444,751	-
Total Operating Expenses	86,041,000	27,986,000	1,200,399,795	225,124,853	836,988,632	2,376,540,280	94,120,505
Operating Income (Loss)	121,795,000	8,300,659	(536,085,962)	83,557,923	(67,457,484)	(389,889,864)	5,960,594
NONOPERATING REVENUES (EXPENSES)							
Grants and Contracts	-	12,066,000	42,748,183	-	1,026,155	55,840,338	-
Gifts	-	-	32,681,165	-	-	32,681,165	-
Interest and Investment Income	-	127,000	4,738,651	69,501,734	4,369,551	78,736,936	551,552
Interest Expense	-	-	(11,971,167)	(4,724,205)	(393,574)	(17,088,946)	(26,237)
Dividends Expense	-	-	-	(136,968,985)	-	(136,968,985)	-
Gain (Loss) on Sale of Capital Assets	-	-	1,186,618	-	(125,004)	1,061,614	214,343
Tax Revenue	-	-	4,675,309	-	-	4,675,309	-
Grant Expense	-	(12,265,000)	-	-	-	(12,265,000)	-
Other	-	-	-	-	(422,814)	(422,814)	3,582
Total Nonoperating Revenues (Expenses)	-	(72,000)	74,058,759	(72,191,456)	4,454,314	6,249,617	743,240
Income (Loss) Before Contributions and Transfers	121,795,000	8,228,659	(462,027,203)	11,366,467	(63,003,170)	(383,640,247)	6,703,834
Capital Grants and Contributions	-	-	29,609,083	-	-	29,609,083	87,473
Transfers In	-	232,341	554,002,622	-	113,638,815	667,873,778	959,500
Transfer Out	(28,600,000)	(39,000)	(4,870,000)	-	(23,032,156)	(56,541,156)	-
Changes in Net Position	93,195,000	8,422,000	116,714,502	11,366,467	27,603,489	257,301,458	7,750,807
Total Net Position - Beginning of Year, as adjusted	639,391,000	152,310,000	1,237,359,954	454,782,551	465,922,449	2,949,765,954	95,219,503
Total Net Position - End of Year	$ 732,586,000	$ 160,732,000	$ 1,354,074,456	$ 466,149,018	$ 493,525,938	$ 3,207,067,412	$ 102,970,310

Reconciliation of Statement of Revenues, Expenses and Changes in Fund Net Position of Proprietary Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2016

Net Change in Net Position-Total Enterprise Funds	$ 257,301,458
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	45,785
Change in Net Position of Business-Type Activities	$ 257,347,243

The Accompanying Notes are an Integral Part of the Financial Statements

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STATE OF NORTH DAKOTA

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	Business-Type Activities - Enterprise Funds		
	Bank of North Dakota	Housing Finance	University System
Cash Flows from Operating Activities:			
Receipts from Customers and Users	$ 10,393,000	$ 148,876,659	$ 216,782,230
Receipts from Tuition and Fees	-	-	318,399,573
Interest Income on Loans	-	-	-
Receipts from Loan Principal Repayments	-	-	7,236,731
Receipts from Other Funds	-	-	-
Receipts from Grants and Contracts	-	-	140,390,010
Receipts from Others	-	-	23,377,710
Payments to Other Funds	-	(357,000)	-
Payments for Loan Funds	-	-	(6,123,383)
Payments for Scholarships and Fellowships	-	-	(33,376,286)
Payments to Suppliers	(15,600,000)	(213,850,000)	(324,850,729)
Payments to Employees	(14,759,000)	(3,264,000)	(780,047,303)
Claim Payments	-	-	-
Payments to Others	-	(859,000)	(800,140)
Other	-	-	-
Net Cash Provided by (Used for) Operating Activities	(19,966,000)	(69,453,341)	(439,011,587)
Cash Flows from Noncapital Financing Activities:			
Proceeds from Bonds	-	264,668,000	-
Proceeds from Sale of Notes and Other Borrowings	615,000,000	-	-
Principal Payments - Bonds	-	(102,480,000)	-
Principal Payments - Notes and Other Borrowings	(532,804,000)	-	-
Interest Payments - Bonds	-	(17,801,000)	-
Interest Payments - Notes and Other Borrowings	(19,047,000)	-	-
Tax Collections	-	-	4,638,826
Transfers In	-	232,341	20,156,956
Transfers Out	(28,645,000)	(39,000)	(4,870,000)
Net Decrease in Non-Interest Bearing Deposits	(59,182,000)	-	-
Net Increase in Interest Bearing Deposits	130,713,000	-	-
Payments of Interest on Deposits	(13,033,000)	-	-
Interest Paid on Federal Funds and Reverse Repurchase Agreements	(222,000)	-	-
Net Decrease in Federal Funds and Reverse Repurchase Agreements	(58,955,000)	-	-
Advances Made	-	-	
Collection of Advances Made	4,103,000	-	-
Loan Proceeds from Due To Other Funds	-	100,766,000	189,560,947
Principal Payments on Due To Other Funds	-	(97,425,000)	(188,255,304)
Grants and Gifts Received for Other than Capital Purposes	-	12,066,000	67,648,950
State Appropriations	-	-	431,129,575
Agency Fund Cash Decrease	-	-	(1,195,660)
Grants Given for Other than Capital Purposes	-	(12,265,000)	(6,970,740)
Net Cash Provided by (Used for) Noncapital Financing Activities	37,928,000	147,722,341	511,843,550
Cash Flows from Capital and Related Financing Activities:			
Acquisition and Construction of Capital Assets	(630,000)	-	(178,104,645)
Proceeds from Sale of Capital Assets	-	-	2,244,462
Proceeds from Bonds	-	-	-
Proceeds from Sale of Notes and Other Borrowings	-	-	39,227,767
Principal Payments - Bonds	-	-	-
Principal Payments - Notes and Other Borrowings	-	-	(60,435,257)
Interest Payments - Bonds	-	-	-
Interest Payments - Notes and Other Borrowings	-	-	(12,328,344)
Capital Appropriations	-	-	110,629,833
Payment of Bond Issue Costs	-	-	-
Payment on Capital Leases	-	-	-
Interest Payments - Capital Leases	-	-	-
Premium Received on Bonds	-	-	-
Capital Grants and Gifts Received	-	-	27,466,071
Insurance Proceeds	-	-	505,032
Net Cash Provided by (Used for) Capital and Related Financing Activities	(630,000)	-	(70,795,081)
Cash Flows from Investing Activities:			
Proceeds from Sale and Maturities of Investment Securities	761,647,000	5,679,000	164,310,163
Purchase of Investment Securities	(500,567,000)	(10,006,000)	(150,719,918)
Net Increase In Investments	-	-	-
Interest and Dividends on Investments	48,736,000	690,000	6,938,196
Net Decrease in Loans	(503,146,000)	-	-
Disbursements for Loans and Loan Purchases	-	-	-
Receipt of Loan Principal Repayments	-	-	-
Proceeds from Collection of Loans and Notes Receivable	14,332,000	-	-
Loan Income Received	152,835,000	-	-
Net Cash Provided by (Used for) Investing Activities	(26,163,000)	(3,637,000)	20,528,441

The Accompanying Notes are an Integral Part of the Financial Statements

(Continued on Next Page)

Business-Type Activities - Enterprise Funds			Governmental Activities
Workforce Safety and Insurance	**Other Enterprise Funds**	**Total**	**Internal Service Funds**
$ 229,327,006	$ 807,881,854	$ 1,413,260,749	$ 5,313,546
-	-	318,399,573	-
-	84,041	84,041	-
-	19,161,699	26,398,430	-
-	242,481	242,481	97,658,371
-	-	140,390,010	-
14,838,995	481,736	38,698,441	-
(3,481,929)	(210,289)	(4,049,218)	(4,197,986)
-	(21,911,800)	(28,035,183)	-
-	-	(33,376,286)	-
-	(633,207,589)	(1,187,508,318)	(46,340,738)
(23,505,057)	(23,002,609)	(844,577,969)	(31,210,385)
(195,295,179)	(204,450,712)	(399,745,891)	(568,159)
(15,397,133)	(887,618)	(17,943,891)	-
-	(15,150)	(15,150)	3,583
6,486,703	(55,833,956)	(577,778,181)	20,658,232
-	-	264,668,000	-
-	20,600,000	635,600,000	-
-	-	(102,480,000)	-
-	(9,600,000)	(542,404,000)	-
-	(10,000)	(17,811,000)	-
-	(360,140)	(19,407,140)	-
-	-	4,638,826	-
-	63,285,000	83,674,297	959,500
-	(16,651,798)	(50,205,798)	-
-	-	(59,182,000)	-
-	-	130,713,000	-
-	-	(13,033,000)	-
-	-	(222,000)	-
-	-	(58,955,000)	-
-	-	-	(1,500,000)
-	-	4,103,000	-
-	-	290,326,947	-
-	(4,215,840)	(289,896,144)	-
-	1,097,563	80,812,513	-
-	-	431,129,575	-
-	-	(1,195,660)	-
-	-	(19,235,740)	-
-	54,144,785	751,638,676	(540,500)
(1,931,159)	(29,620,991)	(210,286,795)	(20,494,734)
-	76,000	2,320,462	3,808,616
-	1,945,000	1,945,000	-
-	-	39,227,767	-
-	(35,000)	(35,000)	-
-	-	(60,435,257)	-
-	(41,944)	(41,944)	-
-	-	(12,328,344)	-
-	462,815	111,092,648	-
-	(127,555)	(127,555)	-
-	-	-	(16,287)
-	-	-	(1,135)
-	175,726	175,726	-
-	-	27,466,071	-
-	-	505,032	-
(1,931,159)	(27,165,949)	(100,522,189)	(16,703,540)
23,000,000	32,937,000	987,573,163	1,132,758
(27,993,997)	(59,096,118)	(748,383,033)	-
-	616,312	616,312	-
-	4,169,231	60,533,427	385,103
-	-	(503,146,000)	-
-	(13,194,000)	(13,194,000)	-
-	1,248,000	1,248,000	-
-	4,616,612	18,948,612	-
-	1,086,771	153,921,771	-
(4,993,997)	(27,616,192)	(41,881,748)	1,517,861

The Accompanying Notes are an Integral Part of the Financial Statements

STATE OF NORTH DAKOTA

Statement of Cash Flows
Proprietary Funds (Continued)
For the Fiscal Year Ended June 30, 2016

	Business-Type Activities - Enterprise Funds		
	Bank of North Dakota	Housing Finance	University System
Net Change In Cash:			
Net Increase (Decrease) in Cash and Cash Equivalents	(8,831,000)	74,632,000	22,565,323
Cash and Cash Equivalents at June 30, 2015	405,090,000	144,802,000	162,130,330
Cash and Cash Equivalents at June 30, 2016	$ 396,259,000	$ 219,434,000	$ 184,695,653
Reconciliation:			
Current:			
Cash Deposits at the Bank of North Dakota	$ -	$ 4,181,000	$ 166,121,175
Cash and Cash Equivalents	396,259,000	-	15,409,269
Restricted Cash Deposits at the Bank of North Dakota	-	13,142,000	-
Restricted Cash and Cash Equivalents	-	202,111,000	-
Noncurrent:			
Restricted Cash Deposits At The Bank of North Dakota	-	-	3,154,839
Restricted Cash and Cash Equivalents	-	-	10,370
Cash and Cash Equivalents	$ 396,259,000	$ 219,434,000	$ 184,695,653
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Operating Income (Loss)	$ 121,795,000	$ 8,300,659	$ (524,908,860)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	742,000	-	68,660,917
Amortization/Accretion	-	(771,000)	-
Reclassification of Interest Revenue\Expense	(168,024,000)	18,313,000	-
Gain on Sale of Student Loans	(201,000)	-	-
Net Increase in Fair Value of Investments	14,963,000	-	-
Interest Received on Program Loans	-	-	-
Dividend Credit Applied to Receivable	-	-	-
Receipt of Loan Principal Repayments	-	-	-
Provision for Losses	12,500,000	-	-
Other	-	23,000	10,503,067
Deferred Outflows	-	92,000	(798,717)
Deferred Inflows	-	(71,000)	(4,074,157)
Change in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	-	(94,339,000)	5,580,481
(Increase) Decrease in Interest Receivable	-	(292,000)	-
(Increase) Decrease in Due From	4,210,000	19,000	-
(Increase) Decrease in Intergovernmental Receivable	-	23,000	-
(Increase) Decrease in Notes Receivable	-	-	1,363,975
(Increase) Decrease in Prepaid Items	-	(18,000)	-
(Increase) Decrease in Inventories	-	-	(729,949)
(Increase) Decrease in Other Assets	(5,473,000)	(1,357,000)	10,765,454
Increase (Decrease) in Accounts Payable	-	-	(13,573,866)
Increase (Decrease) in Claims\Judgments Payable	-	-	-
Increase (Decrease) in Intergovernmental Payable	-	(9,000)	-
Increase (Decrease) in Accrued Payroll	-	-	5,880,379
Increase (Decrease) in Compensated Absences Payable	-	29,000	132,976
Increase (Decrease) in Amounts Held for Others	-	671,000	-
Increase (Decrease) in Other Deposits	-	-	(800,142)
Increase (Decrease) in Due To	(17,000)	10,000	-
Increase (Decrease) in Unavailable Revenue	-	-	(1,053,213)
Increase (Decrease) in Net Pension Liability	-	51,000	4,040,068
Increase (Decrease) in Other Liabilities	(461,000)	(128,000)	-
Increase (Decrease) in Dividends Payable	-	-	-
Total Adjustments	(141,761,000)	(77,754,000)	85,897,273
Net Cash Provided by (Used for) Operating Activities	$ (19,966,000)	$ (69,453,341)	$ (439,011,587)
Noncash Transactions:			
Net Change in Fair Value of Investments	$ 28,645,000	$ (497,000)	$ (2,146,395)
Transfers from Net Position to Transfers Payable	(14,963,000)	-	-
Change in Securities Lending Collateral	-	-	-
Interest on Investments	-	-	-
Dividends Credited to Premium Billing	-	-	-
Accounts Receivable Premium Reduction	-	-	-
Assets Acquired Through Capital Lease	-	-	3,601,065
Assets Acquired Through Special Assessments	-	-	207,663
Expenses Paid by Capital Lease	-	-	832,160
Value Received on Trade of Capital Asset	-	-	-
Gifts of Capital Assets	-	-	1,549,545
Interest Revenue on Prize Reserves	-	-	-
Total Noncash Transactions	$ 13,682,000	$ (497,000)	$ 4,044,038

The Accompanying Notes are an Integral Part of the Financial Statements

Business-Type Activities - Enterprise Funds			Governmental Activities
Workforce Safety and Insurance	Other Enterprise Funds	Total	Internal Service Funds
(438,453)	(56,471,312)	31,456,558	4,932,053
2,448,255	273,390,247	987,860,832	8,639,968
$ 2,009,802	$ 216,918,935	$ 1,019,317,390	$ 13,572,021
$ 2,009,802	$ 138,249,795	$ 310,561,772	$ 13,564,503
-	73,822,302	485,490,571	7,518
-	4,846,838	17,988,838	-
-	-	202,111,000	-
-	-	3,154,839	-
-	-	10,370	-
$ 2,009,802	$ 216,918,935	$ 1,019,317,390	$ 13,572,021
$ 83,557,923	$ (67,457,484)	$ (378,712,762)	$ 5,960,594
398,680	5,567,725	75,369,322	15,720,863
-	290,112	(480,888)	-
-	(1,055,929)	(150,766,929)	-
-	-	(201,000)	-
-	-	14,963,000	-
-	35,000	35,000	-
(136,968,985)	-	(136,968,985)	-
-	3,935,000	3,935,000	-
-	8,148,303	20,648,303	-
-	58,658	10,584,725	6,489
(59,178)	(785,327)	(1,551,222)	(70,590)
(377,046)	68,530	(4,453,673)	(536,427)
5,762,954	(13,692,615)	(96,688,180)	11,161
-	(1,886)	(293,886)	-
-	194,100	4,423,100	1,687,428
-	1,125,490	1,148,490	1,177,241
-	(262,700)	1,101,275	-
220,408	(49,115)	153,293	(3,922,909)
-	6,315,660	5,585,711	(26,393)
-	42,346	3,977,800	-
436,089	2,592,220	(10,545,557)	(3,656,609)
15,064,115	1,718,486	16,782,601	2,888,829
-	(740,180)	(749,180)	(53,858)
-	(542,861)	5,337,518	186,475
96,119	(77,530)	180,565	158,599
-	56,532	727,532	-
-	-	(800,142)	-
(3,972)	(2,502,847)	(2,513,819)	6,514
(15,751,951)	(99,209)	(16,904,373)	-
328,990	1,322,719	5,742,777	1,120,825
-	(37,154)	(626,154)	-
53,782,557	-	53,782,557	-
(77,071,220)	11,623,528	(199,065,419)	14,697,638
$ 6,486,703	$ (55,833,956)	$ (577,778,181)	$ 20,658,232
$ 19,403,106	$ 123,750	$ 45,528,461	$ 141,256
-	-	(14,963,000)	-
17,214,543	-	17,214,543	165,908
46,245,738	-	46,245,738	-
83,186,428	-	83,186,428	-
(83,186,428)	-	(83,186,428)	-
-	-	3,601,065	45,171
-	-	207,663	-
-	-	832,160	-
-	14,212	14,212	-
-	-	1,549,545	-
-	370	370	-
$ 82,863,387	$ 138,332	$ 100,230,757	$ 352,335

The Accompanying Notes are an Integral Part of the Financial Statements

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Agency Funds
ASSETS				
Cash Deposits at the Bank of ND	$ 30,614,055	$ -	$ 6,783,204	$ 27,467,353
Cash and Cash Equivalents	-	-	2,110,370	11,999,147
Receivables:				
Contributions Receivable	40,472,091	-	-	-
Accounts Receivable - Net	-	-	71,947	11,103,209
Taxes Receivable - Net	-	-	-	30,156,385
Interest Receivable - Net	15,539,825	321,030	2,342	25
Due from Other Funds	360,714	-	13	-
Due from Fiduciary Funds	378,538	-	-	-
Total Receivables	56,751,168	321,030	74,302	41,259,619
Investments, at Fair Value:				
Investments at the Bank of ND	-	-	21,619	30,542,224
Equity Pool	2,545,337,919	108,102,534	-	-
Fixed Income Pool	1,140,430,743	71,234,560	1,170,703	141,400
Cash and Cash Pool	58,201,201	1,976,775	-	-
Real Estate Pool	829,534,301	35,932,514	-	-
Alternative Investments	153,312,909	6,027,040	-	-
Annuities	116,397	-	-	-
Mutual Funds	86,111,457	-	388,755,541	-
Total Investments	4,813,044,927	223,273,423	389,947,863	30,683,624
Invested Securities Lending Collateral	44,562,868	2,390,031	39,249	-
Capital Assets (Net of Depreciation)	3,167,982	-	-	-
Total Assets	4,948,141,000	225,984,484	398,954,988	111,409,743
DEFERRED OUTFLOWS OF RESOURCES				
Derived from Pensions	168,324	-	-	-
Total deferred outflows of resources	168,324	-	-	-
LIABILITIES				
Accounts Payable	6,185,466	197,848	846,606	-
Accrued Payroll	169,785	-	-	-
Securities Lending Collateral	44,562,868	2,390,031	39,249	-
Intergovernmental Payable	-	-	-	60,721,486
Tax Refunds Payable	-	-	-	130,760
Due to Other Funds	44,772	-	-	-
Due to Fiduciary Funds	378,624	-	-	-
Amounts Held in Custody for Others	19,176			50,557,497
Compensated Absences Payable	177,282	-	-	-
Total Liabilities	51,537,973	2,587,879	885,855	111,409,743
DEFERRED INFLOWS OF RESOURCES				
Derived from Pensions	70,310	-	-	
Total deferred inflows of resources	70,310	-	-	-
NET POSITION				
Net Position Restricted for:				
Pension Benefits	4,895,129,766	-	-	-
Other Employee Benefits	1,571,275	-	-	-
External Investment Pool Participants	-	223,396,605	-	-
Other Purposes	-	-	398,069,133	-
Total Net Position Restricted for Pension Benefits and Other Purposes	$ 4,896,701,041	$ 223,396,605	$ 398,069,133	$ -

STATE OF NORTH DAKOTA

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2016

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds
ADDITIONS			
Contributions:			
Employer	$ 175,320,117	$ -	$ -
Employee	167,488,716	-	-
From Participants	-	-	41,356,876
Transfers from Other Funds	24,300,746	-	-
Transfers from Other Plans	1,180,726	-	-
Donations	-	-	2,311
Total Contributions	368,290,305	-	41,359,187
Investment Income:			
Net Change in Fair Value of Investments	(82,553,386)	(3,175,054)	(8,348,018)
Interest and Dividends	118,998,538	5,278,759	8,357,370
Less Investment Expense	13,838,526	622,488	-
Net Investment Income	22,606,626	1,481,217	9,352
Securities Lending Activity:			
Securities Lending Income	595,044	34,465	97
Less Securities Lending Expense	60,907	6,891	-
Net Securities Lending Income	534,137	27,574	97
Repurchase Service Credit	12,330,497	-	-
Miscellaneous Income	994,564	-	-
Total Additions	404,756,129	1,508,791	41,368,636
DEDUCTIONS			
Benefits Paid to Participants	342,875,415	-	-
Refunds	13,410,990	-	-
Prefunded Credit Applied	9,329,881	-	-
Transfer to Other Plans	24,296,696	-	-
Payments in Accordance with Trust Agreements	-	-	34,739,897
Administrative Expenses	6,496,152	-	3,108,532
Total Deductions	396,409,134	-	37,848,429
Redemption of Units at Net Asset Value of $1.00 Per Unit	-	(6,412,806)	-
Change in Net Position Held in Trust for:			
Pension Benefits	8,554,568	-	-
Other Employee Benefits	(207,573)	-	-
External Investment Pool Participants	-	(4,904,015)	-
Other Purposes	-	-	3,520,207
Total Change in Net Position	8,346,995	(4,904,015)	3,520,207
Net Position - Beginning of Year	4,888,354,046	228,300,620	394,548,926
Net Position - End of Year	$ 4,896,701,041	$ 223,396,605	$ 398,069,133

The Accompanying Notes are an Integral Part of the Financial Statements

Combining Statement of Net Position
Component Units - Proprietary Funds
(Excludes FASB Based Component Units)
June 30, 2016

	CHAND	Historical Foundation	Public Finance Authority	ND Development Fund	Total
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 4,369,481	$ 818,654	$ -	$ 14,373,927	$ 19,562,062
Investments	-	107,934	-	397,421	505,355
Accounts Receivable - Net	19,866	751,435	-	-	771,301
Interest Receivable - Net	-	-	-	65,531	65,531
Due from Primary Government	-	-	30,000	-	30,000
Loans and Notes Receivable - Net	-	-	-	6,423,022	6,423,022
Restricted Cash and Cash Equivalents	-	-	46,346,000	-	46,346,000
Restricted Investments	-	-	148,808,000	-	148,808,000
Restricted Interest Receivable - Net	-	-	4,996,000	-	4,996,000
Total Current Assets	4,389,347	1,678,023	200,180,000	21,259,901	227,507,271
Noncurrent Assets:					
Restricted Investments	-	-	742,974,000	-	742,974,000
Investments	-	259,163	-	-	259,163
Due from Primary Government	-	-	350,000	-	350,000
Loans and Notes Receivable - Net	-	-	-	3,433,158	3,433,158
Other Noncurrent Assets	-	183,038	-	-	183,038
Capital Assets:					
Depreciable, Net	-	9,061	-	10,872	19,933
Total Noncurrent Assets	-	451,262	743,324,000	3,444,030	747,219,292
Total Assets	4,389,347	2,129,285	943,504,000	24,703,931	974,726,563
DEFERRED OUTFLOWS OF RESOURCES					
Deferred loss on bond refunding	-	-	4,196,000	-	4,196,000
Derived from Pensions	-	-	28,000	-	28,000
Total Deferred Outflows of Resources	-	-	4,224,000	-	4,224,000
LIABILITIES					
Current Liabilities:					
Accounts Payable	1,276,594	11,225	139,000	27,391	1,454,210
Accrued Payroll	-	5,076	-	-	5,076
Interest Payable	-	-	3,837,000	-	3,837,000
Intergovernmental Payable	-	-	6,000	-	6,000
Compensated Absences Payable	-	24,147	-	-	24,147
Bonds Payable	-	-	23,230,000	-	23,230,000
Unearned Revenue	85,859	44,000	-	-	129,859
Total Current Liabilities	1,362,453	84,448	27,212,000	27,391	28,686,292
Noncurrent Liabilities:					
Intergovernmental Payable	-	-	12,000	-	12,000
Bonds Payable	-	-	456,365,000	-	456,365,000
Net Pension Liability	-	-	122,000	-	122,000
Other Noncurrent Liabilities	-	158,334	-	-	158,334
Total Noncurrent Liabilities	-	158,334	456,499,000	-	456,657,334
Total Liabilities	1,362,453	242,782	483,711,000	27,391	485,343,626
DEFERRED INFLOWS OF RESOURCES					
Derived from Pensions	-	-	28,000	-	28,000
Total Deferred Inflows of Resources	-	-	28,000	-	28,000
Net Position					
Net Investment in Capital Assets	-	9,061	-	10,872	19,933
Restricted for:					
Capital Projects	-	1,417,570	-	-	1,417,570
Debt Service	-	-	152,588,000	-	152,588,000
Loan Purposes	-	-	309,298,000	-	309,298,000
Endowment Funds-Nonexpendable	-	127,000	-	-	127,000
Unrestricted	3,026,894	332,872	2,103,000	24,665,668	30,128,434
Total Net Position	$ 3,026,894	$ 1,886,503	$ 463,989,000	$ 24,676,540	$ 493,578,937

STATE OF NORTH DAKOTA

Combining Statement of Activities
Component Units - Proprietary Funds
(Excludes FASB Based Component Units)
For the Fiscal Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue	Change in Net Position	Net Position Beginning of Year	Net Position End of Year
CHAND	7,562,568	4,714,983	600,661	$ (2,246,924)	$ (2,246,924)	$ 5,273,818	$ 3,026,894
Historical Foundation	1,222,380	268,264	179,107	(775,009)	(775,009)	2,661,512	1,886,503
Public Finance Authority	20,887,000	3,524,000	36,924,000	19,561,000	19,561,000	444,428,000	463,989,000
ND Development Fund	2,546,235	938,478	19,993	(1,587,764)	(1,587,764)	26,264,304	24,676,540
Total Component Units	$ 32,218,183	$ 9,445,725	$ 37,723,761	$ 14,951,303	$ 14,951,303	$ 478,627,634	$ 493,578,937

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NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

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 of the Building Authority were audited by other independent auditors for the fiscal year ended June 30, 2016, 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, 2015, 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, 2015, 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, 2016, and their report has been previously issued under a separate cover.

State Historical Society of North Dakota Foundation – The mission of the State Historical Society of North Dakota Foundation is to provide fundraising and membership development activities to support the State Historical Society of North Dakota and its people. The Fund of the State Historical Society of North Dakota Foundation were audited by other independent auditors for the fiscal year ended June 30, 2016, and their report has been previously issued under a separate cover.

Major and Non-major University System Foundations (Proprietary Fund Type) – The foundations are legally separate, tax-exempt organizations providing support and recognition to the respective colleges and universities through a variety of programs and activities. The foundations are normally managed by a board of directors made up primarily of alumni, friends or leading members of the communities. The component unit financial statements are presented under Financial Accounting Standards Board (FASB) standards. As such, certain disclosures are not reflected for the Major University System Foundation in the major component unit disclosures and no disclosures are included for the Non-major University System Foundation. A complete set of financial statements can be obtained at the North Dakota University System office at 600 E. Boulevard Avenue, #10, Bismarck, ND 58505.

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

Building Authority
600 E. Boulevard Ave., 14th Floor
Bismarck, ND 58505-0840

Comprehensive Health Association
4510 13th Avenue South
Fargo, ND 58121

Public Finance Authority
1200 Memorial Highway
Bismarck, ND 58504

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

State Historical Society of North Dakota Foundation
P.O. Box 1976
Bismarck, ND 58502

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position 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 Position presents the reporting entity's non-fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

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

Unrestricted net position consist of net position that do not meet the definition of the two preceding categories. Unrestricted net position often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position 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.

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.

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

The State Special Revenue Fund accounts for activities from state sources, which are restricted legally or administratively for the particular costs of an agency or program.

The State reports the following major enterprise funds:

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

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

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

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

Additionally, the State reports the following fund types:

GOVERNMENTAL FUND TYPES

General Fund accounts for all governmental financial resources, except for those required to be accounted for in other funds.

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude those types of capital related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

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 Retirement and Investment Office 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 2015-2017 biennium, there were general, federal and other funds supplemental appropriations totaling $315,102,202.

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 Position, 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 Position as "Cash and Cash Equivalents".

The State had no cash overdrafts from pooled cash and investments at June 30, 2016.

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

Investments are reported at fair value. Quoted market prices, when available, have been used to value investments. The fair value for securities that have no quoted market price represent estimated fair 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 gains and losses 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. 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 Position, 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 Position 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 statements of net position. Cash received as collateral and investments made with that cash must also be reported as both an asset and a liability. 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 Agent lends securities of the type on loan at June 30, 2016, for collateral in the form of cash, U.S. government securities and irrevocable letters of credit. U.S. securities are loaned versus collateral valued at 102% of the market value of the securities plus accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the market value of the securities plus accrued interest.

Non-cash collateral cannot be pledged or sold unless the borrower defaults. All securities can be terminated on demand by either the lender or the borrower, although the average term of the loans State's loans was approximately 69 days as of June 30, 2016. Cash open collateral is invested in a short term investment pool, which had an interest sensitivity of 1 day as of this statement date. This pool is valued based on amortized cost. There were no violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent. There are no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month.

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and the Agent has failed to live up to its contractual responsibilities relating to the lending of those securities. The Agent's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending.

For securities loaned at fiscal year end, the State has no credit risk exposure to borrowers because the amounts the State owes the borrowers exceeds the amounts the borrowers owe 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 Position, 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. 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. BOND PREMIUMS / DISCOUNTS

Bond premiums and discounts 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, intangibles (software, easements and other), 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 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. Exceptions include: infrastructure reported by the Department of Transportation, the threshold is $100,000; intangible assets such as easements, water rights, patents and trademarks, the threshold is $25,000; and software internally developed, the threshold is $50,000. 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.

Capital 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, which includes amortization of intangible assets, 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
Intangibles	3-99

L. DEFERRED OUTFLOWS OF RESOURCES

Deferred outflow of resources represents a consumption of net position by the government that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources are reported in the applicable governmental or business-type activities columns, or in the component units column on the government-wide Statement of Net Position.

M. LEASE COMMITMENTS

The State leases land, office facilities, office and computer equipment, and other assets. Leases are classified according to GASB 62. 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.

N. 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.

O. 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.

P. 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. This normally occurs only if an employee has unused reimbursable leave still outstanding at the time of their retirement or resignation. 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.

Q. DEPOSITS

The following two liability line items are presented in the Government-wide Statement of Net Position 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 Position, 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.

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. 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 sub-classified 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 sub classified 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. PENSIONS

For purposes of measuring the net pension liability and deferred outflows/inflows related to pension, and pension expense, information about the fiduciary net position of the North Dakota Public Employee Retirement System (PERS) and additions to / deductions from PERS’s fiduciary net position have been determined on the same basis as they are reported for PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The primary government’s proportionate share of pension amounts were further reallocated to the propriety funds (business-type activities) based on the amount of employer contributions paid by each proprietary fund. Pension investments are reported at fair value.

T. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources represent an acquisition of net position that applies to a future period, and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources are reported in the applicable governmental or business-type activities columns or in the component units column on the government-wide Statement of Net Position. Deferred inflows of resources of governmental funds, proprietary fund, and discrete component units are reported in detail in their respective fund statements.

U. NET POSITION/FUND BALANCE

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

<u>CLASSIFICATIONS</u>

Fund balance classifications for governmental funds are reported in two general classifications, nonspendable and spendable. Nonspendable represents the portion of fund balance that is not in spendable form such as inventories and prepaids. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by the State constitution and external parties, such as the federal government, or through enabling legislation.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, the state's legislature, through legislation, that is not considered as enabling legislation, passed into law.

Assigned fund balance classifications are used when the amounts are to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. The assignment of fund balance is generally initiated by the executive branch and later appropriated by the Legislature for a specific purpose. In governmental funds other than the general fund, assigned fund balance also represents the remaining amount that is not restricted or committed.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification would only be used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The State generally segregates restricted, committed, and assigned resources by individual funds within the governmental funds. When resources meeting more than one of these classifications are comingled within an individual fund, the assumed order of spending is restricted first, committed second, assigned third, and finally, unassigned.

BUDGET STABILIZATION FUND

North Dakota Century Code (NDCC) section 54-27.2-02 requires any amount in the state general fund in excess of sixty-five million dollars at the end of any biennium to be deposited in the Budget Stabilization Fund. Any interest or earnings of the fund must be deposited in the fund per NDCC section 54-27.2-01. However, any amounts provided by law for deposit in the fund and any interest or earning of the fund which would bring the balance in the fund to an amount greater than nine and half percent of the current biennial state general fund budget, as finally approved by the most recently adjourned special or regular session of the legislative assembly, may not be deposited or retained in the fund but must be deposited instead in the state general fund.

NDCC section 54-27.2-03 states that if general fund revenue projections for the biennium will be at least two and one-half percent less than estimated by the most recently adjourned special or regular session of the legislative assembly, and if the governor orders a transfer, which must be reported to the budget section of the legislative management, the state treasurer shall transfer the appropriate funds from the budget stabilization fund to the state general fund to offset the decrease in general fund revenues. The amount transferred upon order of the governor may not exceed the difference between an amount two and on-half percent below the general fund revenue projections for the biennium. The Budget Stabilization Fund, fund balance at June 30, 2016 was $575,919,333.

NOTE 2 – RESTATEMENTS

The following changes to beginning net position as previously reported, is summarized in the following table (expressed in thousands):

	Government-wide Gov't activities	Business-type activities	Component Units (GASB Based)
June 30, 2016, net position, as previously reported	$ 16,689,941	$ 2,948,256	$ 478,628
Prior period adjustment:			
Correction of errors	-	3,256	-
GASB 72 Adjustment	-	9,411	-
June 30, 2016, net position, as restated	$ 16,689,941	$ 2,960,923	$ 478,628

The following changes to beginning fund balance of governmental funds as previously reported, is summarized in the following table (expressed in thousands):

	Governmental Fund General	Governmental Fund Federal	Governmental Fund State
June 30, 2016, fund balance, as previously reported	$ 5,860,258	$ 12,497	$ 7,342,881
Prior period adjustment:			
Correction of errors	8,773	18,027	(26,800)
June 30, 2016, fund balance, as restated	$ 5,869,031	$ 30,524	$ 7,316,081

A. CORRECTION OF ERRORS

The beginning net position of the Government-wide Business Activities was restated due to an understatement of endowment investments on the previous year financial statements.

An additional correction was made to the government funds - fund balances to record drug rebates not properly recorded in the prior fiscal year.

B. GASB 72 ADJUSTMENT

The beginning net position of the Government-wide Business Activities was restated due to the implementation of GASB Statement No. 72, *Fair Value Measurement and Application*. As a result, land, purchased for the purpose of investment, was adjusted to the fair value rather than being reported at cost, as previously reported.

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, 2016, the bank balance of the primary government's deposits was $348,837,631. Of the bank amount, $153,531,281 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, 2016. Their uninsured and uncollateralized deposits totaled $151.6 million and $14.0 million, and their bank deposits totaled $152.5 million and $16.1 million, respectively.

At June 30, 2016, the bank balance of the major component units' deposits was $65,908,062. Of the bank amount, $60,719,927 was uncollateralized and uninsured.

The internal receivable amount in the governmental activities column in the Statement of Net Position includes 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 Department of Trust 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 employees' 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 to hedge or replicate underlying exposures but not for speculation. All derivatives are considered investment derivative investments. The SIB had four types of derivative securities at June 30, 2016: futures, options, swaps and currency forwards.

2. North Dakota Department of Trust Lands – The Century Code states that the Department of Trust Lands shall apply the prudent investor rule in investing its funds. The investment policies of the Board allow the use of derivative securities to hedge or replicate underlying exposures but not for speculation. All derivatives are considered investment derivative investments.

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. Such proceeds must be invested in the Bank of North Dakota, in a separate fund in the State Treasury or in a duly authorized depository for the state funds that is a member of the FDIC. NDUS may invest such funds in direct obligation of, or in obligations where the United States of America guarantees the principal and interest, or obligations of the State of North Dakota or any municipality as defined in NDCC Section 21-03-01.

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

<u>INTEREST RATE RISK</u>

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 our years, which will serve to decrease interest rate risk.

At June 30, 2016, the following table shows the debt securities of the primary government 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	$ 232,719	$ 1,354	$ 91,959	$ 35,566	$ 103,840
Commercial Mortgage-Backed	1,135,010	67	975,760	15,361	143,822
Corporate Bonds	2,428,677	56,049	1,264,267	630,882	477,479
Corporate Convertible Bonds	8,508	-	6,635	190	1,683
Government Agencies	2,229,120	296,035	1,774,862	27,986	130,237
Government Bonds	1,004,223	38,324	612,545	193,639	159,715
Government Mortgage-Backed	781,209	256	27,624	36,868	716,461
Repurchase Agreements	(14,482)	(14,482)	-	-	-
Index-Linked Government Bonds	167,616	7,185	-	139,607	20,824
Municipal/Provincial Bonds	108,225	7,794	5,845	9,704	84,882
Non-Government-Backed CMOs	90,559	-	8,303	900	81,356
Short Term Bills and Notes	118,569	118,569	-	-	-
Short Term Investment Funds	147,753	147,753	-	-	-
Pooled Investments	1,891,066	194,416	820,922	478,097	397,631
Total Debt Securities	$ 10,328,772	$ 853,320	$ 5,588,722	$ 1,568,800	$ 2,317,930

Major Component Units

Investment Type	Total Market Value	Less Than 1 Year	1 - 6 Years	6 - 10 Years	More Than 10 Years
Commercial Paper	$ 19,988	$ 19,988	$ -	$ -	$ -
Government Agencies	21,862	21,862			
Government Bonds	47,706	32,811	14,895	-	-
Short Term Bills and Notes	19,993	19,993	-	-	-
Total Debt Securities	$ 109,549	$ 94,654	$ 14,895	$ -	$ -

The fair 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.

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, 2016, the following tables present the debt securities of the primary government and their respective ratings (expressed in thousands).

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

	Total Market Value	AAA	AA	A	BBB	BB	B	CCC	CC	D	Not Rated
Asset Backed Securities	$231,846	$135,907	$21,867	$30,455	$19,980	$3,838	$2,797	$9,202	$1,804	$653	$5,343
Commercial Mortgage-Backed	117,372	47,154	23,370	10,891	9,682	5,798	6,791	6,618	-	759	6,309
Corporate Bonds	2,428,676	7,363	229,131	603,235	1,227,142	250,336	88,606	11,427	471	2,268	8,697
Corporate Convertible Bonds	8,508	-	-	-	34	2,689	3,905	1,477	-	397	6
Government Agencies	2,221,006	1,964,038	154,746	1,066	14,358	-	-	-	-	-	86,798
Government Bonds	269,213	48,111	19,200	49,596	69,209	31,407	3,315	-	-	-	48,375
Government Mortgage Backed	1,493,544	978,330	512,580	-	-	-	-	-	-	-	2,634
Index Linked Government Bonds	132,151	-	-	-	132,151	-	-	-	-	-	-
Municipal/ Provincial Bonds	100,584	6,147	60,915	13,291	19,672	-	-	-	-	-	559
Non-Government Backed CMOs	89,197	12,840	6,533	20,465	9,192	699	4,242	4,664	2,924	5,707	21,931
Repurchase Agreements	(14,482)	3,700	(18,182)	-	-	-	-	-	-	-	-
Short-Term Investment Funds	15,697	-	15,697	-	-	-	-	-	-	-	-
Pooled Investments	2,038,820	111,474	947,542	418,236	243,508	49,459	6,967	-	-	-	261,634
Total Credit Risk Debt Securities	$9,132,132	$3,315,064	$1,973,399	$1,147,235	$1,744,928	$344,226	$116,623	$33,388	$5,199	$9,784	$442,286
US Gov't & Agencies	1,196,637										
Equity Securities	191,719										
Total Debt Securities	$10,520,488										

Major Component Units

	Total Market Value	AAA	AA	A	BBB
Commercial Paper	$ 19,988	$ -	$ -	$ 19,988	$ -
Government Agencies	21,862	-	-	21,862	-
Short-Term Investment Funds	19,993	-	-	19,993	-
Total Credit Risk Debt Securities	61,843				
US Gov't & Agencies	47,706				
Total Debt Securities	$ 109,549				

*Ratings are determined in the following order: 1) S&P rating, 2) Moody's rating, 3) Fitch rating, 4) Manager-determined rating (internal rating) and 5) if no ratings are available using steps 1-4, then shown as not rated.

**US government agency securities explicitly guaranteed by the US government are categorized here. Credit ratings of US government agency securities that are only implicitly guaranteed by the US government are categorized accordingly in the main body of this table. Implicitly guaranteed agency securities included in the *Gov't Issued Commercial & Gov't Mortgage Backed, Gov't Agencies,* and *Short Term Bills and Notes* categories are issued by FNMA, FDIC, FHLB, FHLMC, FICO, FAMC, NCUA and TVA.

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, however the Bank of North Dakota has established asset allocation ranges for investments as a percentage of their total portfolio.

The Bank of North Dakota had the following concentrations at June 30, 2016 (expressed in thousands):

	Amount	Percent
Federal Agency		
Federal Home Loan Bank	$ 437,395	16.7%
Fannie Mae	400,578	15.3%
Freddie Mac	313,795	12.0%
Farm Credit	197,645	7.5%
Small Business Administration	203,218	7.8%
Mortgage-backed		
Fannie Mae	650,093	24.9%
Freddie Mac	302,329	11.6%
Others less than 5%	110,243	4.2%
	$ 2,615,296	100.0%

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 Department of Trust 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 items that adds diversity to the overall portfolio. For foreign bonds, the Board fully hedges the currency exposure, as the purpose of this portfolio is to generate more consistent returns. The board does not have a formal policy regarding foreign currency risk.

At June 30, 2016, foreign currency risk exposure on investments managed by the Department of Trust 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	$ 508	$ 17,450	$ 71,949	$ 89,907
Brazilian real	560	13,371	10,676	24,607
British pound sterling	(839)	15,927	279,940	295,028
Canadian dollar	48	2,031	22,605	24,684
Chilean peso	54	15,580	1,731	17,365
Chinese yuan renminbi	(17)	-	-	(17)
Columbian peso	-	2,184	273	2,457
Czech koruna	-	-	1,491	1,491
Danish krone	70	-	21,277	21,347
Egyptian pound	-	-	47	47
Euro	(9,287)	21,515	414,684	426,912
Hong Kong dollar	419	-	98,760	99,179
Hungarian forint	3	9,093	2,794	11,890
Indian rupee	6,858	4,062	13,148	24,068
Indonesian rupiah	33	10,894	4,665	15,592
Israeli shekel	46	-	8,552	8,598
Japanese yen	2,582	397	290,430	293,409
Kenyan shiling	-	-	351	351
Malaysian ringgit	59	10,330	2,413	12,802
Mexican peso	(304)	37,790	11,564	49,050
New Romanian leu	-	8	-	8
New Taiwan dollar	-	-	13,967	13,967
New Zealand dollar	28	8,543	3,206	11,777
Norwegian krone	4,735	2,526	15,256	22,517
Peruvian neuvo sol	-	-	12	12
Philippine peso	-	-	1,467	1,467
Polish zloty	-	4,811	2,856	7,667
Russian ruble	(546)	-	802	256
Singapore dollar	113	42	11,801	11,956
South African rand	93	7,534	18,693	26,320
South Korean won	486	-	28,879	29,365
Swedish krona	9,995	5,902	39,449	55,346
Swiss franc	62	-	108,676	108,738
Taiwan dollar	9	-	2,807	2,816
Thai baht	387	(80)	6,756	7,063
Turkish lira	42	-	2,856	2,898
International commingled funds (various currencies)	-	110,368	762,502	872,870
Total international investment securities	$ 16,197	$ 300,278	$ 2,277,335	$ 2,593,810

Derivative Securities – Derivatives are financial arrangements between two parties whose payments are based on, or “derived” from, the performance of some agreed upon benchmark. The investment policies of the States’ clients allow the use of derivative securities to hedge or replicate underlying exposures but not for speculation. All derivatives are considered investment derivative instruments. The fair value of all derivative securities is reported in the Statements of Net Position. At June 30, 2016, the State had four types of derivative securities: futures, options, swaps and currency forwards.

Futures – Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specific price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the States’ counterparty risk. The net change in the futures contracts’ value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included in net change in fair value of investments in the Statement of Changes in Net Position and totaled $(7.5) million. At June 30, 2016, the State investment portfolio had the notional futures shown below (expressed in thousands).

Futures	Notional Value
Cash and cash equivalent derivative futures	
Long	$ 37,736
Short	(946,602)
Equity derivative futures	
Long	623,571
Short	-
Fixed income derivative futures	
Long	509,240
Short	(290,226)
Total futures	$ (66,281)

Options – Options represent or give buyers the right, but not the obligation, to buy (call) or sell (put) an asset at a preset price over a specified period. Options are traded on organized exchanges (exchange traded) thereby minimizing the States’ counterparty credit risk. The option’s price is usually a small percentage of the underlying asset’s value. As a seller of a financial option, the State, through its investment manager, receives a premium at the beginning of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a buyer of a financial option, the State, through its investment manager, pays a premium at the beginning of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Gains and losses on options are determined based on fair values and recorded with the net change in fair value of investments in the Statement of Changes in Net Position and totaled $0.4 million. At June 30, 2016, the State had the following option balances (expressed in thousands):

Options	Fair Value
Cash & Other Options	
Call	$ (72)
Put	72
Fixed Income Options	
Call	(37)
Put	(1)
Total options	$ (38)

Swaps – A swap is a derivative in which counterparties exchange certain benefits of one party’s financial instrument for those of the other party’s financial instrument. Specifically, the two counterparties agree to exchange one stream of cash flows for another stream. The State, through its investment managers, has entered into various swap agreements in an attempt to manage its exposure to interest rate, inflation, credit, currency risk and total return.

Interest rate risk represents the exposure to fair value losses arising from future changes in prevailing market interest rates. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty, who in turn agrees to make return interest payments that float with some reference rate.

Inflation risk represents the exposure to fair value losses arising from future changes in prevailing market inflation. In an inflation swap, one party pays a fixed rate on a notional principal amount, while the other party pays a floating rate linked to an inflation index, such as the Consumer Price Index (CPI).

Credit risk represents the exposure to fair value losses arising from a credit event such as default, failure to pay, restructuring or bankruptcy. In a credit default swap (CDS) contract, the protection buyer of the CDS makes a series of payments to the protection seller and, in exchange, receives a payoff if the credit instrument experiences a credit event. CDS contracts are also used to establish exposure to a desired credit instrument.

Currency risk represents the exposure to fair value losses arising from the change in price of one currency against another. A currency swap is a foreign-exchange agreement between two parties to exchange principal and interest in one currency for the same in another currency.

A total return swap is an agreement in which on party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset (income and capital gains). The underlying asset, or reference asset, is owned by the party receiving the set rate payment.

Gains and losses on swaps are determined based on fair values and are recorded with the net change in fair value of investments in the Statement of Changes in Net Position and totaled $(10.7) thousand. The maximum loss that would be recognized at June 30, 2016, if all counterparties failed to perform as contracted is $3.25 million. Swap fair values are determined by a third party pricing source. At June 30, 2016, the States' investment portfolio had the swap fair value balances as shown below (expressed in thousands).

Credit Default Swaps

Counterparty/Moody's Rating	Notional Amount	Expiration Date	Fair Value
Bank of America/A3 (1 contract)	$ (2,600)	12/2018	$ 40
Barclays/A2 (1 contract)	(100)	9/2019	1
BNP Paribas/A2 (2 contracts)	(450)	12/2016 - 6/2019	(44)
Citibank/A3 (4 contracts)	(11,050)	12/2018 - 12/2019	105
Citigroup Global Markets/A1	(6,500)	12/2018	75
Credit Suisse First Boston/A1 (2 contracts)	4,340	6/2021	(81)
Deutsche Bank/A2 (2 contracts)	2,400	6/2017	(18)
Goldman Sachs/A3 (5 contracts)	(1,850)	12/2016 - 3/2020	(2)
JP Morgan Chase/Aa3 (14 contracts)	2,181	12/2016 - 11/2045	(51)
Total credit default swaps	$ (13,629)		$ 25

Currency Swaps

Counterparty/Moody's Rating	Notional Amount	Expiration Date	Fair Value
Deutsche Bank London/A2	$ 281	5/2017	$ 1
Goldman Sachs/A3	150	1/2017	5
JP Morgan Chase/Aa3 (8 contracts)	181,560	11/2016 - 11/2024	-
Total currency swaps	$ 181,991		$ 6

Interest Rate Swaps

Counterparty/Moody's Rating	Notional Amount	Expiration Date Range	Fair Value
Bank of America/A3 (1 contract)	$ 6,243	1/2018	$ (50)
Citigroup Global Markets/A1 (3 contracts)	(3,055)	8/2020	(178)
Credit Suisse First Boston/A1 (24 contracts)	(235,092)	12/2017 - 6/2046	(3,353)
Credit Suisse International/A1 (4 contracts)	8,137	1/2018 - 1/2021	(76)
Deutsche Bank/A2 (4 contracts)	6,697	1/2018 - 1/2021	(18)
Goldman Sachs/A3 (3 contracts)	7,850	1/2021 - 6/2026	(69)
HSBC Bank/A1 (2 contracts)	20,500	3/2020 - 9/2033	(4)
JP Morgan Chase/Aa3 (86 contracts)	(4,765)	2/2019 - 6/2046	(3,799)
Morgan Stanley/Baa1 (1 contract)	3,900	5/2022	8
Total Interest Rate Swaps	$ (189,585)		$ (7,539)

Inflation Swaps

Counterparty/Moody's Rating	Notional Amount	Expiration Date	Fair Value
Bank of America/ A3(7 contracts)	$ 700	1-2020	$ (10)
BNP Paribas/A2 (3 contracts	600	1/2020	(8)
Citibank/A3 (4 contracts)	520	3/2020 - 6/2030	(11)
Deutsche Bank/B2 (1 contract)	206	11/2030	16
Goldman Sachs/A3 (11 contracts)	4,430	1/2020 - 1/2030	(52)
Total Inflation Rate Swaps	$ 6,456		$ (65)

Total Return Swaps

Counterparty/Moody's Rating	Notional Amount	Expiration Date	Fair Value
Credit Suisse International/A1 (2 contracts)	$ 2,252	1/2041	$ (26)
Total Return Swaps	$ 2,252		$ (26)

Currency Forwards – Currency forwards represent forward exchange contracts that are entered into in order to manage the exposure to changes in currency exchange rates on the currency denominated portfolio holdings. A forward exchange contract is a commitment to purchase (positive) or sell (negative) a currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net change in fair value of investments in the Statement of Changes in Net Position and totaled $7.0 million. At June 30, 2016, the States' investment portfolio included the currency forwards balances shown below (expressed in thousands).

Currency	Cost	Purchases	Sales	Fair Value
Australian dollar	$ (18,847)	$ -	$ (18,994)	$ (18,994)
Brazilian real	208	471	(263)	230
British pound sterling	(1,323)	-	(1,323)	(1,222)
Canadian dollar	(1,821)	87	(1,924)	(1,836)
Chilean peso	9,404	9,404	-	9,704
Chinese yuan renminbi	(4,588)	-	(4,588)	(4,492)
Euro	(33,686)	2,565	(35,917)	(33,204)
Hong Kong dollar	4,598	6,210	(1,612)	4,475
Hungarian forint	(3,139)	-	(3,045)	(3,044)
Indian rupee	6,920	6,920	-	6,858
Japanese yen	(2,192)	2,558	(4,750)	(2,353)
Malaysian ringgit	(3,241)	-	(3,327)	(3,327)
Mexican peso	(6,716)	-	(6,649)	(6,646)
New Romanian leu	(1,484)	-	(1,438)	(1,438)
New Zealand dollar	(6,586)	-	(6,621)	(6,621)
Norwegian krone	4,162	4,162	-	4,099
Polish zloty	(6,084)	-	(5,995)	(5,995)
Russian ruble	(540)	678	(1,218)	(546)
Singapore dollar	(5,738)	-	(5,758)	(5,758)
South African rand	(3,105)	-	(3,319)	(3,319)
Swedish krona	10,368	10,368	-	9,986
Thai baht	(3,545)	-	(3,555)	(3,555)
United Kingdom pound	(18,718)	-	(17,274)	(17,274)
United States dollar	85,693	129,116	(43,423)	85,693
Total forwards subject to currency risk				$ 1,421

Derivative Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the value of an interest rate-based derivative investment. The State does not have a formal investment policy regarding such derivative investments. At June 30, 2016, the tables below show the States' derivative investments subject to interest rate risk (expressed in thousands).

	Total Notional Value	3 Months or Less	3 to 6 Months	6 to 12 Months	1-5 Years	Greater Than 5 Years
Futures-interest rate contracts	$ (689,852)	$ (586,165)	$ (93,571)	$ 37,736	$ (47,852)	$ -
Options-margined interest rate contracts	(2)	(2)	-	-	-	-
Total	$ (689,854)	$ (586,167)	$ (93,571)	$ 37,736	$ (47,852)	$ -

	Total Fair Value	3 Months or Less	3 to 6 Months	6 to 12 Months	1-5 Years	Greater Than 5 Years
Options on interest rate futures	$ (37)	$ (37)	$ -	$ -	$ -	$ -
Options - interest rate contracts	-	-	-	-	-	-
Options - credit contracts	(1)	(1)	-	-	-	-
Swaps - interest rate contracts	(7,602)	-	-	-	(1,103)	(6,499)
Swaps - credit contracts	24	-	1	(16)	83	(44)
Total	$ (7,616)	$ (38)	$ 1	$ (16)	$ (1,020)	$ (6,543)

Mill and Elevator Derivative Financial Instruments – The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2016, and the changes in fair value of such derivative instruments for the year then ended as reported in the State's financial statements are ($149,388), classified as derivative instrument (one contract equals 5,000 bushels) and ($149,388), classified as deferred inflow of resources – accumulated increase in fair value of hedging derivatives. The fair value of the grain futures contracts was determined on the Minneapolis Grain Exchange. The margin requirement is $0.60 per bushel, unless the market price changes the limit for two consecutive days, then the margin requirement is $0.90 per bushel. 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 fluctuation of the commodity. The price protection is needed to cover any long or short positions compared to flour sales. The table below shows the cost and market values of these spring wheat futures.

Month	Number of Contracts	Average Cost	Fair Value	Average Cost	Market Value
Sept 2016	(339)	$5.3905	$5.0825	$ (9,136,938)	$ (8,614,838)
Dec 2016	340	5.5081	5.2375	9,363,838	8,903,750
Mar 2017	115	5.6112	5.3825	3,226,438	3,094,938
May 2017	89	5.6377	5.4750	2,508,788	2,436,375
July 2017	22	5.6281	5.5600	619,088	611,600
				$ 6,581,214	$ 6,431,825

The Mill is exposed to credit risk on hedging derivative instruments that are in asset positions. All grain futures trades are completed using two different national brokerage firms on the Minneapolis Grain Exchange. ADM Investor Services is rate A by the Standard & Poor's Rating Service. RJ O'Brien is a privately held business and is not rated by the Standard & Poor's Rating Service.

The Mill is exposed to rollover risk on grain futures trades whenever the hedge ration (defined in aggregate of the size across all futures months relative to the underlying net cash position) does not equal 1.0. At June 30, 2016, the table below shows the hedge ratio by futures month going forward:

Period	Hedge Ratio
Sept 2016	1.0
Dec 2016	1.1
Mar 2017	1.0
May 2017	1.0
July 2017	1.0
Net Position	1.1

C. SECURITIES LENDING

The following represents the balances relating to the securities lending transactions at June 30, 2016 (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	$ 11,621	$ -	$ 11,878
US government securities	70,822	1,739	72,140
US corporate fixed income securities	69,082	584	70,202
US equities	110,439	1,427	112,153
Global government fixed income securities	2,992	-	3,125
Global corporate fixed	346	-	368
Global agency securities	2,370	-	2,477
Global equities	5,603	-	5,909
Lent for non-cash collateral:			
US government securities	1,926	216	-
US corporate fixed income securities	2,151	1,599	-
US equities	20,044	18,949	-
Global equities	20,525	21,776	-
Total	$ 317,921	$ 46,290	$ 278,252

D. ENDOWMENT FUNDS

The endowment funds reported herein are institutional funds under the terms of the gift instrument and are not wholly expendable by the institution. NDCC Section 59-21, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) applies to the investment of endowments governed by a gift instrument. NDUS SBHE policy 810 stipulates endowment funds shall be invested according to the intent of the donor provided such intent is consistent with applicable laws. Absent terms expressing donor intent in a gift instrument, NDUS institution officers initially shall deposit the funds in institution accounts at the Bank of North Dakota. Thereafter, the funds may be invested according to NDCC 59-21. Subject to the intent of the donor, NDUS institution officers are delegated authority to manage and invest these institutional funds as provided by UPMIFA. NDCC Section 59-21-02.5a(7) applies to standard of conduct in the administration of powers to make and retain investments. It states that in managing and investing an institutional fund, the needs of the institution and the fund to make distributions and to preserve capital must be considered. Given the flexibility in NDCC 59-21-02, campuses have differing policies with respect to spending investment income and net appreciation on endowment funds. For UND, distributions for spending endowments each year will be calculated once annually with the quarter ended December 31 unitized market value and is based on the set spending rate, currently four percent, applied to the average market value for the preceding twelve quarter average. All endowment in existence at December 31 for one year will receive a distribution spending allocation. The available amount will be forecast to UND for planning purposes by February 1, and these distributions will be available for spending in the upcoming fiscal year. MaSU, NDSU, 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 consist of the following at June 30, 2016:

		Reflected in net position as:
Mayville State University	$ 3,142	Expendable scholarships & fellowships
North Dakota State University	145,027	Expendable scholarships & fellowships
University of North Dakota	965,038	Non-expendable scholarships & fellowships
Williston State College	2,965	Non-expendable scholarships & fellowships
Total NDUS	$ 1,116,172	

Endowment funds reported herein do not include the Federal Land Grant Fund held by the State Department of Trust Lands. The annual proceeds from assets held by the Commissioner of the State Department of Trust Lands and are deposited into each college/university's operating fund at the State Treasury and are used for current operating purposes. Bismarck State College and Lake Region 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, 2016 are approximately $141.1 million and $4.2 million 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, 2016, the State had no reverse repurchase agreements outstanding and did not participate in reverse repurchase agreements during the fiscal year.

F. RECEIVABLES

Receivables at June 30, 2016, consist of the following (expressed in thousands):

	General	Federal	State	Other Governmental Funds	Bank of North Dakota	Housing Finance	University System
Receivables:							
Accounts	$ 18,796	$ 44,224	$ 117,031	$ -	$ -	$ 518	$ 24,924
Less Allowance	(7,510)	(26,145)	(46,031)	-	-	-	(7,879)
Taxes	459,208	-	126,631	263	-	-	-
Less Allowance	(139,960)	-	(4,510)	-	-	-	-
Interest	18,917	-	17,312	88	44,278	2,905	-
Less Allowance	-	-	(3,659)	-	-	-	-
Intergovernmental	-	277,093	12,266	-	-	145	29,007
Less Allowance	-	-	(1)	-	-	-	-
Current Loans and Notes	143,179	-	17,566	56,828	854,319	17,915	7,841
Less Allowance	-	-	(1,948)	-	-	-	-
Noncurrent Loans and Notes	25,000	5	103,528	-	3,406,924	737,852	30,621
Less Allowance	-	-	-	-	(69,294)	-	(6,034)
Net Receivables	$ 517,630	$ 295,177	$ 338,185	$ 57,179	$ 4,236,227	$759,335	$ 78,480

	Workforce Safety & Insurance	Other Enterprise Funds	Internal Service Funds	Fiduciary Funds	Major Component Units	Total
Receivables:						
Accounts	$ 53,781	$ 101,019	$ 176	$ 11,175	$ 783	$ 372,427
Less Allowance	(7,500)	(16,030)	-	-	(12)	(111,107)
Taxes	-	-	-	38,911	-	625,013
Less Allowance	-	-	-	(8,755)	-	(153,225)
Interest	9,668	1,108	50	15,863	5,062	115,251
Less Allowance	-	-	-	-	-	(3,659)
Intergovernmental	-	7,304	229	-	-	326,044
Less Allowance	-	-	-	-	-	(1)
Current Loans and Notes	-	8,496	-	-	6,423	1,112,567
Less Allowance	-	-	-	-	-	(1,948)
Noncurrent Loans and Notes	-	93,566	-	-	10,191	4,407,687
Less Allowance	-	(4,819)	-	-	(6,758)	(86,905)
Net Receivables	$ 55,949	$ 190,644	$ 455	$ 57,194	$ 15,689	$ 6,602,144

G. *INTERFUND ACCOUNTS AND TRANSFERS*

DUE FROM OTHER FUNDS/DUE TO OTHER FUNDS

Interfund balances at June 30, 2016, consist of the following (expressed in thousands):

Due To General Fund From:	
Federal Fund	$ 156,682
State Fund	42,914
Bank of North Dakota	637
Nonmajor Enterprise Funds	29,176
All Others	23
Total Due To General Fund	$ 229,432

Included in the Nonmajor Enterprise Funds amount is a loan to the Rebuilders' Loan Program for $15,036,838. This is not expected to be repaid within one year.

Due To Federal Fund From:	
General Fund	$ 2,494
State Fund	56,438
All Others	84
Total Due To Federal Fund	$ 59,016

Due To State Fund From:	
General Fund	$ 17,849
Federal Fund	5,625
Internal Service Funds	1,544
Nonmajor Enterprise Funds	1,716
All Others	736
Total Due To State Fund	$ 27,470

Included in the Internal Service Funds amount is an advance to Fleet Services from the Highway Fund for $1,500,000. This is not expected to be repaid within one year.

Due To Internal Service Funds From:	
General Fund	$ 3,501
State Fund	1,140
University System	1,045
All Others	1,036
Total Due To Internal Service Fund	$ 6,722

Due To Bank of North Dakota From:	
General Fund	$ 78
State Fund	45,840
Nonmajor Enterprise Funds	36,709
University System	2,412
All Others	437
Total Due To Bank of North Dakota	$ 85,476

Included in the Nonmajor Enterprise Funds amount is a loan to the Rebuilder's Loan Program for $19,532,062, of which $17,508,455 is not expected to be repaid within one year.

Due To University System From:	
General Fund	$ 28,583
Federal Fund	2,951
State Fund	1,603
Nonmajor Enterprise Funds	1,252
All Others	221
Total Due To University System	$ 34,610
Due To All Other Funds From:	
All Other	$ 1,832

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, 2016.

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

Due From's		$ 444,558
General Fund/Bank of ND	(636)	
Bank of ND/Housing Finance	13,462	
Mill & Elevator/Bank of ND	5,000	
Bank of ND/University System	(1,187)	
Bank of ND/Student Loan Trust	30	
Bank of ND/Guaranteed Student Loan	1,324	
Governmental Agencies/Bank of ND	(3,076)	
Bank of ND/Enterprise Funds	(1,630)	
Total Differences		13,287
Due To's		$ 457,845

The previous table represents timing differences between agencies as a result of different fiscal year ends. Those agencies with a different fiscal year end include: Bank of North Dakota, December, Guaranteed Student Loan, September, and Nonmajor Enterprise Funds, Beginning Farmer Revolving Loan and Community Water Facility Loan, all of which have a December year end and State Fair, September.

INTERFUND TRANSFERS

A summary of interfund transfers for the fiscal year ended June 30, 2016, follows (expressed in thousands):

	General	Special Revenue Federal	Special Revenue State	Non-major Governmental	Housing Finance	University System	Non-major Enterprise	Internal Service Fund	Total
Transfers Out									
General	$ -	$ 79	$ 556,137	$ 3,986	$ -	$ 532,773	$ 435	$ 959	$ 1,094,369
Special Revenue - Federal	111	-	23,517	305	211	-	-	-	24,144
Special Revenue - State	157,171	1,877	-	45,337	21	15,225	99,891	-	319,522
Non-major Governmental	945	-	2,192	2,227	-	-	-	-	5,364
Bank of North Dakota	-	-	25,800	-	-	-	2,800	-	28,600
Housing Finance	-	-	39	-	-	-	-	-	39
University System	-	-	-	4,870	-	-	-	-	4,870
Non-major Enterprise	14,015	-	2,812	-	-	6,005	200	-	23,032
Total	$172,242	$ 1,956	$ 610,497	$ 56,725	$ 232	$ 554,003	$ 103,326	$ 959	$ 1,499,940

(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, 2016, legislatively-mandated transfers were made to the general fund of $9,580,000 from the State Lottery, $4,434,894 from Mill and Elevator and $4,160,581 from the Insurance Regulatory Trust Fund.

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

Transfers In		$ 1,507,716
Differences:		
Bank of ND/Ag PACE	(200)	
Bank of ND/PACE	7,700	
Bank of ND/Community Water Facility Loan Fund	(5,000)	
Guaranteed Student Loan Program	(5,000)	
Special Rev – State/State Fair	(313)	
Special Rev – Housing Incentive Fund	(5,000)	
Federal	37	
Total Differences		(7,776)
Transfers Out		$ 1,499,940

The above timing differences of $7,776,000 result from transactions between agencies that have different fiscal year ends. Those agencies with a different fiscal year end include: Bank of North Dakota, December, and Nonmajor Enterprise Fund State Fair, September, Guaranteed Student Loan Program. 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, 2015*	Increases	Decreases	Balance June 30, 2016
Governmental Activities:				
Capital Assets Not Being Depreciated				
Land	$ 138,132	$ 6,264	$ (3)	$ 144,393
Construction in Progress	1,631,681	669,569	(679,566)	1,621,684
Total Capital Assets Not Being Depreciated	1,769,813	675,833	(679,569)	1,766,077
Capital Assets Being Depreciated:				
Buildings and Improvements	655,492	6,521	(141)	661,872
Equipment	309,461	25,598	(21,692)	313,367
Intangibles				
Software	100,351	165,717	(834)	265,234
Other	11,709	527	-	12,236
Infrastructure	4,068,298	591,143	(356)	4,659,085
Total Capital Assets Being Depreciated	5,145,311	789,506	(23,023)	5,911,794
Less Accumulated Depreciation for:				
Buildings and Improvements	(251,658)	(16,476)	87	(268,047)
Equipment	(147,702)	(21,782)	17,396	(152,088)
Intangibles				
Software	(67,332)	(17,243)	821	(83,754)
Other	(3,068)	(538)	-	(3,606)
Infrastructure	(2,729,478)	(74,954)	350	(2,804,082)
Total Accumulated Deprecation	(3,199,238)	(130,993)	18,654	(3,311,577)
Total Capital Assets Being Depreciated, Net	1,946,073	658,513	(4,369)	2,600,217
Governmental Activities Capital Assets, Net	$ 3,715,886	$ 1,334,346	$ (683,938)	$ 4,366,294

*Certain items have been reclassified.
Infrastructure assets of the State Water Commission, with a carrying value of $30,516,290 are considered temporarily impaired at June 30, 2016.

Description	Balance July 1, 2015*	Increases	Decreases	Balance June 30, 2016
Business-Type Activities:				
Capital Assets Not Being Depreciated				
Land	$ 20,445	$ 2,952	$ (20)	$ 23,377
Construction in Progress	229,763	89,692	(187,451)	132,004
Total Capital Assets Not Being Depreciated	250,208	92,644	(187,471)	155,381
Capital Assets Being Depreciated:				
Buildings and Improvements	1,299,897	260,632	(1,771)	1,558,758
Equipment	492,983	31,967	(19,150)	505,800
Intangibles				
Software	40,023	2,436	(34)	42,425
Other	2,252	-	(116)	2,136
Infrastructure	209,617	7,927	(567)	216,977
Total Capital Assets Being Depreciated	2,044,772	302,962	(21,638)	2,326,096
Less Accumulated Depreciation for:				
Buildings and Improvements	(528,622)	(35,921)	1,667	(562,876)
Equipment	(319,759)	(29,771)	17,465	(332,065)
Intangibles				
Software	(30,198)	(2,595)	86	(32,707)
Other	(868)	(276)	116	(1,028)
Infrastructure	(94,038)	(7,225)	407	(100,856)
Total Accumulated Deprecation	(973,485)	(75,788)	19,741	(1,029,532)
Total Capital Assets Being Depreciated, Net	1,071,287	227,174	(1,897)	1,296,564
Business-Type Activities Capital Assets, Net	$ 1,321,495	$ 319,819	$ (189,369)	$ 1,451,945

Description	Balance July 1, 2015*	Increases	Decreases	Balance June 30, 2016
Major Component Units:				
Capital Assets Not Being Depreciated				
Land	$ 3,285	$ 14	$ -	$ 3,299
Construction in Progress	6,659	16,971	(5,505)	18,125
Total Capital Assets Not Being Depreciated	9,944	16,985	(5,505)	21,424
Capital Assets Being Depreciated:				
Buildings and Improvements	188,102	8,405	(11)	196,496
Equipment	47,634	2,607	(613)	49,628
Intangibles	78	-	-	78
Infrastructure	1,234	375	-	1,609
Total Capital Assets Being Depreciated	237,048	11,387	(624)	247,811
Less Accumulated Depreciation for:				
Buildings and Improvements	(62,325)	(4,724)	65	(66,984)
Equipment	(20,261)	(3,771)	513	(23,519)
Intangibles	(78)	-	-	(78)
Infrastructure	(652)	(57)	-	(709)
Total Accumulated Deprecation	(83,316)	(8,552)	578	(91,290)
Total Capital Assets Being Depreciated, Net	153,732	2,835	(46)	156,521
Major Component Unit Capital Assets, Net	$ 163,676	$ 19,820	$ (5,551)	$ 177,945

* 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	$ 13,757
Education	843
Health and Human Services	11,631
Regulatory	290
Public Safety & Corrections	13,000
Agriculture and Commerce	218
Natural Resources	14,827
Transportation	76,427
Total Governmental Activities Depreciation Expense	$ 130,993

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

Project Description:

Governmental Activities	Amount Authorized	Amount Expended Through June 30, 2016	Balance Authorized
Office of Management and Budget	$ 4,303	$ 606	$ 3,697
Office of Attorney General	1,403	220	1,183
Secretary of State	5,948	5,948	-
Legislative Assembly	211	114	97
Department of Health	326	120	206
Department of Human Services	83,020	3,160	79,860
Industrial Commission	13,625	9,037	4,588
Adjutant General	23,704	15,874	7,830
Department of Transportation	1,920,371	1,587,332	333,039
Highway Patrol	740	437	303
Parks & Recreation	14,129	3,291	10,838
ND School for the Deaf	701	225	476
Corrections & Rehab	1,698	448	1,250
Veterans Home	915	73	842
Total Governmental Activities	$ 2,071,094	$ 1,626,885	$ 444,209

Business-Type Activities	Amount Authorized	Amount Expended Through June 30, 2016	Balance Authorized
Mill and Elevator	$ 49,135	$ 30,593	$ 18,542
University System	224,929	111,228	113,701
Total Business-Type Activities	$ 274,064	$ 141,821	$ 132,243

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, 2016, amounted to $17,515,313 for governmental activities and $14,774,837 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, 2016, for all fund types are as follows (expressed in thousands):

Year Ending June 30	Governmental Activities	Business-type Activities
2017	$ 13,721	$ 12,373
2018	5,935	9,369
2019	4,652	7,284
2020	3,599	5,265
2021	3,047	2,993
2022-2026	7,634	1,901
2027-2031	428	473
2032-2036	-	331
Total Minimum Lease Payments	$ 39,016	$ 39,989

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, 2016 (expressed in thousands):

Year Ending June 30	Governmental Activities	Business-type Activities	Major Component Units
2017	$ 246	$ 5,738	$ 126
2018	128	7,470	126
2019	82	4,777	126
2020	55	4,369	126
2021	13	3,461	127
2022-2026	-	13,192	632
2027-2031	-	5,399	632
2032-2036	-	3,155	316
2037-2041	-	617	-
Total Minimum Lease Payments	524	48,178	2,211
Less: Amount Representing Interest	(57)	(9,645)	(761)
Present Value of Future Minimum Lease Payments	$ 467	$ 38,533	$ 1,450

The historical costs of assets acquired under capital leases, and included as capital assets on the government-wide Statement of Net Position at June 30, 2016, is as follows (expressed in thousands):

	Governmental Activities	Business-Type Activities	Major Component Units
Infrastructure	$ -	$ 558	$ -
Buildings	-	54,875	1,979
Intangibles	-	105	-
Equipment	1,725	14,696	-
Less: Accumulated Depreciation	(1,257)	(17,768)	(829)
Total	$ 468	$ 52,466	$ 1,150

K. DEFERRED OUTFLOWS OF RESOURCES

FINANCIAL DERIVATIVE INSTRUMENT

The State enters into interest rate swap agreements to modify interest rates on certain liabilities. The fair values of both hedging derivatives and investment derivatives (if any) are presented on the Statement of Net Position, either as a derivative liability (negative fair value) or as a derivative asset (positive fair value). The change in the total fair value of derivatives that are determined to be effective hedges is recorded as a deferred inflow or outflow of resources on the Statement of Net Position. If a derivative were determined to be an ineffective hedge, it would be classified as an investment derivative, and the change in the total fair value would be presented as part of investment earnings.

DEFERRED LOSS ON BOND REFUNDING

A deferred charge on refunded debts results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

L. 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, 2016, 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 2005 Series A Bonds, the 2006 Series A and B Bonds, the 2010 Series A and B and the 2012 Series A bonds have interest payable semiannually on June 1 and December 1 of each year. The bonds of each series are subject to optional and/or extraordinary optional redemption prior to maturity upon the occurrence of certain events. The bonds are independently secured by the funds, certain mortgaged property, and all rights, titles, and interests of the Building Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Building Authority with respect to the lease. Total net revenue pledges for fiscal year 2016 were $9.9 million. For fiscal year 2016, principal and interest paid by the Authority on the bonds was $8.2 million. The total principal and interest remaining to be paid as of June 30, 2016, is $52.2 million payable through December 2024.

The 2010 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.

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. The Series 2005 Bonds will not be deemed or construed as creating an indebtedness of the State within the meaning of the State Constitution or laws of the State concerning or limiting the creation of indebtedness of the State. The total principal and interest remaining to be paid on the bonds is $21.3 million payable through June 2020. For the current year principal and interest paid and total net pledged revenues before interest expense were $5.3 million and $5.3 million respectively. The funds pledged for the NDDOT 2005 bond issue consist of state funds in the

State Highway Fund from the following sources: Highway Tax Distribution Fund, fee and permit revenues, interest revenue and miscellaneous sales of scrap materials and obsolete equipment. The pledged funds do not include any funding deposited into the State Highway Fund from the State General Fund. The proportion of the specific revenue stream pledged was 98.5% in 2016.

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, 2016, at a redemption price equal to 100% of the principal amount plus accrued interest.

Student Loan Trust

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 0.7% or Federal Home Loan Bank plus 0.7%. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the variable rate bonds are outlined in Section 2.1 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.

The total principal and interest remaining to be paid on the outstanding bond is $1.1 million payable through June 2029. For fiscal year 2016, revenue pledged and total principal and interest paid by Student Loan Trust were $237,000 and $10,000, respectively

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.

Revenues Pledged – The agency has homeownership bonds outstanding in the amount of $788.7 million maturing at various times from July 1, 2016 through January 1, 2047. The bonds have been issued to provide financing to purchase mortgage loans. Annual principal and interest payments on the bonds are expected to require 98 percent of net revenues. Principal and interest paid for the current year and total customer net revenues were $112.8 million and $17.7 million, respectively. Bond principal was reduced through customer revenues and the refunding of older bonds with proceeds from new bond issues.

Pursuant to the Series Resolutions adopted to date and under the 1994 and 2009 General Resolutions, the revenues generated by the Program Loans (but not the Program Loans themselves) are pledged to secure the Bonds. The Agency is permitted by terms of the General Resolutions to issue Bonds and pledge Revenues pursuant to the Series Resolution which exceed the amount required to meet the obligations of that Series of Bonds. In such event, it is likely that any such Series of bonds would produce excess Revenues which could be available to redeem the related Series of bonds or any other Series of Bonds prior to the state maturities thereof.

The Agency also had multifamily revenue bonds in the amount of $9 million maturing on September 1, 2016. The bonds have been issued to pay a portion of the cost of acquiring, rehabilitating, equipping and improving a 96-unit multifamily residential rental property located in Minot, North Dakota. The bonds will be payable solely from the revenues and other money assigned to secure that payment, which include payment required by the loan agreement. Such payment shall cover the entire principal and interest payment for the bond.

University System

Revenue bonds are limited obligations of the University System. The principal and interest on the bonds are payable generally from the net income of specific auxiliary activities, designated student fees, interest subsidies and debt service reserve funds. These revenues are generally pledged to the payment of bonds in accordance with the specific terms of the specific indenture. Net pledged revenues for fiscal year 2016 were $17.2 million. Principal and interest paid for the current fiscal year were $17.2 million, with total remaining principal and interest of $321.13 million payable through August 2044.

State Fair Association

Capital Financing Program Bonds Series 2015 – Interest is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on June 1, 2029 are not subject to optional redemption prior to maturity except under extraordinary circumstances. The bonds are secured by the Association's net revenues and by the lodging tax proceeds from the City of Minot, North Dakota.

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. Net pledged revenues for fiscal year 2016 were $19.8 million. Principal and interest paid for the current fiscal year were $35.5 million, with total remaining principal and interest of $666.2 million payable through June 2045.

Municipal securities, and their corresponding interest, are fully or partially charged down when there is potential for a recognized loss. In the current year, the Public Finance Authority foreclosed and sold the property associated with this municipal security and reported a net gain of $1.1 million.

Revenue Bonds outstanding (expressed in thousands):

Fund Type/Fund	Maturities	Interest Rates	Balance 6/30/16	
Primary Government				
Governmental:				
Building Authority	2017-2031	1.50-6.25	$ 44,889	
Department of Transportation	2017-2020	3.00-5.00	19,160	
Proprietary:				
Student Loan Trust	6/1/2029	1.16	1,000	1)
Housing Finance:				
Homeownership	2017-2047	0.20-5.75	788,732	1)
Multifamily Revenue	2017	0.40	9,000	1)
University System:				
VCSU—Valley City	2017-2040	2.80-7.05	5,645	
Williston State College	2017-2041	6.90	8,335	
Lake Region State College	2017	3.00-5.125	198	
UND—Grand Forks	2017-2044	0.75-4.25	95,596	
NDSU—Fargo	2017-2039	1.50-6.50	95,015	
NDSCS—Wahpeton	2017-2037	3.76	8,190	
MiSU–Minot	2017-2041	2.00-6.60	12,706	
MaSU—Mayville	2017-2030	1.55-6.63	4,338	
BSC—Bismarck	2017-2033	2.00-4.00	9,186	
State Fair Association	2017-2029	3.00	2,078	
Total Revenue Bonds Payable— Primary Government			$ 1,104,068	
Major Component Units				
Proprietary:				
Public Finance Authority	2017-2045	0.24-8.25	$ 479,595	
University System Foundation	2017-2040	0.75-5.25	56,687	
Total Revenue Bonds Payable— Major Component Units			$ 536,282	

1) Entire amount of bonds payable are not associated with capital 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
2017	$ 9,690	$ 2,625
2018	10,105	2,207
2019	10,560	1,768
2020	10,345	1,314
2021	5,115	855
2022-2026	16,170	1,608
2027-2031	910	147
2032-2036	-	-
2037-2041	-	-
2042-2046	-	-
2047-2051	-	-
Bond Premium	1,154	(1,154)
Total	$ 64,049	$ 9,370

Business-type Activities

Fiscal Year	Principal	Interest
2017	$ 38,817	$ 32,102
2018	37,077	33,099
2019	37,338	32,172
2020	38,160	31,208
2021	37,716	30,111
2022-2026	176,456	133,036
2027-2031	184,870	101,313
2032-2036	199,468	66,368
2037-2041	177,247	29,567
2042-2046	71,105	6,367
2047-2051	27,335	52
Bond Premium	14,430	(14,431)
Total	$ 1,040,019	$ 480,964

Major Component Units

Fiscal Year	Principal	Interest
2017	$ 24,189	$ 20,775
2018	29,664	21,215
2019	28,570	20,166
2020	26,886	18,982
2021	24,793	17,839
2022-2026	114,639	68,548
2027-2031	127,196	44,889
2032-2036	94,723	17,276
2037-2041	14,769	4,289
2041-2045	11,133	1,337
Bond Premium	33,230	(33,230)
Total	$ 529,792	$ 202,086

2. NOTES PAYABLE

The following is a schedule of notes payable outstanding at June 30, 2016 (expressed in thousands):

Fund Type/Fund	Maturities	Interest Rates	Balance 6/30/16
Primary Government			
Governmental:			
Department of Transportation	2017-2022	4.18	$ 1,261
Office of Management and Budget	2017-2022	4.18	2,517
School for the Deaf	2017-2021	4.8408	113
Proprietary:			
Bank of North Dakota	2017-2029	1.12-5.56	726,942
University System	2017-2030	1.75-5.38	20,244
Total Revenue Bonds Payable— Primary Government			$ 751,077
Major Component Units			
University System Foundation	2017-2036	0.00-4.35	$ 17,395

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

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
2017	$ 564	$ 158
2018	610	132
2019	658	107
2020	709	78
2021	725	49
2022-2026	625	18
2027-2031	`-	-
Total	$ 3,891	$ 542

Business-type Activities

Fiscal Year	Principal	Interest
2017	$ 207,649	$ 17,629
2018	7,927	17,335
2019	88,246	15,093
2020	48,539	14,200
2021	28,861	12,080
2022-2026	330,428	26,197
2027-2031	34,975	2,119
2032-2036	561	22
Total	$ 747,186	$ 104,675

Major Component Units

Fiscal Year	Principal	Interest
2017	$ 300	$ -
2018	1,551	318
2019	1,351	269
2020	2,037	210
2021	4,942	65
2022-2026	86	18
2027-2031	6,841	74
2032-2036	128	49
2037-2041	159	18
Total	$ 17,395	$ 1,021

Changes in General Long-Term Liabilities

Changes in Long-Term Liabilities for the year ended June 30, 2016, are summarized as follows (expressed in thousands):

	Beginning Balance Restated	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Notes Payable	$ 4,412	$ -	$ (521)	$ 3,891	$ 564
Bonds Payable	129,345	-	(65,296)	64,049	9,690
Capital Leases Payable	600	195	(328)	467	217
Compensated Absences	45,877	31,361	(29,684)	47,554	3,523
Claims/Judgments Payable	8,854	8,282	(5,445)	11,691	2,398
OPEB Obligation	1,066	421	(329)	1,158	-
Total Long-Term Liabilities	$ 190,154	$ 40,259	$ (101,603)	$ 128,810	$ 16,392
Business-Type Activities*:					
Notes Payable	$ 665,792	$ 615,000	$ (533,606)	$ 747,186	$ 207,649
Bonds Payable	890,192	307,263	(157,436)	1,040,019	38,817
Capital Leases Payable	41,224	4,435	(7,126)	38,533	4,218
Intergovernmental Payable	9,631	17,012	(17,376)	9,267	5,201
Compensated Absences	36,039	4,038	(3,799)	36,278	4,926
Dividends Payable	103,055	156,838	(103,055)	156,838	156,838
Claims/Judgments Payable	1,097,241	203,515	(186,733)	1,114,023	135,693
Total Long-Term Liabilities	$ 2,843,174	$ 1,308,101	$ (1,009,131)	$ 3,142,144	$ 553,341
Major Component Units*:					
Notes Payable	$ 12,484	$ 11,000	$ (6,089)	$ 17,395	$ 1,850
Bonds Payable	353,939	207,569	(25,226)	536,282	26,962
Capital Leases Payable	1,549	-	(54)	1,495	57
Intergovernmental Payable	390	26	(44)	372	27
Compensated Absences	31	-	(7)	24	24
Total Long-Term Liabilities	$ 368,393	$ 218,595	$ (31,420)	$ 555,568	$ 28,920

*Included above are amounts classified as Due to Component Units in the Statement of Net Position for the University System as follows, expressed in the thousands.

	Business-Type Activities		Major Component Units	
	Total	Current	Total	Current
Notes Payable	$ 317	$ 51	$ 17,394	$ 1,850
Bonds Payable	22,865	1,490	56,687	3,731
Capital Leases Payable	21,639	1,384	1,495	57
Intergovernmental Payable	-	-	354	21
Total	$ 44,821	$ 2,925	$ 75,930	$ 5,659

Bonds payable reductions include amortization of premium and discount.

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, $2,410,263 of internal service fund compensated absences and $10,585,709 of claims and judgments are included in the above amounts. Other governmental activities compensated absences generally have been liquidated by the General Fund (64%), the Highway Fund (12%), the Federal Fund (14%), and other various funds. Other governmental activities claims and judgments have all been liquidated by the Petroleum Release Compensation Fund.

3. REFUNDED DEBT

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.

On November 18, 2014, the State Water Commission defeased the outstanding $13.67 million Water Development Revenue Refunding Bonds, Southwest Pipeline Project, 2007 Series B without issuing refunding bonds. A deposit was made into an irrevocable trust account with an escrow agent to provide for all the future debt service payments. As of June 30, 2016, $10,650,000 of the 2007 Series B Bonds outstanding are considered defeased and the liability for those 2007 Series B Bonds is not reflected in the State's financial statements.

On August 1, 2015, the State Water Commission defeased the outstanding $13.54 million Water Development and Management Program Refunding Bonds, 2005 Series A and the $38.985 million Water Development and Management Program Refunding Bonds, 2005 Series A, without issuing refunding bonds. These bonds were paid off with a loan from the Bank of North Dakota. All inter-state loans with the Bank of North Dakota are eliminated. As of June 30, 2016, there are no outstanding bonds.

The difference between the cash flows required to service the old debt and the cash flows required to service the new debt was a positive $5.56 million. This resulted in an economic gain of $7.078 million.

University System

Minot State University

Minot State University issued $3.425 million of Housing & Auxiliary Facilities bonds with an interest rate of 2.04 – 4.0 percent. The bonds were used to recall $3.860 million of outstanding Series 2006 Housing bonds. The bonds were refunded to reduce total debt service payments over the next fourteen years by $836,977. The economic gain realized as a result of the refunding was $687,360.

University of North Dakota

University of North Dakota issued $40.475 million Housing & Auxiliary Facilities bonds with an interest rate ranging from 3.0 percent to 4.0 percent. The bonds were used to recall $38.190 million outstanding Series 2006, Housing & Auxiliary Facilities bonds, respectively. The bonds were refunded to reduce total debt service payments over the next nineteen years by $5.7 million. The economic gain realized as a result of the refunding was $4.3 million.

M. 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 $31,000 at June 30, 2016. These amounts are reported in the Government-wide and Proprietary Fund Type financial statements as an intergovernmental payable.

N. DEFERRED INFLOWS OF RESOURCES

GRANTS RECEIVED PRIOR TO TIME REQUIREMENTS

This amount represents unavailable revenue. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available

INCREASE IN FAIR VALUE OF HEDGING DERIVATIVES

This amount represents the changes in fair value of futures.

O. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements are used to record fair value adjustments to certain assets, deferred outflows of resources, liabilities and deferred inflows of resources to determine fair value disclosures.

During the year ended June 30, 2016, the State implemented GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and financial derivative instruments and disclosures related to all fair value measurements. As part of the implementation in fiscal year 2016, an adjustment of $9.4 million was made to increase beginning net position.

FAIR VALUE HIERARCHY

In accordance with GASB Statement No. 72, assets, deferred outflows of resources, liabilities and deferred inflows of resources are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as practical expedient are not classified in the fair value hierarchy.

DETERMINATION OF FAIR VALUE

In accordance with GASB Statement No. 72, fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is the State's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy.

The following is a description of the methodologies used for instruments measured at fair value.

Securities classified in Level 1 are valued using quoted prices in active markets for those securities. Securities classified in Level 2 and Level 3 are valued using methodologies such as various bid evaluations, market averages and other matrix pricing techniques as well as values derived from associated traded securities or last trade data. In instances where inputs used to measure fair value fall into different levels, the fair value is categorized based on the lowest level input that is significant to the valuation.

Investments valued at the net asset value (NAV) per share (or its equivalent) have been classified separately and include investments considered to be Alternative Investments as defined by the AICPA. The 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 fair values (publically traded stocks or bonds). The State owns units of these funds rather than the individual securities. Contributions or withdrawals from these funds can be made as needed, generally with daily or monthly liquidity, with a notice period of one to fifteen days. Because they are liquid funds, there are no unfunded commitments for these types of investments.

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 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. The State has a dedicated asset class for private equity investments. The State does not the option to request redemptions from its private equity funds. The General Partner distributes earnings and proceeds from the sale of the underlying investments as transactions occur. The State has $105.3 million in unfunded private equity commitments as of June 30, 2016.

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.

Buyouts – These include investments in funds that seek out and purchase underperforming or undervalued companies in order to improve them and sell them or take them public many years later. These funds are also often involved in management buyouts, which are buyouts conducted by the management of the company being purchased, and they often play key roles in leveraged buyouts, which are buyouts that are funded with borrowed money.

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 State includes these types of investments in its private equity asset class. As of June 30, 2016, unfunded commitments in two of the four distressed debt funds totaled $21.7 million. Those two funds are not eligible for redemptions. Of the other two funds, one is in wind-down with final distributions expected in the next 12-18 months and the other fund is eligible for redemptions with quarterly liquidity and 60 days notice. Neither has an unfunded commitment.

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 below investment grade fixed income allocation. The two funds in this category are not eligible for redemptions, have remaining lives of 3-6 years, and unfunded commitments of $13.2 million as of June 30, 2016.

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. This is an open-ended fund with monthly liquidity with a notice period of 15 days. There was no unfunded commitment as of June 30, 2016.

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 are generally structured as limited partnerships or limited liability companies. 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. There are currently 10 different real estate funds in the portfolio. Two of those funds are open-ended vehicles that accept redemption request quarterly with a 30-90 day notification period. One fund is in wind-down and will be distributing the final proceeds within the next 12-18 months. The remaining seven funds are closed-ended limited partnerships that are not eligible for redemptions. Those seven funds have a combined unfunded commitment of $112.2 million.

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 a dedicated asset class for these types of investments. There are three funds in the portfolio and they have no unfunded commitments. The funds are not eligible for redemption other than distributions of income and/or proceeds as determined by the investment manager. The funds have remaining lives of 3-9 years.

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. The State has a dedicated asset class for these types of investments. The infrastructure investments in the portfolio as of June 30, 2016, include both open and closed-ended funds. The open-ended funds have no unfunded commitments and are eligible for redemptions quarterly with 90 days notice. There may be a 3-12 month queue for receiving redemptions. The closed-ended funds have unfunded commitments of $100.1 million at June 30, 2016 and are not eligible for redemptions.

Interest Rate Swap Agreements

Fair values for interest rate swap agreements are based upon the settlement value adjusted by estimated nonperformance risk.

Derivative Instruments

Fair values of the grain future contracts are determined on the Minneapolis Grain Exchange.

Fair Value

The following table shows the fair value leveling of the State's assets and liabilities at June 30 (expressed in thousands).

Primary Government

INVESTMENTS MEASURED AT FAIR VALUE	Fair Value 6/30/16	Level 1	Level 2	Level 3
Short term securities:				
Short term bills and notes	$ 118,569	$ -	$ 118,569	$ -
Total short term bills and notes	**118,569**	**-**	**118,569**	**-**
Fixed income investments:				
Asset backed securities	232,719	-	230,639	2,080
Bank loans	7,524	-	7,524	-
Commercial mortgage-backed	159,398	-	157,998	1,400
Corporate bonds	1,759,260	-	1,756,465	2,795
Corporate convertible bonds	8,502	-	8,312	190
Funds - Fixed Income ETF	145,577	145,577	-	-
Government Agencies	1,779,844	1,670,943	108,901	-
Government Bonds	877,964	-	877,964	-
Government MBS	1,778,181	-	1,777,335	846
Government - issued Commercial Mortgage-Backed	57,491	-	57,491	-
Index Linked Government Bonds	35,465	-	35,465	-
Municipal / Provincial Bonds	44,591	-	44,591	-
Non- Government Backed C.M.O.s	97,621	-	92,079	5,542
Other Fixed Income	6,528	-	6,528	-
Total fixed income investments	**6,990,665**	**1,816,520**	**5,279,861**	**12,853**
Equity Investments:				
Common stock	3,308,268	3,303,053	4,378	837
Convertible equity	1,495	899	596	-
Funds - Common stock	22,430	22,430	-	-
Funds - Equities ETF	200,641	200,641	-	-
Preferred stock	33,285	33,284	1	-
Rights / Warrants	12	-	-	12
Stapled securities	2,228	2,228	-	-
Total equity investments	**3,568,359**	**3,562,535**	**4,975**	**849**
Other Investments:				
Commodity ETF	1	1	-	-
Currency	4,400	-	4,400	-
FX Contracts	1,546	-	1,546	-
Global Tactical Asset Allocation MF	492,884	492,884	-	-
Master Limited Partnership	115,439	115,439	-	-
REITs	10,509	10,509	-	-
Swaps	863	-	863	-

Total other investments	**625,642**	**618,833**	**6,809**	**-**
Derivative Investments:				
Exchange cleared swaps	(6,584)	-	(6,584)	-
Options	(38)	(52)	14	-
Swaps	11,682	-	11,679	3
Grain future contracts	149	149	-	-
Total derivative investments	**5,209**	**94**	**5,109**	**3**
Total investments by fair value level	**$11,308,444**	**$ 5,997,985**	**$ 5,296,754**	**$13,705**

INVESTMENTS MEASURED AT THE NET ASSET VALUE (NAV)	Fair Value 6/30/16	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
Commingled Funds – Debt	$ 1,510,097	$ -	Daily, monthly	1 - 15 days
Commingled Funds - Equities	1,938,777	-	Daily, monthly	1 - 15 days
Commingled Funds - Fixed Income	160,783	-	Daily	< 5 days
Distressed Debt	268,329	21,735	Quarterly, not eligible	60 days
Long / short	167,752	-	Monthly	15 days
Mezzanine Debt	3,686	13,147	Not eligible	Not eligible
Private Equity	159,340	105,293	Not eligible	Not eligible
Real Assets	1,936,373	325,297	Quarterly, not eligible	30 - 90 days
Total investments measured at the NAV	**6,145,137**	**$465,472**		
Total	$17,453,581			

Component Units

INVESTMENTS MEASURED AT FAIR VALUE	Fair Value 6/30/16	Level 1	Level 2	Level 3
Short term securities				
Short term bills and notes	$ 91	$ 71	$ 20	$ -
Total short term securities	**91**	**71**	**20**	**-**
Fixed income investments:				
Gov't Agencies	70	70	-	-
Other Fixed Income	76	76	-	-
Total fixed income investments	146	146	-	-
Equity Investments:				
Stock	15	15	-	-
Other equities	1,361	1,361	-	-
Total equity investments	**1,376**	**1,376**	**-**	**-**
Other Investments:				
Real estates	9,422	-	-	9,422
Mineral acres	23	-	-	23
Total other Investments	**9,445**	**-**	**-**	**9,445**
Total investments	$ 11,058	$ 1,593	$ 20	$ 9,445

NOTE 4 – NET POSITION

The government-wide Governmental Activities Statement of Net Position reports $3,841,520,824 of restricted net position, of which $1,310,167,821 is restricted by enabling legislation.

NOTE 5 – FUND BALANCE

Fund Balances Classifications – The Governmental Accounting Standards Board, in Statement No. 54, requires presentation of governmental fund balances by specific purpose. In the basic financial statements, the fund balance classifications are presented in the aggregate. The tables presented below further display the fund balances by major purpose.

Governmental Fund Balance By Purpose

		Special Revenue			
	General	Federal	State	Nonmajor Governmental Funds	Total
Fund Balances:					
Nonspendable					
Inventory	$ 3,261,067	$ 11,093,006	$ 9,251,483	$ -	$ 23,605,556
Long – Term Receivables	25,135,777	5,000	103,394,833	-	128,535,610
Prepaid Expenditures	3,060,077	872,450	4,838,040	-	8,770,567
Legal Requirements	3,877,340,334	-	-	-	3,877,340,334
Permanent Trust Fund	-	-	-	67,997,836	67,997,836
Total Nonspendable	3,908,797,255	11,970,456	117,484,356	67,997,836	4,106,249,903
Restricted for:					
State Education Aid	-	-	608,460,325	-	608,460,325
Distribution to Common Schools	-	-	3,720,729,899	-	3,720,729,899
Health & Human Services	-	-	2,970,909	-	2,970,909
Judicial & Legal	-	-	183,296	-	183,296
Public Safety & Corrections	-	-	3,484,233	-	3,484,233
Agriculture & Commerce	-	-	36,331,235	-	36,331,235
Highway Projects	-	-	1,011,516,170	-	1,011,516,170
Transportation	-	-	23,892,063	-	23,892,063
Debt Services	-	-	-	7,844,974	7,844,974
Strategic Investments & Improvements	-	-	11,875,289	-	11,875,289
Other	-	-	572,760,609	-	572,760,609
Total Restricted	-	-	5,992,204,028	7,844,974	6,000,049,002
Committed to:					
Tobacco Prevention	-	-	60,125,265	-	60,125,265
Judicial & Legal	-	-	8,262,774	-	8,262,774
Public Safety & Corrections	35,197,389	-	2,224,822	-	37,422,211
Agriculture & Commerce	22,726,693	-	20,479,670	-	43,206,363
Strategic Investments & Improvements	-	-	364,666,904	-	364,666,904
Property Tax Relief	203,141,843	-	-	-	203,141,843
Stabilization	575,919,333	-	-	-	575,919,333
Other	160,509,547	-	161,145,759	206,345	321,861,651
Total Committed	997,494,805	-	616,905,194	206,345	1,614,606,344
Assigned to:					
Human Services Operations	-	-	59,474,519	-	59,474,519
Judicial & Legal	-	-	9,510,613	-	9,510,613
Public Safety & Corrections	-	-	10,527,265	-	10,527,265
Total Assigned	-	-	79,512,397	-	79,512,397
Unassigned	421,702,619	(3,376,686)	-	-	418,325,933
Total Fund Balances	$ 5,327,994,679	$ 8,593,770	$ 6,806,105,975	$ 76,049,155	$ 12,218,743,579

NOTE 6 – 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. 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. Effective August 1, 2015, current and newly eligible members of the National Guard System will transfer to the Law Enforcement System. 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, 2016, the number of participating political subdivisions in PERS was:

Cities	89
Counties	49
School Districts	123
Other	75
Total Participating Local Political Subdivisions	336

Administration

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.

Responsibility for administration of the three defined benefit pension plans is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; two members of the legislative assemble appointed by a chairman of the legislative management, three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees.

The costs of administering the plan are financed through the contributions and investment earnings of the plan.

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. Members are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equals or exceeds 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64, with three or more years of service. Supreme and district court judges are entitled to unreduced monthly pension benefits beginning at the normal retirement age (65) or Rule of 85. The monthly pension benefit for Supreme and district court judges is equal to a percentage of average monthly salary using the highest 36 consecutive months out of the last 180 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 the average monthly salary times the second 10 years of service, plus 1.25% of 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 plan permits early retirement at ages 55-64, with five or more years of service for supreme and district court judges. The monthly pension benefit for National Guard at normal retirement age (55). Effective August 1, 2015, the National Guard System will become part of the Law Enforcement System. Members of the Law Enforcement are entitled to unreduced monthly pension benefits at normal retirement age (55) or the rule of 85. The monthly pension benefit for the National Guard/Law Enforcement is equal to 2.00 percent of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 50-55 with three or more years of service for members.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members 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.

Death and Disability Benefits

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 who have earned five years of credited service, 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 members 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 member 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.

Refunds of Member Contributions

Upon termination, if a member 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), they will receive the accumulated member 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 a member terminated and withdrew their accumulated employee contribution and is subsequently re-employed, they have the option of repurchasing their prior service.

Contributions

Contribution rates are set by state statute and are a percentage of salaries and wages.

In 2011, the Legislative Assembly passed an increase in the employee and employer contribution rates for the PERS, Judges and Law Enforcement plans. Both the employee and employer contribution rates increased for each of the plans by an additional 1% (.5% for the Law Enforcement Plans for political subdivisions) effective January 2012 and January 2013. The 2013 Legislative Assembly also passed an increase in the employee and employer contribution rates for the PERS, Judges, National Guard and Law Enforcement plans. Effective January 2014, both the employee and employer contribution rates were increased for each of the plans by an additional 1% (.5% for the National Guard and Law Enforcement Plans for political subdivisions). Members that made a qualifying election under Senate Bill 2015 to move from the Defined Contribution Plan back to the Defined Benefit Plan have a 2% increase on employee contributions.

Member contributions are set by state statue and are a percentage of salaries and wages. During the 1983-1985 biennium, the State implemented the employer pickup provision of the IRS code, whereby a portion or all of the required member contributions are made by the employer. The State is paying 4% of the full member contribution. Some of the political subdivisions are paying all or part of the member contributions. Employer contributions are set by statue except the contribution rates for the National Guard/Law Enforcement Plans which are set by the Board. Contribution rates are established as a percent of covered compensation as follows:

	Member Contributions	Employer Contributions
PERS*	7.00%	7.12%
Judges Retirement System	8.00%	17.52%
Law Enforcement with previous service		
State – BCI Plan**	6.00%	10.31%
State – National Guard	5.50%	9.81%
Political subdivisions	5.50%	9.81%
Law Enforcement without previous service	5.50%	7.93%

*Members making the election to move from the Defined Contribution Plan back to the Defined Benefit Plan as a result of Senate Bill 2015 pay a 9.00% employee contribution.

**Effective July1, 2016, the BCI membership contribution will be 6.00% and the employer rate will be 9.81%.

The entry age normal cost method 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.

Except for Supreme and district court judges, the member's account balance includes the vested employer contributions equal to the members 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. Currently, the present rate of contributions for the PERS and Law Enforcement without previous service plans are not sufficient to meet the actuarially determined requirement for 2016-2017.

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.

Administration

The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDHPRS. See PERS Administration note for composition of the Retirement Board. Benefit and contribution provisions are administered in accordance with chapter 39-03 of the North Dakota Century Code.

The costs of administering the plan are financed through the contributions and investment earnings of the plan.

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. Members are entitled to unreduced pension benefits upon attainment of age 55 and 10 years of eligible employment 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 180 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.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members 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 members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than 10 years of credited service, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member 's beneficiary. If the member 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 member 's accrued normal retirement benefit. If the surviving spouse dies before the member 's accumulated pension benefits are paid, the balance will be payable to any designated beneficiary.

Eligible member s 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 member must meet the criteria established by the Retirement Board for being totally disabled and apply for benefits within one year of termination.

Refunds of Member Contributions

Upon termination, if a member is not vested (is not 65 or is not 60 or does not have ten years of service credited for NDHPRS), they will receive the accumulated member 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 a member terminated and withdrew their accumulated employee contribution and is subsequently re-employed, they have the option of repurchasing their prior service.

Contributions

Contribution rates for NDHPRS are set by state statute and are a percentage of salaries and wages. The State is paying 10.3% of the member contribution. The member contribution rate is 13.3% and the employer rate is 19.7%.

The entry age normal cost method 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.

An open period of 20 years to fund accrued liabilities for the NDHPRS has been adopted for the July 1, 1996 valuation. Currently, the present rate of contributions is not sufficient to meet the actuarially determined requirement for 2016-2017.

<u>RETIREMENT PLAN FOR THE EMPLOYEES OF JOB SERVICE NORTH DAKOTA (JSND)</u>

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 by the Board. This plan document, as amended, is authorized by the Plan Administrator, who is the Executive Director of the agency. JSND issues a publicly available financial report that may be obtained by writing to Job Service North Dakota, PO Box 5507, Bismarck, North Dakota 58506-5507.

Participation in the plan is limited to employees participating in the plan as of September 30, 1980.

Administration

On August 1, 2003, the administrative authority and the net position 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.

The costs of administering the plan are financed through the contributions and investment earnings of the plan.

Benefits

Benefits are established through the plan document, as amended by the Board. The System provides a post-retirement cost-of living adjustment each year based on the Consumer Price Index. 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.

Death and Disability Benefits

The plan provides retirement, disability and death benefits. If 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.

Refunds of Member Contributions

Upon termination, if a member of the plan is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contrition and is subsequently reemployed, they have the option of repurchasing their previous service.

Contributions

Contribution rates for the Job Service Retirement Plan are established in the plan document, as amended, which prescribes that they are actuarially determined using the frozen initial liability actuarial cost method which is the same as the aggregate cost method.

Member and employer contributions are set by statute and are established as a percent of covered compensation. Member contribution rates are 3% and employer contribution, on behalf of member, rates are 4% of covered compensation. 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 funding policy of the plan provides for employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. 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.

<u>TEACHERS' FUND FOR RETIREMENT (TFFR)</u>

The North Dakota Teachers' Fund for Retirement is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, death and disability benefits. The cost to administer the TFFR plan is financed by investment income and contributions.

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, 2016, the number of participating employer units in TFFR was:

Type	Number
Public School Districts	176
County Superintendents	6
Special Education Units	19
Vocational Education Units	5
Other	8
Total	214

Administration

Responsibility for administration of the TFFR benefits program is assigned to a seven-member Board of Trustees (Board). The Board consists of the State Treasurer, the Superintendent of Public Instruction, and five members appointed by the Governor. The appointed members serve five-year terms which end on June 30 of alternate years. The appointed Board members must include two active teachers, one active school administrator, and two retired members. The Board submits any necessary or desirable changes in statues relating to the administration of the fund, including benefit terms, to the Legislative Assembly for consideration. The Legislative Assembly has final authority for changes to benefit terms and contributions rates.

Benefits

For purposes of determining pension benefits, members are classified within one of three categories. Tier 1 grandfathered and Tier 1 non-grandfathered members are those with service credit on file as of July 1, 2008. Tier 2 members are those newly employed and returning refunded members on or after July 1, 2008.

Tier 1 Grandfathered - A Tier 1 grandfathered member is entitled to receive unreduced 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.

Tier 1 Non-grandfathered - A Tier 1 non-grandfathered member is entitled to receive unreduced 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 the member has reached the age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55-64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. 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 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.

Tier 2 – A Tier 2 member is entitled to receive unreduced 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 has reached age 60 and 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 8% per year from the earlier of age 60/Rule of 90 or age 65. 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.

Death and Disability Benefits

Death 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 uses the member's actual years of credited service. There is no actuarial reduction for reason of disability retirement.

Contributions

Member and employer 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 11.75% 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 12.75% of the teacher's salary. Member and employer contributions will be reduced to 7.75% each when the fund reaches 100% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of contributions 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 70½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstance defined by state statue.

EMPLOYEE MEMBERSHIP DATA

The following table summarizes employee membership information by plan at the actuarial valuation date:

	PERS	NDHPRS	JSND	TFFR
Retirees and beneficiaries currently receiving benefits:	10,515	123	206	8,249
Special prior service retirees:	3	-	-	-
Terminated Employees:				
Vested	5,456	18	1	1,601
Nonvested	5,277	8	-	779
Active Employees:				
Vested	16,018	67	9	7,433
Nonvested	7,398	89	-	3,380
Total plan membership	44,667	305	216	21,442
Date of annual valuation	July 1, 2016	July 1, 2016	July 1, 2016	July 1, 2016

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.

INVESTMENT POLICY

The System's Board is responsible for establishing the investment policy for the fund assets, which includes setting investment goals and specifying the percentage of assets to be invested in various types of investments for PERS, NDHPRS and JSND. The investment goals are viewed over the long term. The Board recognizes the plans' performance objectives, benefit projections, and capital market expectations when determining the asset allocation. The SIB is responsible for managing the System's investments in accordance with the investment policy.

The TFFR Board is responsible for establishing investment policy for the fund assets under NDCC 15-39.1-05.2. Benefit payments are projected to occur over a long period of time. This allows TFFR to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting established impact of funded status and contribution rates.

The following was the asset allocation policy as of June 30, 2016:

	Target Allocation		
	PERS and NDHPRS	JSND	TFFR
Domestic equities	31.0%	31.0%	0.0%
International equities	21.0%	9.0%	0.0%
Private equity	5.0%	0.0%	0.0%
Domestic fixed income	17.0%	55.0%	0.0%
International fixed income	5.0%	5.0%	0.0%
Global real assets	20.0%	0.0%	18.0%
Global equity*	0.0%	0.0%	58.0%
Global fixed income	0.0%	0.0%	23.0%
Cash equivalents	1.0%	0.0%	1.0%
Total	100.00%	100.00%	100.00%

*Private equity is included in the Global Equity asset class.

INVESTMENT RATE OF RETURN

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was as follows for June 30, 2016:

PERS	0.49%
NDHPRS	0.48%
JSND	5.14%
TFFR	0.39%

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.

REALIZED GAINS AND LOSSES

Realized gains and losses on sales of investments are components of net change in fair value of investments and are computed as described in note 1. For the year ended June 30, 2016, the following are the net realized gains (losses):

PERS	$66,822,688
NDHPRS	1,872,550
JSND	506,503
TFFR	60,426,737
Retiree Health Insurance Credit	3,305,180
Defined Contribution	(70,697)
Deferred Compensation	77,215

C. FUNDING STATUS AND PROGRESS

NET PENSION LIABILITY OF THE PLANS

The components of the net pension liability of the Plans at June 30, 2016 were as follows (expressed in thousands):

	PERS	NDHPRS	JSND	TFFR
Total pension liability	$ 3,396,566	$ 87,922	$ 61,205	$ 3,589,394
Plan fiduciary net position	(2,414,896)	(65,811)	(96,534)	(2,124,335)
Net pension liability (asset)	$ 981,670	$ 22,111	$ (35,329)	$ 1,465,059
Plan fiduciary net position as a percentage of the total pension liability	71.10%	74.85%	157.72%	59.20%

ACTUARIAL ASSUMPTIONS

PERS and HPRS

The total pension liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions:

Inflation: 3.50%

Salary Increase (Payroll Growth): 4.50% per annum for Highway Patrol, Main System, National Guard and Law Enforcement; 4% per annum for Judges.

Investment Rate of Return: 8.00%, net of investments expense, including inflation.

Mortality Rates: Mortality rates for active members, inactive members and healthy retirees were based on the RP-2000 Combined Healthy Mortality Table, set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table, set back one year for males (no setback for females) multiplied by 125%.

JSND

The total pension liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions:

Inflation: 3.50%

Salary Increase (Payroll Growth): 3.50% per annum

Investment Rate of Return: 7.00%, net of investment expense, including inflation.

Cost of Living Adjustment: 3.00 per annum

Mortality Rates - Mortality rates for active members, inactive members and healthy retirees were based on the RP-2000 Combined Healthy Mortality Table, set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table, set back one year for males, (no setback for females) multiplied by 125%.

TFFR

The total pension liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions:

Inflation: 2.75%

Salary Increase (Payroll Growth): 4.25% - 14.50%; varying by service, including inflation and productivity.

Investment Rate of Return: 7.75%, net of investments expense.

Cost of Living Adjustment: None

Mortality Rates: For active members, mortality rates were based on the RP-2014 Employee Mortality Table, projected generationally using Scale MP-2014. For healthy retirees, mortality rates were based on the RP-2015 Health Annuitant Mortality Table set back one year, multiplied by 50% for ages under 75 and grading up to , 100% by age 80, projected generationally using Scale MP-2014. For disabled retirees, mortality rates were based on the RP-2014 Disabled Mortality Table set forward four years.

INVESTMENT RATE OF RETURN

The long-term expected rate of return on investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates to return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the pension plan's target asset allocation is summarized in the following tables:

PERS and NDHPRS	Long-Term Expected Real Rate of Return	JSND	Long-Term Expected Real Rate of Return	TFFR	Long-Term Expected Real Rate of Return
Domestic equity	6.60%	Domestic equities	7.16%	Global equity	7.30%
International equity	7.30%	Core fixed income	4.26%	Global fixed income	0.90%
Private equity	10.90%	Limited duration fixed income	3.18%	Global real assets	5.30%
Domestic fixed income	1.49%	Global equity	7.11%	Cash equivalents	0.00%
International fixed income	-0.45%	Diversified short-term fixed income	3.54%		
Global real assets	5.24%	Short-term corporate fixed income	2.48%		
Cash equivalents	0.00%	US high yield	6.13%		
		Emerging market debt	7.45%		

DISCOUNT RATE

The discount rate used to measure the total pension liability was as follows: 8.00% for PERS and NDHPRS, 7.00% for JSND and 7.75%% for TFFR. The projection of cash flows used to determine the discount rate assumed plan member and employer contributions will be made at rates equal to those based on the July 1, 2016 Actuarial Valuation Reports. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the services costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions (For JSND, it is assumed no future contribution will be made.), the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

SENSITIVITY OF NET PENSION LIABILITY

The following presents the net pension liability of the Plans as of June 30, 2016, calculated using the discount rate as follows: 8.00% for PERS and NDHPRS, 7.00% for JSND and 7.75%% for TFFR, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate

Net Pension Liability (Asset) As of June 30, 2016	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
PERS	$ 1,401,158,232	$ 981,669,810	$ 628,295,237
NDHPRS	33,272,054	22,110,623	12,830,376

Net Pension Liability (Asset) As of June 30, 2016	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
JSND	$ (29,386,845)	$ (35,329,182)	$ (40,412,093)

Net Pension Liability (Asset) As of June 30, 2016	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
TFFR	$ 1,900,291,033	$ 1,465,058,563	$ 1,102,551,032

D. SINGLE EMPLOYER PENSION PLANS

Below are the changes in net pension liability for the State's (primary government) single-employer plans:

Single-employer Plans
Changes in Net Pension Liability
Increases (Decreases)
For the Year June 30, 2016*

	JSND	NDHPRS
Total pension liability (asset)		
Service cost	$ 127,734	$ 2,038,291
Interest	5,026,167	6,007,875
Change of benefit terms	-	-
Difference between expected and actual experience	(1,806,271)	984,241
Changes of assumptions	(309,878)	394,419
Benefit payments, including refund of employee contributions	(4,694,171)	(4,745,510)
Net change in total pension liability (asset)	(1,656,419)	4,679,316
Total pension liability (asset) - beginning	65,046,433	75,432,901
Total pension liability (asset) - ending (a)	$ 63,390,014	$ 80,112,217
Plan fiduciary net position		
Contributions - employer	$ -	$ 2,002,291
Contributions - employee	50,142	1,351,798
Contributions - service credit repurchase	-	96,429
Contributions - other	-	-
Net investment income	3,260,507	2,334,780
Benefit payments, including refund of employee contributions	(4,694,171)	(4,745,510)
Administrative expense	(30,214)	(30,925)
Net change in plan fiduciary net position	(1,413,736)	1,008,863
Plan fiduciary net position - beginning	97,696,628	65,666,865
Plan fiduciary net position - ending (b)	$ 96,282,892	$ 66,675,728
Net pension liability (asset) - ending (a) - (b)	$ (32,892,878)	$ 13,436,489
Plan fiduciary net position as a percentage of the total pension liability (asset)	151.89%	83.23%
Covered employee payroll	$ 673,836	$ 10,145,713
Plan net pension liability (asset) as a percentage of covered employee payroll	-4881.44%	132.44%

*The 2016 information presented has a measurement date of June 30, 2015.

JOB SERVICE NORTH DAKOTA (JSND)

Net Pension Asset

At June 30, 2016, the State recorded a net pension asset of $32,892,878 for all of the Job Service North Dakota pension plan. The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date.

Deferred Inflows and Outflows of Resources

For the year ended June 30, 2016 the State recognized pension expense of $(4,705,352). At June 30, 2016 the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

State of North Dakota
Deferred Outflows and Inflows of Resources
June 30, 2016
(Dollars Expressed in Thousands)

	Primary Government		Discrete Component Units	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -	$ -	$ -
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	(590)	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-	-	-
Employer contributions subsequent to the measurement date	-	-	-	-
Total	$ -	$ (590)	$ -	$ -

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

	Primary Government	Component Units
2017	$ (94)	$ -
2018	(94)	-
2019	(94)	-
2020	872	-
Total	$ (590)	$ -

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.

The following presents the State's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
State's proportionate share of the net pension asset	$ (26,578,200)	$ (32,892,878)	$ (38,280,035)

NORTH DAKOTA HIGHWAY PATROLMEN'S RETIREMENT SYSTEM (NDHPRS)

Net Pension Liability

At June 30, 2016, the State recorded a net pension liability of $13,436,489 for all of the North Dakota Highway Patrolmen's Retirement System pension plan. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date.

Deferred Inflows and Outflows of Resources

For the year ended June 30, 2016 the State recognized pension expense of $1,203,461. At June 30, 2016 the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

State of North Dakota
Deferred Outflows and Inflows of Resources
June 30, 2016

	Primary Government		Discrete Component Units	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 849,598	$ (206,808)	$ -	$ -
Changes of assumptions	340,463	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	(528,226)	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(171)	-	-
Employer contributions subsequent to the measurement date	2,127,355	-	-	-
Total	$ 3,317,416	$ (735,205)	$ -	$ -

$2,127,355 reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

	Primary Government	Component Units
2016	$ (225,090)	$ -
2017	(225,090)	-
2018	(225,088)	-
2019	715,126	-
2020	168,103	-
Thereafter	246,895	-
Total	$ 454,856	$ -

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.

The following presents the State's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	**Current Discount Rate (8%)**	**1% Increase (9%)**
State’s proportionate share of the net pension asset	$23,140,230	$13,436,489	$5,494,139

E. COST SHARING EMPLOYER PENSION PLANS

<u>NORTH DAKOTA PUBLIC EMPLOYEES' RETIREMENT SYSTEM</u>

Proportionate Share of Net Pension Asset and Liability

The North Dakota Public Employees' Retirement System (PERS) provides retirement benefits to employees of the primary government and its discrete component units as well as to other political subdivision 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. Effective August 1, 2016, current and newly eligible members of the National Guard System will transfer to the Law Enforcement System.

At June 30, 2016, the State recorded a net pension liability of $365,945,102 for all of the PERS system. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on the State's share of covered payroll in the PERS pension plan relative to the covered payroll of all participating employers. At June 30, 2015 the State's proportion was 54.82419036 percent, which is a decrease of 0.33039764 percent from the prior year.

The State's discrete component unit, North Dakota Public Finance Authority, also participates in. At June 30, 2016, the discrete component units recorded a net pension liability of $122,000 for all of the PERS system. The net pension liability was measured as of June 30, 2015 and the total pension liability and asset used to calculate the net pension liability was determined by an actuarial valuation as of that date. The discrete component units' proportion of the net pension liability was based on the their share of covered payroll in the PERS pension plan relative to the covered payroll of all participating employers. At June 30, 2015 the discrete component unit's proportion was 0.017889 percent, which is an increase of 0.000236 percent from the prior year.

Deferred Inflows and Outflows of Resources

For the year ended June 30, 2016 the State recognized pension expense of $33,901,091 and the component unit recognized pension expense of $12,000. At June 30, 2016 the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

State of North Dakota
Deferred Outflows and Inflows of Resources
June 30, 2016

	Primary Government		Discrete Component Units	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 10,986,680	$ (370,452)	$ 3,000	$ -
Changes of assumptions	-	(34,097,209)	-	(11,000)
Net difference between projected and actual earnings on pension plan investments	782,000	(9,722,251)	14,000	(16,000)
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,309,073	(9,052,911)	1,000	(1,000)
Employer contributions subsequent to the measurement date	44,421,875	-	10,000	-
Total	$ 58,499,628	$ (53,242,823)	$ 28,000	$ (28,000)

$44,421,875 and $10,000 reported as deferred outflows of resources related to pensions resulting from State and component unit contributions, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

	Primary Government	Component Units
2016	$ (12,565,098)	$ (3,000)
2017	(12,485,033)	(3,000)
2018	(12,406,970)	(3,000)
2019	5,690,009	2,000
2020	(7,367,609)	(3,000)
Thereafter	(30,369)	-
Total	$ (39,165,070)	$ (10,000)

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.

The following presents the State's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
State's proportionate share of the net pension liability	$568,137,440	$365,945,102	$200,349,700
Component's proportionate share of the net pension liability	187,000	122,000	69,000

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

Proportionate Share of Net Pension Asset and Liability

The North Dakota Teachers' Fund for Retirement (TFFR) provides retirement benefits to North Dakota public teachers and certain other teachers who meet various requirements. At June 30, 2016, the State recorded a net pension liability of $8,872,607 for all of the TFFR. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on the State's share of covered payroll in the TFFR pension plan relative to the covered payroll of all participating employers. At June 30, 2015 the State's proportion was 0.678409 percent, which is an increase of 0.061884 percent from the prior year.

Deferred Inflows and Outflows of Resources

For the year ended June 30, 2016 the State recognized pension expense of $691,032. At June 30, 2016 the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

State of North Dakota
Deferred Outflows and Inflows of Resources
June 30, 2016

	Primary Government		Discrete Component Units	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 58,142	$ -	$ -	$ -
Changes of assumptions	996,242	(132,088)	-	-
Net difference between projected and actual earnings on pension plan investments	-	(100,051)	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	746,781	-	-	-
Employer contributions subsequent to the measurement date	528,217	-	-	-
Total	$ 2,329,382	$ (232,139)	$ -	$ -

$528,217 reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

	Primary Government	Component Units
2016	$ 204,205	$ -
2017	204,205	-
2018	204,205	-
2019	406,090	-
2020	279,689	-
Thereafter	270,632	-
Total	$ 1,569,026	$ -

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.

The following presents the State's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
State's proportionate share of the net pension liability	$ 11,725,571	$ 8,872,607	$ 6,493,297

F. PENSION EXPENSE

For the year ended June 30, 2016, the State recognized pension expense as follows:

Pension Plan	Pension Expense
Job Service North Dakota	$ (4,705,352)
ND Highway Patrolmen's Retirement System	1,203,461
ND Public Employees' Retirement System	33,901,091
ND Teachers' Fund for Retirement	691,032
Total	$ 31,090,232

G. 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 elect to participate in the plan. Effective October 1, 2013, eligibility was expanded to include all state employees hired on or after October 1, 2013 through July 31, 2017, with the exception of employees eligible for the Highway Patrol Retirement System, Teachers Fund for Retirement or the alternative retirement plan of the Board of Higher Education. The Defined Contribution Plan had 178 participants as of June 30, 2016.

The administrative costs of the Defined Contribution Plan are funded by forfeitures of non-vested employees and administrative fees charged to individual participant accounts.

Benefits

Benefits are set by statute. Members are entitled to their vested account balance. A participating member is immediately 100% vested in the employee's contributions. A participating member vests in the employer contributions made on the member'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%

Members may elect to receive their account balance in a lump sum, lump sum direct rollover, or periodic distribution.

Death and Disability Benefits

Death and disability benefits are set by statute. Upon the death of a participating member or former participating member, the vested account balance of that deceased participant is available to the participant's designated beneficiary(ies). A member 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 member must meet the criteria established by the System for being totally disabled.

Contributions

Contributions are set by state statute and are a percentage of covered compensation. The State is paying 4% of the member contribution. The member contribution rate is 7.00% and the employer rate is 7.12%. Employer contributions totaled $0.87 million for the year ended June 30, 2016.

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.

H. 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	4.50%	12.50%	17.00%
	over 10	5.00%	13.00%	18.00%
II	0 thru 2	3.50%	7.50%	11.00%
	3 thru 10	4.50%	12.50%	17.00%
	over 10	5.00%	13.00%	18.00%
IV	Closed to new participants	4.00%	12.00%	16.00%
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 $44.7 million to TIAA-CREF during the fiscal year ending June 30, 2016.

NOTE 7 - POST-RETIREMENT BENEFITS

RETIREE HEALTH INSURANCE CREDIT FUND

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. Effective July 1, 2015, the credit will also be available to apply towards monthly premiums under the state dental, vision and long term care plan and any other health insurance. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Employee membership is as follows:

Retirees receiving benefit	10,320
Active participants	23,664
Total Membership	33,984

The Retiree Health Insurance Credit Fund has 23,664 active participants at June 30, 2016. The employers' actuarially required contribution was $7,543,743, and the actual employer contributions were $12,349,883 for the periods ended June 30, 2016.

The following are the changes in actuarial assumptions, plan provisions and plan experience of the employer's contribution rates expressed as a percent of covered payroll, and the dollar impact on the actuarial accrued liability:

	ER Contribution Rate as % of Covered Payroll	Actuarial Accrued Liability
Changes in actuarial assumptions	0.29%	$ 38,441,297
Changes in plan provisions	0.00%	-
Changes in plan experience during the year	0.00%	-
	0.29%	$ 38,441,297

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 1.14 percent of covered compensation. The employer contribution for employees of the State Board of Career and Technical Education is 2.99 percent of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14 percent of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as *"prefunded credit applied"* on the Statement of Changes in Plan Net Position for the pension trust funds.

Retiree health benefits and death and disability 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 or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving the surviving spouse benefit of if the member selected a joint and survivor option are eligible to receive credit toward their monthly health insurance premium under the state health plan. Effective July 1, 2015, the credit will also be available to apply towards monthly premiums under the state dental, vision and long term care plan and any other health insurance plan. The benefits are equal to $5.00 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.

Funded Status and Funding Progress

The funded status of the plans as of the most recent actuarial valuation date is as follows (in millions):

Schedule Of Funding Progress
(Dollars In Millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Value Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
June 30, 2014	$ 77.9	$ 116.6	$ 38.7	66.8%	$ 1,001.2	3.9%
June 30, 2015	89.4	128.9	39.5	69.4%	1,052.7	8.0%
June 30, 2016	97.8	176.6	78.8	55.4%	1,142.4	8.0%

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear funding trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits, as obtained from the System's independent actuary's annual valuation reports.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the plan is becoming financially stronger or weaker. Generally, the greater the percentage the stronger the retirement plan. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of annual covered payroll aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage the stronger the retirement plan.

The accompanying schedule of employer contributions, presented as required supplementary information following the notes to the financial statements, presents trend information about the amounts contributed to the plans by employers in comparison to the Annual Required Contribution (ARC). The ARC is actuarially determined in accordance with the parameters of GASB Statement 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Under the Projected Unit Credit Actuarial Cost Method, benefits are projected to each assumed occurrence of decrement (death, disability, retirement) using service as of the valuation date. The normal cost is equal to the actuarial present value of the benefits allocated to the current year. The actuarial accrued liability for active members is equal to the actuarial present value of the benefits allocated to all prior years. The actuarial accrued liability for members currently receiving benefits and for participants entitled to deferred benefits is the actuarial present value of the benefits expected to be paid. The unfunded actuarial accrued liability is equal to the actuarial accrued liability minus the actuarial value of assets. This amount is amortized as a level percentage of payroll over a fixed period of 40 years, of which 15 years remain.

Actuarial valuations for other postretirement employee benefit plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations of other postretirement employee benefit plans reflect a long-term perspective.

The actuarial methods and assumptions for the other postretirement employee benefit plan include techniques that are designed to reduce short-term volatility in the actuarial accrued liabilities and the actuarial value of assets.

Advance Funded Plan

For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized over a five-year period.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2016, the date of the latest actuarial valuation include:

Mortality Rates: The RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, and the RP-2000 Disabled Retiree Mortality Table set back one year for males (not set back for females), multiplied by 125%.

Withdrawal Rates: 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 an investigation of actual plan experience.

Interest Rate: 8.00% per annum, net of investment expenses.

Inflation: 3.50% per annum.

Expenses: Prior year expenses, adjusted for inflation.

IMPLICITY SUBSIDY UNFUNDED PLAN

The Implicit Subsidy Unfunded Plan provides health insurance coverage to eligible retirees who are not eligible for Medicare. The premiums for this coverage are set under North Dakota Century Code 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 this 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 2015-17 biennium will continue in the future.

A retiree must be receiving a retirement allowance from PERS, ND TFFR or TIAA-CREF to be eligible for the retiree health care coverage. Effective July 1, 2015, eligibility for this coverage is limited to employees who retired prior to July 2015 and/or former Legislators.

Funded Status and Funding Progress

The funded status of the plans as of the most recent actuarial valuation date is as follows (in millions):

Schedule Of Funding Progress
(Dollars In Millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Value Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
June 30, 2015	$ -	$ 8.9	$ 8.9	0.00%	$ -	0.0%

*See Retiree Health Insurance Credit Fund above for additional discussion on the Funded Status and Funding Progress

Significant actuarial assumptions employed by the actuary for funding purposes as of July 1, 2015, the date of the latest actuarial valuation include:

Mortality Rates: RP-2000 Combined Healthy Mortality Table, set back three years for males and females (set back one year for Highway Patrol). RP-2000 Disabled Retiree Mortality Table, set back one year for males (not set back for females) multiplied by 125%.

Withdrawal Rates: 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 an investigation of actual plan experience.

Interest Rate: 8$ per annum

Inflation: 3.5% per annum

Expenses: Prior year expense, adjusted for inflation

<u>JOB SERVICE NORTH DAKOTA</u>

Job Service North Dakota engaged an actuary to determine the Agency's liability for post-employment benefits other than pensions as of June 30, 2016. The actuary determined the obligation the agency has to record as of June 30, 2016 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 $5.00 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.

Job Service has authority to change the funding and benefit policy of this plan. Membership of the Other Post Retirement Benefit plans consisted of the following at July 1, 2016, the date of the latest actuarial valuation:

	Retiree Health Benefits Fund	Met Life Insurance Benefit
Retirees and beneficiaries currently receiving benefits	200	180
Terminated employees entitled to benefits but not yet receiving them	1	-
Current vested employees	9	18
Total	210	198

The funding policy of the plans thru June 30, 2016 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 Bryan, Pendleton, Swats & McAllister, LLC.

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	15-Year Amortization Open
Remaining Amortization Period	15 years
Asset Valuation Method	Market Value
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	$ 384,274	$ 86,264	$ 470,538
Interest on OPEB obligation	28,220	19,768	47,988
Adjustment to annual required contributions	(57,122)	(40,013)	(97,135)
Annual OPEB costs	355,372	66,019	421,391
Contributions made	279,187	51,061	330,248
Increase in net OPEB obligation	76,185	14,958	91,143
Net OPEB obligations, beginning of year	627,116	439,288	1,066,404
Net OPEB obligations, end of year	$ 703,301	$ 454,246	$ 1,157,547

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
2014	$ 360,521	$ 110,585	$ 256,911	$ 51,980	$ 162,215	65.6%
2015	360,521	110,585	260,155	52,019	158,932	66.3%
2016	355,372	66,019	279,187	51,061	91,143	78.4%

Funded Status and Funding Progress – As of June 30, 2016, the most recent actuarial valuation date, the plans were unfunded. The actuarial liability for benefits was $5,154,497, and the actuarial value of assets was $0.00 resulting in an unfunded actuarial accrued liability (UAAL) of $5,154,497. The covered payroll (annual payroll of active employees covered by the plans) was $1,281,180 and the ratio of the UAAL to the covered payroll was 402.32 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.

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 8 - 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. Each participant may defer the lessor of $18,000 or 100% of gross annual compensation for calendar year 2016. 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	$ 69,691	89%
Other Jurisdictions	8,182	11%
Total Value	$ 77,873	100%

NOTE 9 - 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 subdivision, institutions, departments or agencies. The contract for the 2013-2015 biennium provides for an accounting of premiums paid and claims incurred during the biennium. The final gain or loss is determined two years after the end of the biennium, which for the 2013-2016 biennium will occur 2017. The System has entered into a similar contract with Sanford Health Plan for the 2015-2017 biennium. The accumulated surplus and other invested funds in the amount of $47 million are shown as cash on the System’s balance sheet. No other insurance contracts have a gain sharing provision. The System has $3.0 million at risk, and is reasonably assured claims will exceed premiums, and the full $3.0 million that is at risk was accrued in accounts payable and recorded as an underwriting loss in 2016.

NOTE 10 - 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, 2016, was as follows (expressed in thousands):

	Home-Ownership Bond Funds
Condensed Statement of Net Position	
Current assets – other	$ 303,630
Noncurrent assets – other	741,971
Total Assets	1,045,601
Deferred outflow of resources	7,633
Current liabilities – other	123,217
Noncurrent liabilities – other	776,818
Total Liabilities	900,035
Net position – restricted	153,199
Total Net Position	$ 153,199

Condensed Statement of Revenues, Expenses and Change in Fund Net Position

Operating revenues	$	32,184
Operating expenses		(24,535)
Operating income		7,649
Change in net position		
Total net position, beginning of year		144,952
Equity transfer out		598
Total net position, end of year	$	153,199

Condensed Statement of Cash Flows

Net cash from operating activities	$	(70,011)
Net cash used for noncapital financing activities		139,186
Net cash used for investing activities		4,384
Net change in cash and cash equivalents		73,559
Cash and cash equivalents, beginning of year		128,654
Cash and cash equivalents, end of year	$	202,213

NOTE 11 - 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 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 $1.4 million debt service retirement. Upon payment of all the bonds, BSC will have the option to purchase the premises for $100. On August 15, 2013, an addendum was made to the lease agreement to facilitate an addition to the facility. Under this addendum, the additional amount of rent through September 30, 2015 is tied to the debt service retirement of $228,000.

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.

The audited financial statements of BSC Foundation for fiscal year 2016 report this transaction as a receivable from BSC and a long-term liability. BSC's financial statements include the capitalized asset and a long-term liability due to BSC Foundation.

	BSC	BSC Foundation
NECE Building	$9,338,149	$10,846,116
Accumulated Depreciation	(1,508,285)	(2,085,702)
Net Value of NECE Building	$7,829,864	$8,760,414

On September 26, 2014, BSC and Student Housing, LLC (a wholly owned subsidiary of BSC Foundation) entered into a 30-year Ground Lease to facilitate the construction and development of a student apartment housing complex on approximately 4.67 acres of land owned by BSC. Under the agreement, BSC would enter into a separate operating and lease agreement with LLC for the constructed student housing apartment complex for use as a College student housing facility. There are no separate rent payments to be paid by LLC during the term of the Ground Lease agreement in exchange for use of the land.

On October 14, 2014, BSC and Student Housing, LLC (a wholly owned subsidiary of BSC Foundation) entered into a Memorandum of Understanding (MOU) which sets forth the essential terms of an Apartment Master Lease agreement to be entered into between LLC and BSC, under which LLC will lease to BSC space in the student housing complex to be constructed by LLC on BSC property according to the terms and conditions of the Ground Lease. The 5-year renewable Apartment Master Lease Agreement will address quarterly rent payments by BSC and responsibilities for maintenance, repairs and insurance of the facilities and improvements during the term of the lease.

On August 13, 2015, BSC and Student Housing, LLC entered into a 5-year lease agreement to operate student housing services in the two newly constructed housing units (Ritchie Hall and Gate City Bank Hall). Under the agreement, BSC is responsible for payment of all rent, maintenance, and daily repair/maintenance of the facility, and restrictions of use of the facility as set forth in the lease. Student Housing, LLC is responsible for major repairs/maintenance and property and liability insurance on the facilities. The lease is classified as an operating lease on BSC financial statements and Student Housing, LLC financial statements includes the capitalized asset.

<u>DICKINSON STATE UNIVERSITY AND DICKINSON STATE UNIVERSITY FOUNDATION</u>

Arbitration - The Dickinson State University Foundation (DSUF) has ownership interest and/or management responsibilities in various real estate projects by way of its membership in Dickinson Investments, LLC (Dickinson Investments) and other entities. DSUF is involved in a dispute with another member of Dickinson Investments, Granville Brinkman and other Brinkman entities (Respondent). An arbitration claim was filed on December 26, 2013. On September 30, 2014, the arbitrator awarded the Respondent a buy-out of their equity interest in the amount of $1.260 million. The Respondent was also awarded repayment of a note, prejudgment interest and attorneys' fees and costs. DSUF and Dickinson Investments are jointly and severally liable for the buyout amount.

On October 28, 2014, the arbitrator issued a final arbitration award and ordered:
a) prejudgment interest at 6% would commence December 26, 2013,
b) the amount of attorney fees and costs to be repaid was $233,420,
c) the note prepayment amount was $133,600
d) the parties shared responsibility for arbitration fees and expenses totaling $67,620.

The final award exceeds $1.7 million. Although DSUF has an equity interest of about 6 percent in Dickinson Investments, the arbitrator has ruled that it is jointly and severally liable for the entire award, except the $133,600 loan for which Dickinson Investments is responsible.

If DSUF is unable to meet this obligation as well as its ongoing operating expenses, creditors may seek to collect from and possibly foreclose on the assets of DSUF.

Receivership - At the request of the NDUS Chancellor, on November 21, 2014, the North Dakota Attorney General petitioned the state district court for the appointment of a receiver. On December 3, 2014, the court appointed Sean Smith, JD, CPA, to act as the receiver for DSUF. The court order included the following directives:

- The receiver shall take immediate possession, custody, and control of all assets owned or held by DSUF;
- The DSUF board of directors shall be temporarily suspended and have no authority to act on behalf of DSUF;
- The receiver shall gather, protect and oversee DSUF's corporate and charitable assets;
- The receiver shall report to the court; and
- The receiver shall have all the authority necessary to continue the day-to-day activities of the DSUF.

The receiver filed interim reports on a regular basis through September 2016. In the seventh interim report, dated August 31, 2015, the receiver recommended that DSUF be dissolved. This recommendation is based on an inability to negotiate a mutually acceptable settlement of the outstanding Brinkman judgment against DSUF. The report indicates that dissolution should foremost prioritize DSUF obligations to honor restrictions placed on DSUF assets by donors, then address claims made by creditors, employees, and other interested parties. However, DSUF accounting reports indicate that the foundation has total net restricted assets in an amount less than total permanently and temporarily restricted donations.

The Office of Attorney General has requested the commencement of dissolution for DSUF. The dissolution will require the distribution or liquidation of DSUF assets, a process that has started with the sale of DSUF's personal and real property. The receiver has recommended that protective orders should be entered to protect DSUF's corporate net assets to facilitate the dissolution process. At this time, it is anticipated the dissolution of the DSUF will be completed by the end of 2016.

DSUF's Restated Articles of Incorporation state that upon dissolution, remaining assets shall be distributed to the SBHE for the exclusive use and benefit of the Dickinson State University or its direct successors in interest. The receiver recommended that all remaining net assets of DSUF be directed to be turned over to a new 501(c)(3) tax-exempt Foundation in keeping with DSUF's Restated Articles of Incorporation.

Financial Audit: - In fiscal year 2013, the DSUF's independent auditors issued a qualified opinion on the DSUF financial statements because they were unable to form an opinion regarding the proper amount and classification of unrestricted and temporarily restricted net assts. In fiscal year 2014, the DSUF's independent auditors are unable to issue an audit opinion on the DSUF financial statements as a result of the aforementioned arbitration and the overall condition of the DSUF financial records. An audit was not performed for fiscal year 2015 or fiscal year 2016. Therefore, the financial information for DSUF has not been included in the component units university system foundation financial statements presented on the FASB basis. The unaudited total assets, liabilities and net assets of DSUF were $11.56 million, $12.02 million and $(0.46) million respectively as of December 31, 2015.

Additionally, it has been reported that DSUF may have used endowment funds as collateral to obtain financing and to meet monthly operating expenses of the foundation and one of its real estate projects.

The impact of the arbitration and the state of the financial records on DSUF's ability to provide funds going forward to Dickinson State University for scholarships and student-related programs is unknown.

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 $20.5 million.

On January 25, 2007, the city of Fargo, on behalf of the NDSU Research & Technology Park, issued $4,735 million of Series 2007A (Research 1) and $18,1 million of Series 2007B (Research 2) Lease Revenue Refunding Bonds. These bonds are used to advance refund the callable maturities of both the Series 2000 (Research 1) and Series 2002 (Research 2) bonds and to pay the costs of issuance (including the insurance premium for the insurance policy and the reserve fund surety bond) relating to bonds for both Series 2007A and 0072B bonds. During the year ended June 30, 2011, the Series 2000 bonds were repaid in full with the funds held in escrow from the Series 2007A bond refinancing. During the fiscal year ended June 30, 2012, the Series 2002 bonds were repaid in full with the funds held in escrow from the Series 2007A bond refinancing.

The audited financial statements of RTP for fiscal year 2016 report these transactions as an operating lease and report the related capital assets and related debt as assets and debt of RTP.

On July 1, 2002, NDSU and the RTP entered into an agreement for cooperation and assistance between entities. The agreement is an annual agreement, which automatically extends for one-year periods unless cancelled by either party to the agreement.

During fiscal year 2013, NDSU and the RTP entered into renewed agreements, whereby NDSU leases Research Building #1 and #2 through June 30, 2022. During fiscal year 2016, total annual rent of $2,154,906 was paid by NDSU for these two buildings. NDSU directly pays the utility costs under these agreements. The annual rent will be re-adjusted by mutual agreement every two years. These agreements are subject to funding and legislative appropriations.

During fiscal 2016 NDSU made other payments to the RTP that were unrelated to the building leases for Research #1 & #2. These payments consist of the following: 1) $16,726 for a subaward on an EPSCOR grant; 2) $75,000 for sponsorship of an RTP event called "Innovation Challenge '16".

NORTH DAKOTA STATE UNIVERSITY AND NDSU DEVELOPMENT FOUNDATION

FARGODOME LEASE AND IMPROVEMENTS

In fiscal year 2006, the NDSU Development Foundation (NDSUDF financed the construction and equipping of office space, locker rooms, meetings rooms, and related facilities in the Fargodome for use by NDSU through the sale of revenue bonds issued by Cass County. The NDSUDF 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 NDSUDF 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 NDSUDF incident to the lease, less any contributions received by the NDSUDF for the project. Under this agreement in fiscal year 2016, the NDSUDF paid the debt service and other fees on behalf of NDSU in the amount of $336,312.

The facility is included in long-term investments and the debt is included in long-term liabilities on the financial reports of the NDSUDF. NDSU has also recorded a capital asset and a capital lease payable, reflected as “Due to Component Units” by NDSU, of $1.325 million as of June 30, 2016. Since the NDSUDF 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.

RENAISSANCE HALL

The former Northern School Supply building was donated to the NDSUDF by NDSU alum in December of 2001. During fiscal year 2003 and 2004, the NDSUDF renovated the building with the intent to lease the facility to NDSU beginning fall 2004. The NDSUDF transferred nearly the entire ownership of the building to 650 NP Avenue, LLC and Kilbourne Design Group, LLC, for a five-year period in order to achieve tax credits that would ultimately reduce the cost of the building to NDSU. During the five-year tax credit period, NDSU leased the building from the two LLCs, with the lease payments composed of interest and fees. With the five-year tax credit period ending December 31, 2010 (as extended), and the ownership was transferred back to the NDSUDF, permanent financing was put in place on December 17, 2010, with the issuance of $5.65 million of 20-year University Facilities Lease Revenue Bonds, Series 2010 (Renaissance Hall Project). The financing structure involving the five-year temporary ownership transfer resulted in achieving tax credits of $4.9 million which directly lowered the leasing cost to NDSU.

Under this refinanced debt issuance and lease agreement, as approved by the SBHE on December 16, 2010, the property is leased to NDSU for rent equal to the semi-annual principal and interest on the bonds, plus all costs incurred by the NDSUDF incident to ownership of the property. Ownership of the property will transfer to NDSU when the bonds are repaid in full. NDSU paid the NDSUDF $418,528 in fiscal year 2016 for debt service under this agreement. As of June 30, 2016 the outstanding balance on the bonds, reflected as “Due to Component Units” by NDSU, is $4.565 million.

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.

In May 2012, the NDSUDF refinanced the original bonds issued in November 2007. As a result, new leases were executed. Under the terms of the new leases, NDSU pays and recognizes a liability for entire amount of the previously issued bonds, including the portion originally planned to be paid from the collections of pledges. During fiscal year 2016, NDSU paid $774,893 to the bond trustee on-behalf of the NDSUDF under the new leases for debt service on Barry Hall & Klai Hall. During fiscal year 2016, the NDSUDF paid $332,150 to NDSU from the collection of pledges. NDSU has an option to acquire the property upon full payment of the bonds. As of June 30, 2016 the outstanding balance on the bonds, reflected as “Due to Component Units” by NDSU, is $10.065 million and the portion payable by the NDSUDF to NDSU for the collection of pledges is recognized by NDSU as a current & non-current “Due from Component Units” for $299,085.

OTHER TRANSACTIONS

NDSU also has agreements in place with the NDSUDF for maintenance of the University's alumni records, for use and insurance on certain land and building. Amounts paid by NDSU under these agreements as of June 30, 2016 totaled $645,575.

NDSU pays the NDSUDF rent under operating lease agreements for two buildings (Criminal Justice and Graduate Center), as well as pasture rent paid from NDSU's Agricultural Experiment Station. Those operating lease payments totaled $138,938 during fiscal year 2016.

In addition to the debt service payments on the Fargodome, Renaissance, Barry and Klai Halls, NDSU reimburses the NDSUDF for other operating expenses related to those buildings, such as property insurance, flood insurance, boiler inspection fees, real estate taxes and bond administrative fees. Those costs totaled $89,112 during fiscal year 2016.

NDSUDF fiscal year end is December 31, NDSU year end is June 30. Timing differences in amounts may occur between entity financial statements, due to different year end dates.

UNIVERSITY OF NORTH DAKOTA AND UND AEROSPACE FOUNDATION

The UND Aerospace Foundation (Aerospace) recorded expenses reimbursed to UND for salaries, building rent, aircraft rental, and goods and services under an operating agreement aggregating $14.9 million in fiscal year 2016. 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. Expenses reimbursed to UND represent actual costs incurred and are included in training expenses in the consolidated statements of activities.

The Foundation recorded revenue for service and hangar, CRJ, 360-degree tower, and aircraft rental to UND of $4,234,373 in fiscal year 2016, which is included in training and support services revenue in the consolidated statements of activities.

As of June 30, 2016, the Foundation had recorded accounts payable to UND of $1,752,341 for reimbursable costs and services. As of June 30, 2016, the Foundation had recorded accounts receivable from UND of $566,400, which are included in accounts receivable in the consolidated statements of financial position.

Foundation employees also have the ability, as do UND employees, to rent UND planes for personal use. Foundation and UND employees are charged directly by UND. These costs do not flow through the Foundation, but are paid to UND directly by the employee.

The 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's monthly minimum payment 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 the interest rate adjustments of the debt incurred by the Foundation in the construction of the hangar.

UNIVERSITY OF NORTH DAKOTA AND RE ARENA, INC.

RE Arena Inc. and the University of North Dakota, 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 percent of such ticket revenue and remits 48 percent to the UND, and (ii) RE Arena Inc. collects all sponsorship sales revenue from the UND athletic events at the arena, RE Arena, Inc. retains 64 percent of such sponsorship revenue, net of direct costs, and remits 36 percent to the UND net of direct costs. In addition, UND and RE Arena, Inc. jointly utilize the UND and RE Arena Inc. marketing staff to market and promote the UND athletic events.

RE Arena, Inc. may contract with UND for materials and personnel in service, utility and other areas and will reimburse UND based on separate agreements. Revenue and expense arrangements for all other UND events held at the arena will be negotiated on an event-by-event basis.

Gross tickets sales were $4.396 million of which RE Arena, Inc. recognized revenue of $2.286 million with a net due to UND $2.110 million. Gross ticket sales for the next athletic season year are recorded in deferred revenue at gross by RE Arena, Inc. for a total of $2.412 million.

RE Arena, Inc. recognized net sponsorship (advertising) revenue of $779,086 and the net due UND in sponsorship (advertising) income of $438,236.

RE Arena, Inc. recognizes box office revenue on a cost reimbursement basis, for ticket facility fees, credit card fees and payment plan fees and expenses. The total cost that the UND Athletic Department reimbursed RE Arena, Inc. for managing and administering the box office on their behalf was $186,492.

In addition, RE Arena, Inc. allocated $500,000 of net income to the UND Athletic Department for the year ended May 31, 2016.

RE Arena, Inc. expensed $1.031 million to UND for utilities, maintenance staff, phone service and other expenses.

At the end of the fiscal year RE Arena, Inc. owes UND $2,128,065 for the annual operating agreement and monthly services.

Amounts are reported on the accrual basis of accounting, which may or may not be the same as that used by UND. RE Arena Inc.'s fiscal year end is May 31st, UND's fiscal year end is June 30th, if numbers differ between entity financial statement; it may be because of timing differences due to different year ends.

UNIVERSITY OF NORTH DAKOTA AND UNIVERSITY OF NORTH DAKOTA FOUNDATION

The University of North Dakota is providing payment for leasehold improvements done to the lower level of the Gorecki Alumni Center for establishing space for UND Admissions. The payments are $169,472 for a period of five years. UND is also leasing space in the Gorecki Alumni Center in the amount of $75,000. Additional rental payments consisting of UND's share of the operating and maintenance costs for space used in the Gorecki Alumni Center are calculated annually.

During the year ended June 30, 2016, UND provided approximately $1.121 million of institutional support for event and database support, annual giving campaign and shared positions. The UND Alumni Association and Foundation (the Organization) manages UND's endowment investments and charged them $404,446 in investment management fees during the year ended June 30, 2016. These fees and support are reported as operations, fees and miscellaneous revenue on the statement of activities.

The Organization has other receivables with UND related to the construction of the EERC and Minot Center for Family Practice.

On July 24, 2002, the Foundation issued $8,595,000 of tax exempt bonds to finance the construction of an office building and the renovation of an existing building for the Energy and Environmental Research Center (EERC) of UND. The Organization recorded a receivable from UND of $8.6 million due under the direct-financing lease arrangement. The EERC bonds were refinanced as taxable bonds on October 18, 2012. The balance as of June 30, 2016 was $4.960 million. The terms for the repayment are the same as the payment terms of the related bonds. Total payment of principal and interest subsequent to June 30, 2016 are: 2017 - $560,209; 2018 -$562,028; 2019 - $562,153; 2020 - $560,509; 2021 - $562,436, thereafter - $3,365,368. During fiscal year ended June 30, 2016, the Organization recorded payment of principal and interest of $375,000 and $181,959, respectively. The interest is included in operations, fees and miscellaneous income on the statement of activities.

On October 24, 2003, the Foundation issued $4.4 million of tax-exempt lease revenue bonds to finance the purchase of land and the construction of a facility for the Minot Center for Family Practice in Minot, North Dakota. The Organization recorded a receivable from UND of $4.4 million due under the direct-financing lease agreement. The balance as of June 30, 2016 is $2.475 million. The terms for the repayment are the same as the payment terms of the related bonds. Total payment of principal and interest subsequent to June 30, 2016 are: 2017 - $272,000; 2018 - $2,400,413. During fiscal year ended June 30, 2016, the Organization received payment of principal and interest of $162,423 and $109,577, respectively. The interest income is included in operations, fees and miscellaneous income on the statement of activities.

The Organization is leasing 45,000 square feet of land for the Gorecki Alumni Center from the University of North Dakota. Starting in 2016 the rate is $0.10 per square foot per year. The cost in 2016 was $4,500.

NORTH DAKOTA STATE COLLEGE OF SCIENCE AND NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION

For the year ended June 30, 2016, NDSCS paid the Foundation $174,000 for the rental of the Skills & Technology Training Center building and $10,953 for parking lots.

In exchange for services provided by NDSCSF to NDSCS, NDSCSF receives office space and accounting services at no charge from NDSCS. The approximate fair market value for rent is $5,668 and for accounting services is $7,454.

WILLISTON STATE COLLEGE AND WILLISTON STATE COLLEGE FOUNDATION

Effective September 1, 2011, the Williston State College Foundation (WSCF) loaned WSC $500,000 for the purchase of a geothermal system for the residence hall. Semiannual principal and interest payments of $30,000 are due January 1 and July 1, with a final payment of $20,036 due July 1, 2022. The loan bears an interest rate of 5%. As of June 30, 2016 and 2015, the loan balance of $317,094 and $363,014 of which $50,852 and $46,052, respectively is a current asset. Effective July 1, 2015, the interest rate on the loan changed to 3%.

On November 1, 2013, WSCF entered into a lease agreement with WSC. WSCF is leasing a bus, it had purchased, to WSC. The value of the bus was $375,000. Quarterly lease payments of $15,000 are being made by WSC for a seven-year lease term. The lease expires on October 31, 2020. Total payments on the lease as of June 2016 and 2015 were $60,000.

Individuals working on behalf of the WSCF and the North Dakota Department of Motor Vehicles (DMV) are employees of and paid by WSC. WSCF reimburses WSC for the time WSC employees spend on Foundation and DMV matters. Funds are reimbursed to WSC and are recorded as expenses by the Foundation. The amount reimbursed for the years ending June 30, 2016 and 2015 were $760,527 and $709,720 respectively. As of June 30, 2016 and 2015, the outstanding amount owed to WSC was $0 and $33,223 respectfully.

NOTE 12 - 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	$ 1,158,518
Financial standby letters of credit	379,528
	$ 1,538,046

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 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 Bank to guarantee the performance of a customer to a third party. Those letters of credit 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 Bank has segmented this category into three components: (1) letters of credit, (2) confirming letters of credit, and (3) letters of credit pledged for public deposits to North Dakota financial institutions.

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party which require this type of facility. The maturities for these letters range from three months to ten years, and the likelihood of funding any of these letters of credit is considered to be remote. The Bank holds collateral supporting those commitments. The Bank also has letters of credit with the North Dakota Public Finance Authority with maturities ranging from four to thirty years. If the letters issued to Public Finance Authority were ever drawn upon, Public Finance Authority is legally obligated to reimburse the Bank from funds legally available, or from any appropriation made available to the Legislative Assembly after certification by the Industrial Commission. The likelihood of funding any of these letters of credit is also considered to be remote. Outstanding issued letters of credit as of December 31, 2015 were $84,806,000.

Confirming letters of credit are issued to North Dakota financial institutions to support letters of credit they have issued but are still in need of backing from an institution with a long-term, high quality bond rating. In the event these letters were to be drawn upon, based on the terms of the agreement, the Bank would immediately withdraw funds from the institution's correspondent bank account held at the Bank to cover the amount drawn. These agreements generally have terms of 12 months or less. The likelihood of funding any of these confirming letters of credit is also considered to be remote. Outstanding issued confirming letters of credit as of December 31, 2015 were $6,532,000.

Letters of credit pledged for public deposit to North Dakota financial institutions are issued to support public borrowing arrangements. These letters are fully collateralized by a pool of loans pledged to the Bank. These agreement generally have terms of 12 months or less. Financial standby letters for public deposits by North Dakota banks totaled $288,190,000 at December 31, 2015. The likelihood of funding any of these letters of credit is also considered to be remote. These letters of credit are authorized form of collateral for public deposits per North Dakota Century Code 21-04-09.

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 $4,707,000 at December 31, 2015.

MEDICAL FACILITY INFRASTRUCTURE LOAN PROGRAM

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 $31,746,000 at June 30, 2016.

INFRASTRUCTURE REVOLVNG LOAN PROGRAM

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 $23,487,000 at June 30, 2016.

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 $75,311,000 at June 30, 2016.

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 $54,324,000 at June 30, 2016.

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 $182,301,000 at December 31, 2015.

NOTE 13 - INTEREST RATE SWAP

BANK OF NORTH DAKOTA

The Bank has an outstanding interest rate swap agreement with a notional amount totaling $100 million to convert variable rate federal funds into fixed-rate instruments over the term of the contract.

On June 5, 2014 ("June Swap"), the bank entered into a swap agreement which matures on June 1, 2029, and the swap's notional amount is $50,000,000. Under the terms of the swap, the Bank pays the counterparty a fixed payment of 2.861% and receives a variable payment based on the USD-FEDERAL FUNDS-H.15 interest rate.

On April 14, 2015 ("April Swap"), the bank entered into a swap agreement which matures on May 1, 2030, and the swap's notional amount is $50,000,000. Under the terms of the swap, the Bank pays the counterparty a fixed payment of 1.920% and receives a variable payment based on the USD-FEDERAL FUNDS-H.15 interest rate.

At December 31, 2015, the June Swap has a negative fair value of $5,064,000 because interest rates have declined since the swap was executed. Also at December 31, 2015, the April Swap has a positive fair value of $863,000 because interest rates have increased since the swap was executed. Fair values for interest rate swap agreements are based upon the settlement value adjusted by estimated nonperformance risk.

At December 31, 2015, the Bank was not exposed to material credit risk because each counterparty is required to fully collateralize the fair value of the swaps within $250,000 of daily mark-to-market valuations by depositing funds with the other counterparty. As of December 31, 2015, the Bank pledged $4,750,000 in cash under collateral arraignments related to the June Swap contract as other liabilities to satisfy the collateral requirement associated with this interest rate swap contract. The Bank holds $1,210,000 in cash pledged under collateral arrangements related to the interest rate swap classified as other assets at December 31, 2015, to satisfy the collateral requirements associated with the April Swap contract.

The Bank is exposed to interest rate risk on its swap agreement. On its pay-fixed, receive variable interest rate swap, the Bank's net payment increases as the USD-FEDERAL FUNDS-H.15 interest rate decreases.

Either the Bank or its counterparties may terminate the interest rate swap if the other party fails to perform under the terms of the contract. Termination could result in the Bank being required to make a payment of the fair value of the swap to counterparty.

The following table summarizes the derivative financial instrument utilized at December 31, 2015:

		Fair Value		Changes in Fair Value	
	Notional Amount	Classification	Amount	Classification	Amount
Pay-fixed June interest rate swap	$ 50,000,000	Oher liabilities	$ (5,064,000)	Deferred	$ (621,000)
Pay-fixed April interest rate swap	50,000,000	Other assets	863,000	Deferred inflow	863,000

Using rates as of December 31, 2015, the interest expense of the variable rate federal funds and the net swap payments are as follows. As rates vary, the federal fund interest expense and the net swap payments will vary.

Year Ended December 31:	Federal Fund	Interest Rate	Total
2016	$ 376,000	$ 2,296,000	$ 2,672,000
2017	376,000	2,296,000	2,672,000
2018	376,000	2,296,000	2,672,000
2019	376,000	2,296,000	2,672,000
2020	376,000	2,296,000	2,672,000
2021-2025	1,880,000	11,480,000	13,360,000
2026-2029	1,457,000	8,665,000	10,122,000
	$ 5,217,000	$ 31,625,000	$ 36,842,000

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 cash flow hedges or swaps in connection with various variable-rate housing bond series. The Agency cash flow hedges are pay-fixed. The intention of these swaps was to effectively change the Agency's interest rate on the bonds to a fixed rate. The Agency also has cash flow hedges that were entered into in connection with variable-rate housing bond series that no longer have bonds outstanding as those bonds have been called. The cash flow hedges that are not connected to a specific bond series hedge the risk related to the Agency's other variable-rate housing bonds that are unhedged.

The bonds and the related swap agreements have a stated issuance and maturity date. Some of the swaps have optional termination dates. Under the swaps, the authority 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 swap notional amount. 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 Index plus 0.25% or (ii) the Maximum Rate as defined within the applicable series resolution.

As of June 30, 2016, the Agency had one swap that had a positive fair value totaling $2.7 million. 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 bonds. The swap counterparty has guaranteed all payments and is rated AAa/AA+/AAA by Moody's Investor Services, Standard & Poor's, and Fitch, respectively. To mitigate potential credit risk, the counterparty has entered into Credit Support Agreements with Bank of New York Mellon and the Royal Bank of Canada as a credit enhancement.

The Agency has entered into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements netting provisions permit each party to net the transactions' fair values so that a single sum will be owed by, or owed to, the other party. At June 30, 2016, the Agency owed the swap providers a fixed rate on the notional amount of the swaps of $3,373,000 and the swap providers owed the Agency a variable rate on the notional amounts of $517,000 making the net payment that the Agency owed the swap providers $2,856,000.

Due to the difference in the variable rate indices, the swaps had a net negative fair value of $7,763,000 as of June 30, 2016. Accordingly, the financial derivative instrument is reported as a liability and the accumulated changes in fair value of the swaps are reported as a deferred outflow at June 30, 2016. The coupon 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.

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, 2016. 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 terminations 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.

The Agency is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to maturity of the hedged debt. When these hedging derivative instruments terminate, or in the case of a termination option, if the counterparty exercises its option, the Agency will be re-exposed to the risks being hedged by the hedging derivative instrument. The Agency also is exposed to rollover risk on the swaps that mature and the Agency does not call the related variable rate debt.

1.	Bond Series	2005 C	2006 A	2008 A	2008 B
2.	Issuance Date	9/21/2005	5/4/2006	2/26/2008	2/26/2008
3.	Maturity Date	1/1/2036	7/1/2016	1/1/2017	7/1/2038
4.	Notional Amount	$11,305,000	$30,210,000	$13,700,000	$8,285,000
5.	Variable-rate Bonds	$12,000,000	$27,625,000	$13,155,000	$12,735,000
6.	Fixed Rate	3.889%	3.955%	3.198%	4.725%
7.	LIBOR Percentage	63.00%	63.00%	63.00%	100.00%
8.	Additional Percentage	0.31%	0.31%	0.32%	0.00%
9.	Bonds Variable-rate	0.48000%	0.44000%	0.43000%	0.42000%
10.	Fair Value	$(187,000)	$(508,000)	$(354,000)	$(969,000)
11.	Percentage of LIBOR	0.60298%	0.60298%	0.61298%	0.46505%
12.	Synthetic Rate	3.76602%	3.79202%	3.01502%	4.67995%
13.	Actual Synthetic Rate	3.70351%	3.75585%	2.94652%	4.99648%
14.	Change in Fair Value	$241,000	$1,045,000	$348,000	$84,000
15.	Optional Termination Date	7/1/2016	N/A	N/A	1/1/2020

1.	Bond Series	2008 D	2009 B	2014 B	2015 C
2.	Issuance Date	8/5/2008	7/30/2009	6/24/2014	10/1/2015
3.	Maturity Date	7/1/2039	1/1/2025	7/1/2044	1/1/2046
4.	Notional Amount	$21,850,000	$34,070,000	$27,055,000	$17,700,000
5.	Variable-rate Bonds	$21,850,000	$47,745,000	$27,055,000	$17,700,000
6.	Fixed Rate	3.919%	3.108%	2.890%	2.486%
7.	LIBOR Percentage	63.70%	64.70%	65.80%	66.20%
8.	Additional Percentage	0.20%	0.23%	0.17%	0.10%
9.	Bonds Variable-rate	0.42000%	0.43000%	0.43000%	1.14000%
10.	Fair Value	$(1,368,000)	$2,688,000	$(2,671,000)	$(1,290,000)
11.	Percentage of LIBOR	0.49624%	0.53089%	47.60000%	0.40786%
12.	Synthetic Rate	3.84276%	3.00711%	2.84400%	3.21814%
13.	Actual Synthetic Rate	3.72664%	2.83751%	2.66104%	3.82242%
14.	Change in Fair Value	$647,000	$(1,430,000)	$(904,000)	$(1,081,000)
15.	Optional Termination Date	1/1/2018	7/1/2016	N/A	7/1/2020

1.	Bond Series	2015 E	2015 F
2.	Issuance Date	5/1/2016	10/1/2016
3.	Maturity Date	7/1/1936	1/1/2046
4.	Notional Amount	$25,000,000	$17,700,000
5.	Variable-rate Bonds	$25,000,000	$17,700,000
6.	Fixed Rate	2.257%	2.486%
7.	LIBOR Percentage	66.40%	66.20%
8.	Additional Percentage	0.22%	0.10%
9.	Bonds Variable-rate	N/A	0.07730%
10.	Fair Value	$(1,306,000)	$(209,000)
11.	Percentage of LIBOR	0.22000%	0.10000%
12.	Synthetic Rate	2.03700%	2.46330%
13.	Actual Synthetic Rate	N/A	N/A
14.	Change in Fair Value	$(1,306,000)	$(209,000)
15.	Optional Termination Date	7/1/2020	7/1/2020

Using rates as of June 30, 2016, 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, 2016. 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
2017	$ 97,795	$ 587	$ 3,204	$ 101,586
2018	2,030	551	2,975	5,556
2019	2,545	541	2,914	6,000
2020	2,545	530	2,852	5,927
2021	2,335	520	2,796	5,651
2022-2026	8,950	2,478	13,289	24,717
2027-2031	18,285	2,331	11,756	32,372
2032-2036	29,310	2,160	9,453	40,923
2037-2041	42,015	1,189	4,178	47,382
2042-2046	18,665	259	747	19,671
2047-2051	40	-	-	40
	$ 224,515	$ 11,146	$ 54,164	$ 289,825

NOTE 14 – 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, loans to medical facilities for health care construction, loans to students for post-secondary education, loans to owners of homes damaged in the 2011 floods in Barnes, Benson, Burleigh, McHenry, Morton, Ramsey, Renville, Richland and Ward counties, loans to political subdivisions in the state for infrastructure, 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 15 – 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 2016, a total of $197,467,710 in claims was recognized. The liability of $1,111,738,115 is the present value of the unpaid claim liability discounted at 5% as determined by the actuarial.

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, 2015, and June 30, 2016:

Fiscal Year	Beginning Balance	Current Year Claims and Changes In Estimates	Claims Payments	Ending Balance
2015	$ 1,714,295	$ 423,097	$ 356,611	$ 1,780,781
2016	1,780,781	3,515,885	578,150	4,718,516

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, thirty-two claims exceeded coverage by $9,404,955.

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 years ending June 30, 2015, and June 30, 2016:

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2015	$ 6,285,749	$ 3,675,792	$ 4,045,442	$ 5,916,099
2016	5,916,099	4,094,862	4,143,768	5,867,193

NOTE 16 – 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 1,155 policies to participating entities for a total building and content coverage of $13.11 billion. The Bonding Fund is used to provide fidelity bonding of public employees and officials. The Fund has issued 2,396 policies to participating entities. The total coverage for the Bonding Fund is $703.23 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 based on prior year activity. Neither fund incurred any acquisition costs, which should have been capitalized, nor were any liabilities recognized that were discounted. Investment income was not considered in determining the existence of premium deficiencies.

The Fire and Tornado Fund uses reinsurance agreements to reduce its on covered losses in excess of $1.0 million. 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. The amount recoverable on pending losses at June 30, 2016 was $175,000 reducing the Funds' liability.

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, 2016, coverage extended to the following employers:

Annual Premium	
$250 - $5,000	17,835
$5,001 - $50,000	5,654
$50,001 - $100,000	572
Over $100,000	517
Total Employers	24,578

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, 2016, 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	Central Value	High
Full value basis, undiscounted	$ 1,716,741	$ 1,842,107	$ 1,941,869
Present value basis, discounted at 5%	1,035,636	1,111,738	1,177,260

WSI has adjusted the estimated liability for unpaid loss and loss adjustment expense to the actuary's five percent discounted expected value of $1,111,738,115 at June 30, 2016.

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 has entered into a contract with an intermediary for reinsurance coverage for catastrophic coverage. WSI has four coverage levels, with retention limits of $3 million, $5 million, $10 million and $20 million. Terms, limits and pricing are re-evaluated annually. For the year ended June 30, 2016 WSI recorded ceded losses of $11,102,810 and ceded premiums of $6,520,756.

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	
	2016	2015	2016	2015	2016	2015
Unpaid claims and claims adjustment expenses at the beginning of the year	$ 441	$ 2,133	$ 129	$ 72	$ 1,096,674	$ 1,052,806
Incurred claims and claims adjustment expenses:						
Provision for current fiscal year	3,037	1,141	26	94	228,620	314,612
Change in provision for prior fiscal year	223	393	-	-	(28,384)	(39,387)
Payments and claims and adjustment expenses attributable to:						
Current fiscal year insured events	(889)	(938)	78	35	(40,871)	(60,697)
Prior fiscal years' insured events	(631)	(2,288)	(129)	(72)	(141,533)	(133,258)
Total Payments	(1,520)	(3,226)	51	(37)	(182,404)	(193,955)
Change in provision for discount	-	-	-	-	(2,768)	(37,402)
Total unpaid claims and claims adjustment expenses at the end of the year	$ 2,181	$ 441	$ 104	$ 129	$ 1,111,738	$ 1,096,674

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 - COMMITMENTS AND CONTINGENCIES

A. LONG-TERM COMMITMENTS

BANK OF NORTH DAKOTA

Under chapter 61-02.1-04 of North Dakota Century Code, principal and interest on State Water Commission bonds issued are payable from transfers to be made and appropriated by the legislative assembly from the water development trust fund as provided in section 61-02.1-05, then from transfers to be made and appropriated by the legislative assembly from revenues in the resources trust fund other than revenues from state taxes, then from appropriations of other available revenues in the then current biennium, and then from any other revenues the State Water Commission makes available during the then current biennium for that purpose, including any federal moneys received by the state for the construction of flood control or reduction projects to pay bonds issued for that project. If sufficient funds from these sources are not available, then from transfers to be made and appropriated by the legislative assembly from the first available current biennial earnings of the Bank of North Dakota not to exceed $6,500,000 per biennium prorated with any other bonds payable from transfers to be made and appropriated by the legislative assembly from the available current biennial earnings of the Bank of North Dakota, to be credited by the trustee to the fund established for paying principal and interest on the bonds under a trust indenture. If the bank has to provide a transfer to the State Water Commission to make principal and interest payments on these bonds, the State Water Commission would then have to request from the next legislative assembly funding to repay the transfer made by the bank. As of December 31, 2015, the Bank has provided no such transfers.

Chapter 6-09.7-09 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 may have no more than $8,000,000 in outstanding loan guarantees under this program. The Bank may guarantee up to 75% of the amount of principal due the lender. The guarantee term may not exceed 5 years. The Bank had no outstanding guarantees as of December 31, 2015. As of December 31, 2015, the Bank has guarantees outstanding totaling $296,000. The Bank has not recorded a contingent liability related to the guarantee loan program as of December 31, 2015.

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 that in the event 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 loans that the Bank may guarantee cannot exceed 5% of the Bank's tier one capital as define by the Department of Financial Institutions. A lender may apply to the Bank for a loan guarantee for a loan of up to $200,000. The term of the guarantee may not exceed five years. As of December 31, 2015, the Bank has guarantees outstanding totaling $5,035,000 and had guarantee commitments outstanding of $379,000 included in commitments to extend credit.

Under various House bills, the Bank shall transfer the following amounts to specific loan programs from its current earnings and undivided profits.

	Approved Maximum Transfer by the House	Amount Transferred as of December 31, 2015
Housing Incentive Fund	$ 5,000,000	$ -
Partnership in Assisting Community Expansion Fund	28,000,000	8,300,000
Agriculture Partnership in Assisting Community Expansion Fund	3,000,000	600,000
Biofuels Partnership in Assisting Community Expansion Fund	2,000,000	800,000
Beginning Revolving Loan Fund	7,000,000	2,000,000
Medical Partnership in Assisting Community Expansion Program	10,250,000	-
Infrastructure Revolving Loan Fund	100,000,000	-

Under various Senate Bills, the Bank also has commitments to provide loans and lines of credits to other organizations as follows:

	Loan Limit	Outstanding Loan Balance as of December 31, 2015	Line of Credit Limit	Outstanding Line of Credit Balance as of December 31, 2015
State Historical Society	$ 1,250,000	$ -	$ -	$ -
State Water Commission	56,000,000	45,840,000	200,000,000	-
School Construction Assistance Loan Fund	200,000,000	-	-	-
School District School Construction Loans	250,000,000	29,492,000	-	-
School Districts – interest rate buy-downs on construction loans	7,875,000	-	-	-

STATE COURTS

State Courts has entered into various contracts with third parties for services. The outstanding commitment on these contracts as of June 30, 2016 is $1.66 million.

INDUSTRIAL COMMISSION

The Industrial Commission has entered into various contracts with third parties for the following programs. As of June 30, 2016, the total outstanding balance on these contracts was:

Lignite Research Program	$ 10,769,007
Lignite Vision 21 Program	3,572,866
Oil and Gas Research Program	5,049,134
Renewable Energy Program	1,185,653
Outdoor Heritage Fund Program	19,932,006

In addition to the contracts above, the Commission has authorized projects totaling $2,019,860 for which there is no signed contract.

MILL AND ELEVATOR

As of June 30, 2016, the Mill had commitments to purchase 4,023,789 bushels of spring wheat and 299,124 bushels of durum.

PUBLIC FINANCE AUTHORITY

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, 2015, $27,534,000 of credit was available through these letters of credit and no funds have been advanced.

HOUSING INCENTIVE FUND

The Fund makes various commitments relating to construction projects to meet unmet housing needs across North Dakota. The Fund had $80,064,999 of signed commitments for construction projects as of June 30, 2016. The Fund had an additional $10,335,001 of conditional commitments for construction projects as of June 30, 2016. The total paid on these commitments as of June 30, 2016 was $61,061,825.

DEPARTMENT OF HUMAN SERVICES

As of June 30, 2016, the Department of Human Services had significant commitments for the purchase of various types of services totaling $504,386,025.

AERONAUTICS COMMISSION

As of June 30, 2016, the Aeronautics Commission had significant commitments of approximately $4,984,078. This amount consists of grants to political subdivisions for maintenance and improvements of their airports.

DAIRY PRODUCTS PROMOTION COMMISSION

As of June 30, 2016, the Dairy Products Commission had significant commitments of $160,000. 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, 2016, the North Dakota Soybean Council had significant commitments of $2,161,904. This amount mainly consists of grants for the research and development of soybeans.

STATE WATER COMMISSION

As of June 30, 2016, the State Water Commission had long-term commitments of $491,398,619 for various water projects.

NORTH DAKOTA LOTTERY

The Lottery contracts with a third party to provide an online gaming system and related services through June 30, 2022. Total payment for these services during the year ended June 30, 2016 were $3.7 million based on 10.473% of ticket sales. The Lottery's future obligation through June 30, 2022 is based on 10.473% of ticket sales, there is no minimum fee or retainer fee.

NORTH DAKOTA DEPARTMENT OF TRANSPORTATION

At June 30, 2016, the North Dakota Department of Transportation (Special Revenue Fund) had non-construction contract commitments of approximately $84.9 million. Construction commitments at June 30, 2016, totaled approximately $528.0 million, of which $200.9 million represents federal programs which are cost reimbursable. These commitments will be funded with future appropriations as work is performed.

UNIVERSITY SYSTEMS

Contracts for the construction of various projects on behalf of the University System have been let as follows (expressed in thousands):

	Original Issue	Paid To Date	Amount To Be Paid
BSC	$ 1,749	$ 763	$ 986
DCB	1,014	106	908
DSU	448	351	97
LRSC	162	72	90
MaSU	6,076	5,915	161
MiSU	2,721	2,315	406
NDSCS	13,727	5,794	7,933
NDSU	110,624	80,206	30,418
UND	186,067	170,185	15,882
VCSU	16,784	4,636	12,148
WSC	6,782	6,782	-

DICKINSON STATE UNIVERSITY

DSU is not a guarantor on the DSU Foundation debt. However, it is reasonably possible that DSU may be liable for a portion of the DSUF debt. An estimate of the range of liability is $0 to $3.8 million.

MINARD HALL

Minard Hall is the largest academic facility located in the historical district on NDSU's campus. Minard Hall experienced an unprecedented partial collapse of the north wall in the early morning hours of December 27, 2009. The partial collapse of Minard Hall's North wall, during the construction of the legislatively approved addition, resulted in a delay in the completion of the project, increased costs for construction and legal expenses, as well as numerous other issues, such as relocation of faculty, staff, and classroom space.

The SBHE approved in December 2010, plans to expand the original scope and timeline of the Minard Hall capital improvement project and subsequent collapse to include NDSU seeking legislative authorization and funding. Minard Hall construction is complete, and the building has been in full operation since the Fall 2013-14 academic term.

NDSU requested and was approved by the SBHE in November 2011 and North Dakota Legislative Budget Section in December 2011 to increase the project authorization of the Minard Hall project by $4,874,300 from $18,000,000 to $22,874,300 under NDCC 48-01.2-25 and to authorize under NDCC 15-10-12.3 the additional funding from insurance proceeds, legal settlements, and other available funds.

During the 64th Regular Legislative Assembly, NDSU sought and received an additional $600,000 in project authorization due to the filing of a lawsuit by a contractor against NDSU. Authorization was increased from $22,874,300 to $23,474,300 for related costs. In July 2015, all three litigations relating to the Minard Hall project were settled by NDSU pursuant to authority granted by the SBHE. As a result of the settlements, NDSU paid one contractor the sum of $220,000 and NDSU received from various other entities the sum of $3,020,000. All settlement payments have been made, and the litigations have been dismissed.

The settlement proceeds to NDSU are less than the total expenditures on the project and on December 10, 2015 the SBHE approved NDSU's request to seek a deficiency appropriation during the 2017 (65th) Legislative Assembly for the unreimbursed costs of $1,634,853 due to the Minard Hall collapse.

NDSU provided a status update on the project to the Legislative Budget Section on December 16, 2015 as required per HB1003-Section 27 and has also provided information to the system office in August 2016 for a deficiency appropriation request with OMB. If approved, the deficiency appropriation would take place before June 30, 2017.

NORTH DAKOTA DEVELOPMENT FUND

The board of directors has approved equity investments, loans, grants, and guaranty of collections at June 30, 2016, for which funds have not been disbursed or written agreements entered into in the amount of $3,223,447.

OTHER CONSTRUCTION COMMITMENTS

That State has entered into construction commitments. As of June 30, 2016, the following commitment exists on other construction contracts, in thousands:

Office of Management and Budget	$	116
Legislative Assembly		4,222
ND School for the Deaf		477
Health Department		156
Department of Human Services		79,860
Industrial Commission		4,589
Highway Patrol		303
Corrections and Rehab		1,108
Adjutant General		7,725
Parks and Recreation		3,078
Department of Transportation		333,039

B. LITIGATION

The estimated loss in all of the litigation against the State in which a loss to the State was probable was $5,000,000. Litigation that is reasonably possible to result in an unfavorable outcome is estimated at a range of $1,335,000 to $5,750,000.

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.

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, 2014, was completed and issued in March of 2015. As a result of this audit, approximately $53,250 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 19 - SUBSEQUENT EVENTS

Subsequent to year end, the State has incurred approximately $18.8 million in costs for protests related to the Dakota Access Pipeline.

BANK OF NORTH DAKOTA

In August 2016 BND entered into an interest rate swap with Wells Fargo which resulted in a fixed rate funding commitment on $50 million for 15 years. This transaction was completed to hedge fixed rate mortgage and DEAL loans.

BND also has two other interest rate swaps for the same purpose with a notional amount of $50 million each with Wells Fargo and SunTrust Bank. As of October 31, 2016, the market value position of these three transactions was a net loss of ($9,820,234).

Since the end of 2014, North Dakota's economy has been impacted by low commodity prices in both the energy and agriculture sectors. BND continues to monitor the impact these lower prices will have on credit quality as well as state revenues. BND will proactively increase its provision for loan loss to compensate for any reduction in credit quality, which could have a direct impact on present and future earnings. BND also anticipates that overall, the State of North Dakota will have less tax revenues in the near term, resulting in slower or even negative deposit growth for BND through 2016 and carrying into the first half of 2017.

The 2015 Legislature authorized a new Medical Pace Program with a $32,000,000 overall limit. The buydown for this Program will be part of the amount set aside for Special Loan Programs as well as the transfer of funds that were unused in the previous biennium. So far, BND's portion of loan commitments for two ND Hospitals totals $12.8 million which will use $7,349,309 in interest buydown.

The 2015 Legislature authorized a transfer of up to $100 million from BND to fund an Infrastructure Loan Fund for North Dakota Cities and Counties. They also transferred an additional $50 million from the Strategic Investment and Improvement Fund to this same revolving loan fund. So far, BND has committed to $38.5 million of infrastructure loans. The legislation mandated that the money from the Strategic Investment and Improvement Fund be used to fund the initial $50 million of commitments and the drawdown of up to $100 million from BND to fund activity over the initial $50 million.

The 2015 Legislature approved $5,000,000 from BND's capital to be deposited into the Housing Incentive Fund, which was removed from retained earnings and deposited on September 14, 2015. Another $5,000,000 contribution from BND to the Housing Incentive Fund was contingent upon BND earning at least $130,000,000 in 2015. Since BND's earnings exceeded $130,000,000 in 2016, the $5,000,000 for the Housing Incentive Fund was drawn from BND's retained earnings in January 2016.

The 2015 Legislature approved $7,875,000 from BND's capital to fund the interest buydown during the 2015-2017 biennium on up to $250,000,000 of school construction loans. BND has committed loan funds to 15 districts totaling $107.9 million that will use over $2.5 million in interest buydown. Another $33.4 million of loans to six school districts are pending for the 15-17 biennium.

As of October 31, 2016, $22.2 million of the $40 million appropriation for the 2015-2017 biennium has been drawn from BND's retained earnings to fund the interest buy-down in the following loan programs: Ag PACE, Flex PACE, Affordable Housing Flex PACE, PACE, Biofuels PACE and Beginning Farmer. Withdrawals from retained earnings since January 1, 2016 total $10.5 million.

On September 28, 2016, BND closed on a line of credit for $6.0 million to fund the resources required to respond to the Dakota Access Pipeline protest. An additional $4.0 million was approved bringing the total committed to $10.0 million.

NORTH DAKOTA HOUSING FINANCE AGENCY

The Agency securitized mortgage loans to create mortgage backed securities which were sold for proceeds of $30.87 million subsequent to year end.

Subsequent to yearend, the Agency issued $129.57 million of bonds payable for the home mortgage program. The bonds have an interest rate ranging from 1.0% to 3.5% and mature between January 1, 2017 and July 1, 2046.

UNIVERSITY SYSTEMS

NORTH DAKOTA STATE UNIVERSITY

On July 27, 2016, the NDSU Research & Technology Park issued Taxable Lease Revenue Refunding Bonds (North Dakota State University Lease Obligation), Series 2016, of $18,790,000. The bonds were issued to advance refund NDSU Research & Technology Park Lease Revenue Bonds, Series 2007A and 2007B, with outstanding principal balances of $2,705,000 and $15,150,000, respectively.

On August 2, 2016, NDSU issued North Dakota State University Housing and Auxiliary Facilities Revenue Refunding Bonds, Series 2016, of $10,405,000. The bonds were issued to advance refund North Dakota State University Housing and Auxiliary Facilities Revenue Bonds, Series 2007A, with an outstanding principle balance of $10,170,000.

DICKINSON STATE UNIVERSITY FOUNDATION

The receiver recommended dissolution of the DSUF on August 31, 2015. Several of the DSUF personal property and real property assets have been sold and will be conveyed by the end of 2016. All net sale proceeds from the sales will be deposited and ultimately distributed by order of the Court.

The Court appointed a special master—former federal Magistrate Karen Klein—who will complete a hearing and issue recommended Findings of Fact and Conclusions of Law to the District Court. No time has been set at this point, other than the final hearing before the Court cannot occur prior to May 1, 2017. A final hearing on the Foundation is expected to occur during the summer of 2017.

BADLANDS ACTIVITY CENTER (BAC) LITIGATION

Five banks filed a complaint against the "State of North Dakota, by and through its Board, the State Board of Higher Education [SBHE], and Dickinson State University [DSU]" on July 14, 2016, in state District Court in Stark County, North Dakota. In summary, the complaint seeks payment from the SBHE and DSU for the unpaid balance of a loan/obligation of which the Dickinson State University Foundation (DSUF) was the borrower of record and only party required to pay the debt obligation. The unpaid balance of the loan is close to $4 million. A trial has been set for early 2018.

MINOT STATE UNIVERSITY

In December 2013, a former Minot State University (MiSU) student filed a complaint with the U.S. Department of Education (DoE) Office of Civil Rights (OCR). In a February 2014 letter to MiSU, the OCR stated: "The complaint raises whether the University fails to promptly and equitably respond to complaints, report and/or incidents of sexual violence of which it had notice…thereby creating for students a sexually hostile environment." Following a site visit to the MiSU campus in October 2014 and subsequent investigation, OCR and MiSU entered into a resolution agreement on July 7, 2016. That agreement, among other things, requires MiSU to "offer [the student], at the university's expense, counseling and other remedies, as appropriate, to address any emotional, psychological, academic, or employment issues she faced as a result of the university delay in processing her complaint."

NORTH DAKOTA STATE UNIVERSITY MINARD HALL

The State Board of Higher Education (SBHE) approved (December 2010) plans to expand the original scope and timeline of the Minard Hall capital improvement project and subsequent collapse to include NDSU seeking legislative authorization and funding, subject to consultation with the president of the State Board and the Chancellor. Updates on the project progress are provided regularly to NDSU's President, Chancellor and State Board of Higher Education. Minard Hall construction is complete, and the building has been in full operation since the Fall 2013-14 academic term.

NDSU requested and was approved by the SBHE (November 2011) and Budget Section (December 2011) to increase the project authorization of the Minard Hall project by $4,874,300 from $18,000,000 to $22,874,300 under Section 48-01.2-25 and to authorize under Section 15-10-12.3 the additional funding from insurance proceeds, legal settlements, and other available funds.

During the 64th Regular Legislative Assembly, NDSU sought and received an additional $600,000 in project authorization due to the filing of a lawsuit by a contractor against NDSU. Authorization was increased from $22,874,300 to $23,474,300 for related costs. In July 2015, all three litigations relating to the Minard Hall project were settled by NDSU pursuant to authority granted by the SBHE. As a result of the settlements, NDSU paid one contractor the sum of $220,000 and NDSU received from various other entities the sum of $3,020,000. All settlement payments have been made, and the litigations have been dismissed.

Legal settlement proceeds were less than the total expenditures on the project. The SBHE and NDSU have requested a deficiency appropriation in the amount of $1,634,853.52 to cover unreimbursed costs related to the Minard Hall Collapse.

A complaint was filed with the Higher Learning Commission (HLC) in 2013 alleging governance failures by the State Board of Higher Education (SBHE) and the then-chancellor, Dr. Ham Shirvani. The HLC visited NDUS in April 2014 in response to the complaint. After that visit, the HLC submitted a report indicating that the NDUS had satisfactorily addressed all of the concerns raised about compliance with HLC accreditation requirements. The April 2014 visit and subsequent report demonstrated the substantial progress of NDUS since the time of the complaint. At the time of the visit, however, the HLC expressed a desire to follow-up on Criterion Five, Core 5d - Systematic Improvement. An HLC advisory team conducted a focus visit on November 9-10, 2015 to evaluate the SBHE's progress toward Criterion Five, Core 5d.

The NDUS was notified in August 2016 that it has now officially met all requirements set forth by the Higher Learning Commission. No further action is necessary.

COMMUNITY WATER FACILITY LOAN PROGRAM

As of October 31, 2016, the cash available in loans is $12.5 million with one loan commitment totaling $1,575,000.

GUARANTEED STUDENT LOAN PROGRAM

In October 2016 the Industrial Commission approved a $10 million transfer from the Student Loan Trust to the Guarantee Agency to be used as additional reserves for the DEAL Program and to cover loan fees for in-state borrowers. The DEAL Program grew by over $100 million in 2016 which required a transfer from fund balance to reserves of $4.4 million during the fiscal year.

MEDICAL FACILITY INFRASTRUCTURE LOAN FUND

As of October 31, 2016, the outstanding commitments to six North Dakota hospitals totaled $50 million, with three of the commitments funded totaling $18.3 million.

REBUILDERS LOAN PROGRAM

As of October 31, 2016, the outstanding loans total $36.38 million to 1,380 borrowers.

STUDENT LOAN TRUST

The 2015 Legislature approved the withdrawal of over $7.5 million to provide funding for:

- ND University System Programs - $3.5 million
- Dept. of Health Dental Loans Repayment - $360 thousand
- Dept. of Commerce Tribal College Grants - $1 million
- Addiction Counseling - $200 thousand
- Matching Grants for Advancement Initiative - $2.5 million

As of October 31, 2016, the Student Loan Trust has $1.48 million remaining to expend of the total amount approved by the 2015 legislature.

In addition, in October 2016, the Industrial Commission approved a $10 million transfer to Guaranteed Student Loans to provide additional funding for DEAL Program reserves and to cover loan fees for in-state borrowers under the DEAL program.

FARM FINANCIAL STABILITY LOAN PROGRAM

This Program was introduced and approved by the Industrial Commission in November with a December 1, 2016 start date. This program provides below market interest rates and extended terms to North Dakota farmers who have been impacted by low commodity prices or below average crop production. The Bank of North Dakota has set an overall limit of $300 million for this program, with individual limits of $750,000 on chattel loans or $1.5 million on farm real estate loans. Borrowers under this program can choose between a fixed rate of 3.75% for 5 years or a variable rate of 1% below the Bank's Base Rate (Currently 3.25%-1.00%=2.25%). As of October 31, 2016, BND has $144,233,792 of loans to approximately 250 borrowers.

PUBLIC FINANCE AUTHORITY

Standard & Poors downgraded the Capital Financing and Industrial Development Bond Programs to A+. This is a result of the State of North Dakota's rating being modified.

Subsequent to June 30, 2015, the Authority issued the following bonds. $16,405,000 of State Revolving Fund Program Refunding Bonds, Series 2016A. The bonds are payable in in annual principal payments and semi-annual interest payments through 2028. The interest rate on the bonds vary from 4.0% to 5.0%. The reacquisition price exceeded the net carrying amount of the old debt by $1,622,207.80. Total debt service was reduced by $9,270,371.27 and this resulted in an economic gain of $4,107,098.94.

JOB SERVCIE NORTH DAKOTA

Subsequent to year end, the Agency entered into a lease agreement for a mainframe. Quarterly lease payments of $103,068 are due beginning in July 1, 2016 through April 1, 2021.

NOTE 20 – NEW PRONOUNCEMENTS

The State implemented the following new pronouncement for fiscal year 2016:

GASB Statement No. 72, *Fair Value Measurement and Application,* addresses accounting and financial reporting issues related to fair value measurements. The Statement provides guidance for determining fair value measurement for reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statement periods beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for reporting periods beginning after June 15, 2015. Earlier application is permitted.

The State will implement the following new pronouncements for fiscal years ending after 2016:

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 78, *Pensions provided through Certain Multiple-Employer Defined Benefit Pension Plans*, is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 80, *Blending Requirements for Certain Component Units and amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain*

Organization Are Component Units. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

APPENDIX D

General Information Concerning the North Dakota Office of Attorney General

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GENERAL INFORMATION

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

The Office of Attorney General acts as the State's "law firm." The Attorney General's office represents the State in all legal matters, civil and criminal, where the State is named as a party or the State may have an interest in the outcome of the litigation. The office provides legal services and opinions to State legislators, State officials, constitutional officers, and 70 State agencies, boards and commissions. The office enforces the Open Meetings and Open Records laws, and issues opinions in response to complaints that a public entity has violated those laws. By law, the Attorney General and his staff cannot provide legal advice or assistance to members of the public or private businesses.

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

- The Bureau of Criminal Investigation (BCI) assists local governments in criminal and drug enforcement investigations, maintains the criminal history and sex offender registration systems, and provides training for law enforcement officials.
- The Consumer Protection and Antitrust Division enforces the state's consumer fraud and Do Not Call laws, investigates and prosecutes consumer fraud cases and enforces the state's anti-trust statutes.
- The Fire Marshal's Division conducts fire safety training and inspections, regulates the sale, use and storage of explosives (including fireworks), inspects public buildings, day care facilities, and schools to ensure compliance with fire codes, and conducts arson investigations.
- The Gaming Division regulates charitable gaming, and ensures compliance with tribal-state casino gaming compacts.
- The Licensing section of the Criminal & Regulatory division regulates and issues certain wholesale, retail, and distributor licenses.
- The North Dakota Lottery division is responsible for the day-to-day operation of the lottery and its games.
- The Crime Laboratory division provides scientific support to the state's criminal justice agencies through the analysis, identification and comparison of physical evidence used in the investigation and prosecution of criminal offenses.

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

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<u>APPENDIX E</u>

General Information Concerning the North Dakota State Board of Higher Education

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GENERAL INFORMATION

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

The North Dakota State Board of Higher Education is the governing body for North Dakota's eleven publicly-supported colleges and universities, which include two research universities, four regional universities, five two-year institutions and related entities which include the Extension Service, Research Stations, Medical School and the State Forest Service. The Commissioner of Higher Education serves as the chief executive officer of the Board. The Commissioner is the Chancellor and chief executive officer of the University System.

Dr. Mark Hagerott was selected by the Board of Higher Education on April 30, 2015 to serve as Chancellor. Dr. Hagerott prior to his transition to an academic career path, held numerous leadership positions in the U.S. Navy, both aboard ships and in administrative positions in the Department of Defense. He has also has held numerous academic leadership roles, serving in Annapolis as the dean of humanities and social sciences, special assistant to the provost, chair of the admissions board, chairmanship of senior faculty senate committees pertaining to assessment and accreditation. He holds a B.S. from the U.S. Naval Academy, an M.A. in political science and economics from Oxford University where he attended as a Rhodes Scholar, and a Ph.D. in history from University of Maryland, and also served as a White House Fellow in the first Bush administration.

The Chancellor serves as the chief executive officer of the State Board of Higher Education and is the chief executive officer of the North Dakota University System and carries out the policies and directives of the Board of Higher Education. The Chancellor is assisted by his senior staff: Vice Chancellor for Academic and Student Affairs, Chief Financial Officer, Interim Vice Chancellor of Strategy and Strategic Engagement, and the Chief Information Officer. In addition directly reporting to the Chancellor are the College Presidents, the Chancellor's executive assistant, and SBHE executive Secretary. The following is a brief biographical sketch of each of his senior staff members.

Dr. Richard Rothaus was appointed Vice Chancellor for Academic and Student Affairs for the North Dakota University System in 2015. Dr. Rothaus prior to serving as Vice Chancellor lived in Minnesota for many years, including the time where he served as a tenured full-professor of History and Assistant Vice President for Research at St. Cloud State University until 2008. He previously served as the Director of Academic Programs, Research, and Accreditation for the North Dakota University System and a research assistant at the Center for Heritage Renewal at North Dakota State University. He received his bachelor's degree from Florida State University, his master's degree from Vanderbilt University, and his Ph.D. degree from the Ohio State University.

Tammy Dolan
Tammy Dolan is the University System's chief financial officer. Dolan oversees administrative affairs as it impacts all stakeholders within the university system.

She previously worked in the Office of Management and Budget Fiscal Management Division as a management and fiscal analyst. While there, she helped develop and implement a new funding model for higher education in North Dakota, which focuses on completed credit hours.

Her 25-year career in state government has centered on the financial and administrative operations of multiple state agencies and the legislative process. In that role her expertise included a portfolio representing 20 state agencies responsible for the state's education and economic development systems. She worked with OMB for nine years, 14 with Workforce Safety and Insurance, and two years with the Office of the State Auditor.

Dolan has a Bachelor of Science degree in Accounting from Minot State University, and both a Master of Business Administration and Master of Management - Human Resource Management from the University of Mary.

Darin King
Darin King is the Chief Information Officer at the North Dakota University System (NDUS), a position he has held since July of 2016. Before becoming CIO, Darin was the Deputy CIO and was responsible for the daily operational leadership of the enterprise systems and services delivered to the eleven institutions of the NDUS. He has directed many system wide initiatives since starting with the NDUS in 2013. These initiatives include the consolidation of campus email systems, numerous information security projects and the migration to a single learning management system.

Darin began his career in educational technology as a high school mathematics and computer science teacher in Minot and Grand Forks, North Dakota. In 1995, he was hired as the first Network Services Coordinator for the Grand Forks Public Schools (ND) and led the effort to bring Internet access into the classrooms of the district. Darin became the GFPS district Technology Director in 1997 and led the district through a rapid expansion of educational technology resources and systems. In 2012, he became the Director of the North Dakota Educational Technology Council and provided leadership for all North Dakota K12 educational technology, including EduTech and the ND Center for Distance Education.

Darin is a graduate of Valley City State University (ND) and the University of North Dakota. He is Valley City native and a 20+ year resident of Grand Forks with a wife and two children. His wife Deb is the Program Director of the Radiologic Technology program at Northland College in East Grand Forks, MN. His son Sam coaches football at the University of Minnesota-Duluth, his daughter in law Chelsea is a middle school teacher, and his daughter McKenna is a Registered Dietician.

James P. Wisecup is the interim Vice Chancellor for Strategic Planning. He previously served as the director of the Strategic Studies Group and Navy civilian faculty member of the U.S. Naval War College after retiring from active duty. Prior to that, he had served as Naval Inspector General, and before that, President of the Naval War College after holding several Naval commands. Wisecup holds dual Masters of Arts degrees in National Security and Strategic Studies, and International Relations. He also holds a Bachelor of Science in International Security Affairs.

CAMPUSES AND FACILITIES

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

North Dakota State University (NDSU), located in Fargo, is North Dakota's land-grant institution and was founded in 1862. It is one of the state's two research institutions. There are approximately 14,400 students enrolled in the fully accredited colleges of Agriculture, Business Administration, Engineering and Architecture, Home Economics, Humanities and Social Sciences, Science and Mathematics, Pharmacy and University Studies, the School of Education and the Graduate School.

University of North Dakota (UND), located in Grand Forks, has 170 undergraduate, graduate and professional programs offered, including a School of Law and Medicine. It is the one of the state's two research institutions. Major research components include the Energy and Environmental Research Center, Center for Aerospace Sciences and Human Nutrition Laboratory. The University also operates a graduate center in Bismarck. There are approximately 14,400 students enrolled at the University.

Minot State University (MiSU) is a comprehensive, mid-size university offering 50 undergraduate degrees and nine master's degree programs. Programs are offered in five colleges: Education and Human Services, Business, Arts and Sciences, Nursing and the Graduate School. Dakota College at Bottineau (DCB), a two-year college, is aligned with MiSU as a branch campus. Current enrollment for these two campuses is approximately 4,100 students.

Bismarck State College (BSC), is a two-year state college that offers first and second year studies leading to a bachelor's degree. Students earn an associate in arts degree or an associate in science degree. There are nearly 40 programs leading to a program certificate, program diploma, or associate in applied science degree. In the area of Online Programs and Courses BSC offers 16 programs leading to a certificate of completion, program certificate, or associate degree. BSC offers an online Bachelor of Applied Science degree in energy management, designed for those seeking supervisory and management positions in the energy industry. Current enrollment is approximately 3,800.

Williston State College (WSC), located in Williston, is a two-year state college that offers a broad range of classes in the area of general education and pre-professional programs. Its current enrollment is approximately 1,000 students.

ACADEMIC INFORMATION

The five community colleges within the North Dakota University System currently operate under an open admission policy. Applicants to two-year programs or less must be a high school graduate or have successfully completed the GED and must submit scores from either the ACT or SAT.

In 1990, the State Board of Higher Education adopted new admission requirements for its four-year universities. In addition to published minimum high school GPA requirements and ACT or SAT scores, the following high school core courses constitute minimum admission requirements to the state's baccalaureate programs:

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

Effective fall semester 2017, the State Board of Higher Education requires applicants at North Dakota State University and the University of North Dakota to complete a total of 14 core course requirements. The additional unit of coursework can be selected from any of the categories listed above or world language (including foreign languages, Native American languages, or American Sign Language).

Both colleges and universities may limit admission to specific undergraduate programs based on considerations other than high school records, test scores, residence, academic records and transfer records. Examples of such considerations may include, but are not limited to, the following: facility or instructional equipment limitations, number of qualified faculty or support staff, financial resources, or program accreditation requirements.

FALL FTE STUDENT ENROLLMENT

Academic Year	BSC	DCB	DSU	LRSC	MaSU	MiSU	NDSCS	NDSU	UND	VCSU	WSC	Total
2016-17	2,860	490	1,114	971	782	2,592	2,298	12,783	12,182	1,044	756	37,873
2015-16	2,912	459	1,070	981	796	2,570	2,305	12,834	12,455	1,031	738	38,151
2014-15	2,909	518	1,176	978	798	2,600	2,272	12,934	12,420	990	579	38,174
2013-14	2,955	502	1,201	943	749	2,710	2,295	12,797	12,606	975	593	38,326
2012-13	2,990	474	1,454	973	759	2,731	2,354	12,707	12,729	995	537	38,703
2011-12	3,209	524	1,959	988	704	2,795	2,366	12,606	12,319	1,011	608	39,089
2010-11	3,208	540	2,054	921	704	3,002	2,217	12,708	12,018	957	570	38,899
2009-10	3,160	490	2,187	868	662	2,832	2,076	12,577	11,306	833	573	37,564
2008-09	2,937	440	2,294	784	563	2,720	2,041	11,794	11,137	823	562	36,095
2007-08	2,791	402	2,158	765	586	2,730	2,097	11,221	10,967	807	551	35,075

The following tables reflect the tuition charges at the NDUS campuses, mandatory fees paid by all NDUS students, including student activity, student government, technology and ConnectND fees, and a total of such tuition and fees. The charges are based upon an average credit hour load of 15 credit hours per semester. At VCSU, fees include a laptop computer fee assessed to all students. At MaSU, fees include a laptop computer fee for all years except the 2016-17 year when this fee was eliminated.

TUITION

Academic Year	BSC	DCB	DSU	LRSC	MaSU	MiSU	NDSCS	NDSU	UND	VCSU	WSC
2016-17	3,645	3,469	5,138	3,326	5,053	5,193	3,774	6,924	6,679	5,282	3,399
2015-16	3,577	3,384	5,013	3,261	4,930	5,066	3,682	6,762	6,548	5,153	3,316
2014-15	3,510	3,301	4,891	3,197	4,810	4,942	3,592	6,604	6,388	5,027	3,235
2013-14	3,431	3,223	4,704	3,130	4,644	4,821	3,478	6,336	6,159	4,839	3,020
2012-13	3,364	3,120	4,524	3,065	4,484	4,703	3,368	6,135	5,938	4,657	3,020
2011-12	3,364	3,120	4,414	3,065	4,375	4,588	3,368	6,135	5,793	4,544	2,819
2010-11	3,364	3,120	4,306	3,065	4,268	4,476	3,368	5,639	5,652	4,433	2,618
2009-10	3,364	3,120	4,160	3,065	4,124	4,325	3,368	5,448	5,461	4,283	2,618
2008-09	3,364	3,120	4,019	3,065	3,985	4,179	3,368	5,264	5,276	4,138	2,618
2007-08	3,204	2,972	3,828	2,919	3,795	3,980	3,207	5,013	5,025	3,941	2,493

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

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FEES

Academic Year	BSC	DCB	DSU	LRSC	MaSU	MiSU	NDSCS	NDSU	UND	VCSU	WSC
2016-17	743	812	1,210	877	1,201	1,375	672	1,283	1,458	1,913	1,628
2015-16	743	797	1,160	877	1,450	1,325	644	1,216	1,417	1,647	1,773
2014-15	712	797	1,160	877	1,679	1,284	621	1,216	1,353	1,647	1,210
2013-14	742	797	1,142	873	1,709	1,266	616	1,204	1,349	1,677	1,120
2012-13	634	767	1,193	843	1,709	1,219	585	1,098	1,316	1,677	1,120
2011-12	643	737	1,193	843	1,709	1,175	553	1,040	1,299	1,653	1,056
2010-11	643	737	1,089	843	1,669	1,161	545	1,022	1,282	1,643	838
2009-10	643	717	1,089	843	1,669	1,064	522	962	1,266	1,643	760
2008-09	569	682	1,065	843	1,669	865	507	962	1,237	1,643	760
2007-08	569	662	945	843	1,643	794	522	962	1,105	1,643	726

COMBINED TUITION AND FEES

Academic Year	BSC	DCB	DSU	LRSC	MaSU	MiSU	NDSCS	NDSU	UND	VCSU	WSC
2016-17	4,388	4,281	6,348	4,203	6,254	6,568	4,446	8,207	8,137	7,195	5,027
2015-16	4,320	4,181	6,173	4,138	6,380	6,391	4,326	7,978	7,965	6,800	5,089
2014-15	4,222	4,098	6,051	4,074	6,489	6,226	4,213	7,820	7,741	6,674	4,445
2013-14	4,173	4,020	5,846	4,003	6,353	6,087	4,094	7,540	7,508	6,516	4,140
2012-13	3,998	3,887	5,717	3,908	6,193	5,922	3,953	7,233	7,254	6,334	4,140
2011-12	4,007	3,857	5,607	3,908	6,084	5,763	3,921	7,175	7,092	6,197	3,875
2010-11	4,007	3,857	5,395	3,908	5,937	5,637	3,913	6,661	6,934	6,076	3,456
2009-10	4,007	3,837	5,249	3,908	5,793	5,389	3,890	6,410	6,727	5,926	3,378
2008-09	3,933	3,802	5,084	3,908	5,654	5,044	3,875	6,226	6,513	5,781	3,378
2007-08	3,773	3,634	4,773	3,762	5,438	4,774	3,792	5,975	6,130	5,584	3,219

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APPENDIX F

General Information Concerning the North Dakota Office of Management and Budget

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GENERAL INFORMATION

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

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

Functions of office divisions are the following:

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

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

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

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

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

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

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<u>APPENDIX G</u>

General Information Concerning the North Dakota State Historical Society

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GENERAL INFORMATION

Our Mission: *To identify, preserve, interpret, and promote the heritage of North Dakota and its people.*

The Society is under the supervision of the 12-member State Historical Board. The board appoints the Director of the State Historical Society of North Dakota to administer the agency and carry out policies and directives. The agency is organized into six divisions:

- Administration is headed by the Assistant Director and is responsible for overall agency support, budgeting and fiscal matters, personnel management, and security.

- The Archaeology and Historic Preservation Division protects and manages cultural resources by identifying and recording sites related to North Dakota's prehistory; surveying, identifying and recording structures and sites eligible for listing on the North Dakota Historic Sites Registry; and nominating structures and sites for listing on the National Register of Historic Places. The Director of the State Historical Society of North Dakota serves as the state historic preservation officer. The Director of the Archaeology and Historic Preservation Division is Deputy Historic Preservation Officer. The Division preserves and manages 57 state-owned historic sites ranging in size from nearly 200 acres (Fort Clark State Historic Site) to markers occupying less than a tenth of an acre.

- The Museum Division collects and manages artifact collections representative of North Dakota history and culture; designs and mounts interpretive exhibits at the North Dakota Heritage Center and ten branch museums. The museum (and agency) is fully accredited by the American Association of Museums.

- The Communications and Education Division: produces public and educational programs and events for adults and children at the North Dakota Heritage Center and other locations; provides liaison services to North Dakota's 170 county and local historical societies; produces publications including a semiannual journal, *North Dakota History*, and a quarterly newsletter, *Plains Talk*; coordinates visitor services for the Heritage Center.

- Historic sites: preserves and manages 57 state-owned historic sites representative of North Dakota history and culture. These sites range in size from nearly 200 acres (Fort Clark State Historic Site) to markers occupying less than one-tenth acre.

- The State Archives Division collects, manages and references documentary resources relating to state history and culture. The Division is the official state archives, preserving North Dakota government records of enduring value. Its extensive collections also include the state's official newspapers, books, photographs, maps, manuscript collections and audiovisual materials. The Director of the Division serves as North Dakota State Archivist.

- State Historical Society of North Dakota activities are headquartered in the North Dakota Heritage Center on the Capitol grounds.

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APPENDIX H

General Information Concerning the North Dakota Department of Corrections and Rehabilitation

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GENERAL INFORMATION

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

The Mission for the Department is:

To enhance public safety, to reduce the risk of future criminal behavior by holding adult and juvenile individuals accountable, and to provide opportunities for change.

The Department has two major divisions:

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

The Division of Adult Services consists of Adult Services Administration, parole and Probation, Transitional Planning Services, Maximum Security Institution – North Dakota State Penitentiary (NDSP), Medium Security Institution – James River Correctional Center (JRCC), Transitional Facilities, Behavioral Health Services, Education, Women Services, Roughrider Industries, and Central Office – Adult.

Adult Services Administration provides administrative support to the Division of Adult Services and administers for the department the Adult Interstate Compact, and the Victim Services Programming.

Parole and probation, which has offices located throughout the State manages offenders sentenced to supervision by the Court, released to parole by the Parole Board, or sent to Community Placement by the Director of the DOCR.

Transitional Planning Services provides technical and administrative support to the Parole Board and the Pardon Advisory Board.

Maximum Security Institution – NDSP located in Bismarck houses maximum-security male inmates and serves as the male inmate orientation facility for the department. NDSP is the original prison built in the State.

Medium Security Institution – JRCC located in Jamestown houses medium security male inmates and is home to the Special Assistance Unit (SAU). The SAU provide housing and treatment to individuals needing specialized care due to mental health illnesses. The JRCC is located on the North Dakota State Hospital Grounds.

Transitional Facilities consists of the Missouri River Correctional Center (MRCC) located in Bismarck and contract housing facilities located in Bismarck, Mandan, Fargo, Grand Forks and Devils Lake. These facilities house offenders nearing the expiration of their sentence and prepares those offenders for release back in the community.

Behavioral Health Services provides to incarcerated individuals and offenders a variety of direct services and curriculums targeting criminal thinking, substance abuse, violent behavior, and deviant sexual behavior.

Education provides academic and vocational education to incarcerated individuals.

Womens Services manages the department's female inmate population, which includes administering the contractual agreement to house female inmates at the Dakota Womens Correctional and Rehabilitation Center located in New England, ND.

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

Central Office – Adult provides for department administration, plant services, inmate medical services, staff training warehouse operations, and information technology services.

The Division of Juvenile Services consists of Juvenile Community Services, the North Dakota Youth Correctional Center (NDYCC) and Central Office – Juvenile.

Juvenile Community Services provides intensive supervision and case management services to delinquent youth placed under the care, custody and control of the department.

The NDYCC is the State's only secure juvenile correctional institution and is located in Mandan. The NDYCC provides long and short term programming, referred to as treatment, as well as detention and short term behavioral evaluation for delinquent adolescents who are committed to the care and custody of the department. NDYCC provides a fully accredited middle school and high school educational program

Central Office – Juvenile provides for department administration, plant services, inmate medical services, staff training, warehouse operations, and information technology services.

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<u>APPENDIX I</u>

General Information the North Dakota Parks and Recreation Department

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GENERAL INFORMATION

The North Dakota Parks and Recreation Department is an executive branch agency responsible for administration of the state park system comprised of 15 sites totaling approximately 20,000 acres. Before 1965, all state parks were under the jurisdiction of the State Historical Society of North Dakota. In 1965, the North Dakota Park Service and the State Outdoor Recreation Agency were established as separate entities. In 1977, the State Outdoor Recreation Agency was joined with the Park Service into the North Dakota Parks and Recreation Department. The Department's director serves at the pleasure of the Governor.

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

The Business Services Division, which includes support services such as human resources, payroll, risk management, accounting and information technology. Additionally the public information officer and the administrative assistant to the director operate under the Business Services Division.

The Field Operations Division, which includes management of 15 state parks and recreation areas, natural resources and a number of smaller recreational areas. The state parks and recreation areas include: Icelandic State Park, Turtle River State Park, Lake Metigoshe State Park, Fort Ransom State Park, Beaver Lake State Park, Grahams Island State Park, Fort Stevenson State Park, Lewis and Clark State Park, Lake Sakakawea State Park, Cross Ranch State Park, Fort Abraham Lincoln State Park, Little Missouri State Park, Sully Creek State Park, Pembina Gorge State Recreation Area, and the Lewis and Clark Interpretive Center. It also includes the Campground Hosts program, Campsite Reservations program, the friends of recreation and parks, capital construction, and programs associated with North Dakota's Natural Areas and Nature Preserve Act.

The Grants, Trails and Planning Division, which includes statewide recreation, agency and park planning; off highway vehicle and snowmobile safety and trails program; recreation trails program; and federal recreation grant programs.

In addition to managing a system of 15 state parks and recreation areas, the Department serves on a number of different outdoor recreation and park-related commissions, boards, and committees.

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

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

The Department staffing level is currently 62.5 full-time equivalent employees and the 2017-2019 budget authority is $33,693,856.

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APPENDIX J

Form of Legal Opinion

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November 21, 2017

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

Fifth Third Securities, Inc.
Cincinnati, Ohio

NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT REFUNDING BONDS
2017 SERIES A - $18,430,000

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 $18,430,000, North Dakota Building Authority, Facilities Improvement Refunding Bonds, 2017 Series A, dated November 21, 2017 (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 November 1, 2017 between the Issuer and the Bank of North Dakota as Trustee (the "**Indenture**") and the General Authorization Resolution adopted on October 24, 2017 (the "**Resolution**"). The Issuer and certain state agencies (the "**Agencies**") have entered into loan agreements dated as of November 1, 2017 (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, executed and delivered 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.

6. The statements contained in the Official Statement under the headings "Tax Matters" and Appendix J 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,

ARNTSON STEWART WEGNER PC

APPENDIX K

Form of Undertaking to Provide Continuing Disclosure

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NORTH DAKOTA BUILDING AUTHORITY
FACILITIES IMPROVEMENT REFUNDING BONDS
2017 SERIES A -- $18,430,000

UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE

Section 1. In order to assist the participating underwriter in complying with the Rule, as defined below, 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 the holder's or holders' beneficial interests in the captioned bonds (the "**Bonds**") as issued pursuant to that Trust Indenture dated as of November 1, 2017 (the "**Indenture**"), required by Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, §240.15c2-12)(the "**Rule**"). Capitalized terms used herein and not otherwise defined in the Indenture shall have the meanings assigned such terms in Section 4 hereof.

Section 2. To the extent there are appropriated or other legally available funds for these purposes, the Authority undertakes to provide the following information as provided in this Undertaking:

A. Annual Financial Information;

B. Audited Financial Statements; and

C. Material Event Notices.

D. Reporting Generally. The Authority shall file its Annual Financial Information, each notice of a Material Event, and each notice required by subsection (c) of Section 3 of this Undertaking with the CUSIP numbers for all outstanding Bonds specified and such other identifying information as may be required from time to time by the Rule or by the MSRB. Each such item shall be submitted to the MSRB at EMMA, or as otherwise directed by the Rule or the MSRB, in an electronic format prescribed by the MSRB.

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 the 31st day of March of the following year (the "**Report Date**"), beginning in 2018, to the Trustee and to EMMA. (Any filing under this Undertaking may be made solely by transmitting such a filing to EMMA, the Electronic Municipal Market Access system established by the MSRB with the support of the SEC, or any successor system which can be accessed on the date hereof at www.emma.msrb.org). 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 EMMA and the Trustee the Annual Financial Information by specific reference to documents previously provided to EMMA or file 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 or EMMA.

B. Reporting of Material Events.

a. The Authority shall provide to the MSRB in an electronic format prescribed by the MSRB notice of any of the following events with respect to the Bonds in a timely manner not in excess of ten (10) business days after the occurrence of the event, which notice shall be submitted to the MSRB at EMMA, or as otherwise directed by the MSRB:

(i) Principal and interest payment delinquencies;
(ii) Non-payment related defaults, if material;
(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
(iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
(v) Substitution of credit or liquidity providers, or their failure to perform;
(vi) 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 (but only as to the Series 2017A Bonds);
(vii) Modification to rights of security holders, if material;
(viii) Bond Calls, if material, and tender offers;
(ix) Defeasances;
(x) Release, substitution, or sale of property security repayment of the securities, if material;
(xi) Rating changes;
(xii) Bankruptcy, insolvency, receivership or similar event of the obligated person;
(xiii) 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;
(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

b. If the Authority determines that it has failed to give notice of a Material Event as set forth above or to file the Annual Report in a timely fashion as required herein, the Authority shall promptly file a notice of such occurrence to the MSRB in an electronic format prescribed by the MSRB, which notice shall be submitted to the MSRB at EMMA or as otherwise directed by the MSRB.

C. The Trustee shall, without further direction or instruction from the Authority, provide in a timely manner to the MSRB at EMMA 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

"Annual Financial Information" means the financial information, which shall be based on financial statements prepared in accordance with generally accepted accounting principles **("GAAP")** for governmental units as prescribed by the Governmental Accounting Standards Board **("GASB")** or operating data with respect to the Authority provided at least annually, of the type included in those sections of the final official statement with respect to the Bonds attached thereto as Appendix C and Appendix A pages A-5 through A-18 which Annual Financial Information will include Audited Financial Statements, if available.

"Audited Financial Statements" mean the annual financial statements of the Authority, 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 Notice" means written or electronic notice of a Material Event.

"MSRB" means the Municipal Securities Rulemaking Board located at 1300 I Street NW, Suite 1000, Washington DC 20005.

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 EMMA.

Section 7.

A. In the event of a failure of the Authority to provide to EMMA 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. Amendment Waiver. Notwithstanding any other provision of this Undertaking and without consent of the Owners of the Bonds, the Authority may amend this Undertaking, and any provision of this Undertaking may be waived, if such amendment or waiver (i) is required by an amendment of the Rule by the SEC or procedures relating to the Rule by the MSRB, (ii) is to clarify an ambiguity or error, or (iii) does not provide for undertakings or modifications of the information to be provided or of the format of such information, which violate the Rule or procedures of the MSRB then in effect or eliminates undertakings then required by the Rule or otherwise required by the SEC or the MSRB with respect to the Rule, which may be evidenced by a written opinion of legal counsel selected by the Authority to the effect that such amendment or waiver would not, in and of itself, violate the Rule, requires undertakings which would violate the Rule or eliminates undertakings required by the Rule. If the Authority determines that any such amendment or waiver materially changes the information provided to the MSRB or the timing of the information to be provided and that such information has not otherwise been provided to the MSRB in an Annual Report or Material Event filing, it shall provide the MSRB notice of such amendments as additional information.

Dates this ______day of November, 2017.

North Dakota Building Authority
By:____
An Authorized Officer

Bank of North Dakota, as Trustee

By:____
An Authorized Officer