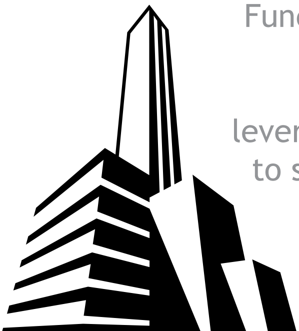
North Dakota Development Fund

development fund 04-05

04-05 Annual Report

Through June 30, 2005, a total of 381 projects have been funded, involving 356 companies which have received Development Fund investments.



"The North Dakota Development Fund is a key economic development tool for our state. Last year, the Development Fund helped finance 20 'start up' primary sector businesses in North Dakota – 12 of them in rural communities. Investments from the Development Fund also helped leverage more than $20 million from other financing sources to support businesses seeking to start-up, locate or expand in North Dakota."

John Hoeven, Governor

success stories

financials

the following development fund staff facilitates this process

Dean **Reese** CEO
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Scot **Long** Credit Analyst
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Sheila **Auch** Administrative Assistant
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John Hoeven
Governor

Lee Peterson
Commissioner

Linda Butts
ED & F Director

The Development Fund invested $5,125,384 in 50 "Primary Sector" projects involving 42 different "Primary Sector" businesses from July 1, 2004 to June 30, 2005. The Development Fund has provided "gap" financing in which the Fund's investments, since inception, have reached nearly $55 million.

With the Development Fund's dollars invested, there has been $20,111,493 leveraged from other financing institutions resulting in a $3.53 to $1 ratio. For every Development Fund dollar invested, $3.53 was invested from other sources.

The investments made by the Development Fund in 2004 to 2005 contributed to the projected creation of 462 jobs in the primary sector.

The Development Fund reported an estimated June 30, 2005 fiscal year-end operating income of $316,897 before bad debt expense, as compared to $350,644 for the fiscal year-end 2004. The decrease in income is attributable to a reduction in interest income on loans due to the reduction in interest rates charged to the borrowers and reduction through payouts in the Fund's investment portfolio for year ending 2005. The Fund saw a decrease in General & Administrative expenses of $6,704 from 2004 to 2005. The Development Fund pays all costs of operating the Fund including salaries & benefits. The cash flow generated from principal and interest collections reached an all-time high for the Development Fund in 2005 of $5.9 million. The Development Fund continues to "revolve" its funds as the Fund has collected nearly $10.6 million the past two years, which in turn can be used for future loan and equity investments.

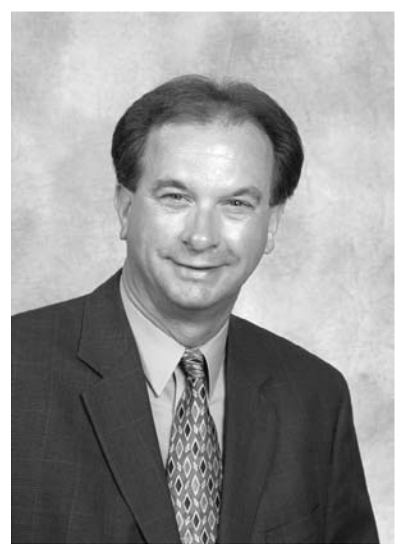
THE INVESTMENTS MADE BY THE DEVELOPMENT FUND IN 2004 TO 2005 CONTRIBUTED TO THE PROJECTED CREATION OF 462 JOBS IN THE PRIMARY SECTOR.

Net loss before operating transfers improved by $190,454 from ($31,742) in 2004 to $158,712 in 2005. The North Dakota Development Fund (NDDF) saw a decrease in revenue generated from 2004 to 2005 due to reduction in interest rates charged, reduction in the investment portfolio outstanding and no significant collection of dividends from the equity investments outstanding with the Fund. The NDDF, even with the reduction in revenues was able to show an improvement in its net loss by controlling expenses and loan loss reserve.

Since the inception of the Fund, it has invested nearly $55 million in 356 companies with $20.5 million invested in rural communities. The investments made by the Fund have contributed to the projected creation of 8,708 primary sector jobs. The Development Fund helped 20 start-up businesses begin operations in North Dakota in 2004 to 2005. Of the 20 start-up businesses, 12 of the start-ups were in rural communities.

The North Dakota Development Fund manages the collection of the Technology Transfer, Inc. assets, in which it collected $12,385 in 2005. The staff, since receiving this responsibility in 1999, has collected $361,767.

The Development Fund's project activity was strong in 2005 with the funding of 50 projects. By providing flexible financing, the Fund has helped "Primary Sector" businesses start-up or expand, which in turn created new jobs and generated new wealth this past year. What follows are highlights of 2005 along with accompanying financial statements.



Dean Reese, CEO
ND Development Fund

The Development Fund makes investments of up to $300,000 through direct loans, participation loans, subordinated debt and equity investments. The board of directors may adjust the limit when deemed appropriate.

All loans must be secured with a first or second lien position in fixed assets, equipment, inventory or other reasonable sources of available collateral. In general, the following criteria applies to Development Fund loans >>>

> The entrepreneur must have a realistic financial commitment at stake. Usually, principals are required to have a minimum of 15 percent equity in the project.

> Refinancing of debt is not eligible.

> Principal shareholders with 20 percent or greater ownership are generally required to guarantee the debt. Other shareholders may also be required to guarantee.

> The Fund will not participate in more than 50 percent of a project's capitalization needs.

> Financing is available to any primary sector business project with the exception of production agriculture.

> Primary sector is defined as an individual, corporation, partnership or association which, through the employment of knowledge or labor, adds value to a product, process or service that results in the creation of new wealth. Primary sector businesses are typically manufacturers, food processors and exported service companies.

The Governor appoints an eight-member board of directors that oversees the North Dakota Development Fund. Each member represents a different business sector from the state.

North Dakota Development Fund Board Members:

Richard McKennett, chairman - Williston
member at large

Bob McNeill, vice-chairman - Dickinson
private sector

Tom Clifford - Grand Forks
industrial technology and research sector

James Laducer - Mandan
native american sector

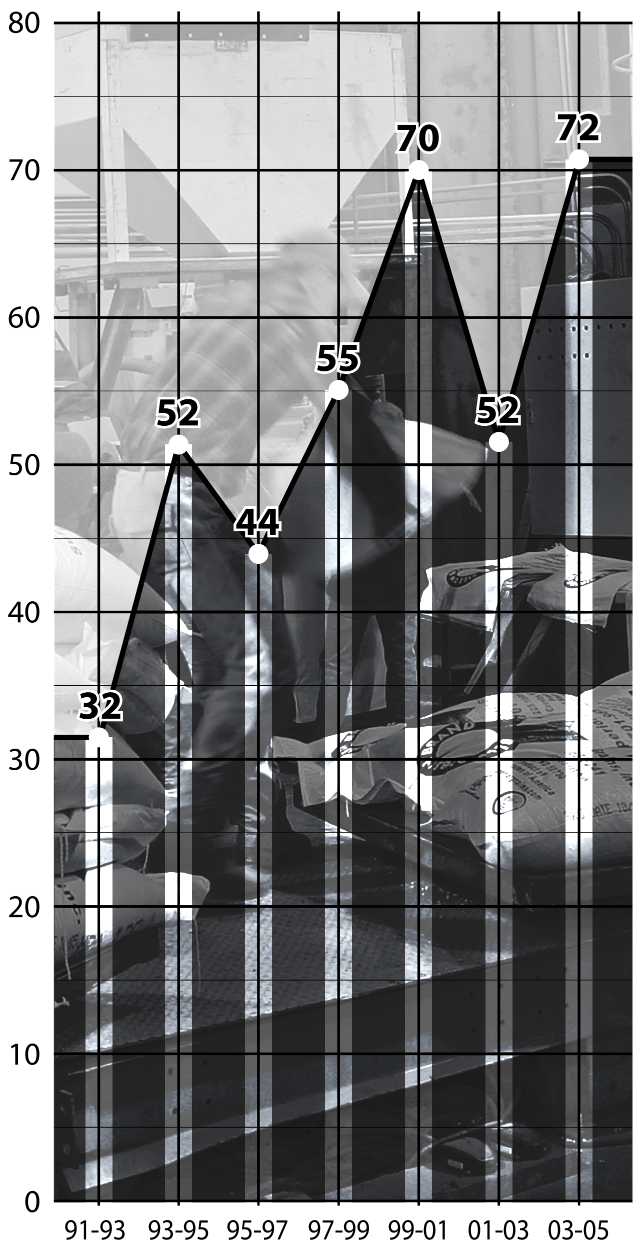
Terry Jorde - Cando
rural sector

Darcy Volk - Bismarck
exported services sector

Terri Zimmerman - Fargo
finance sector

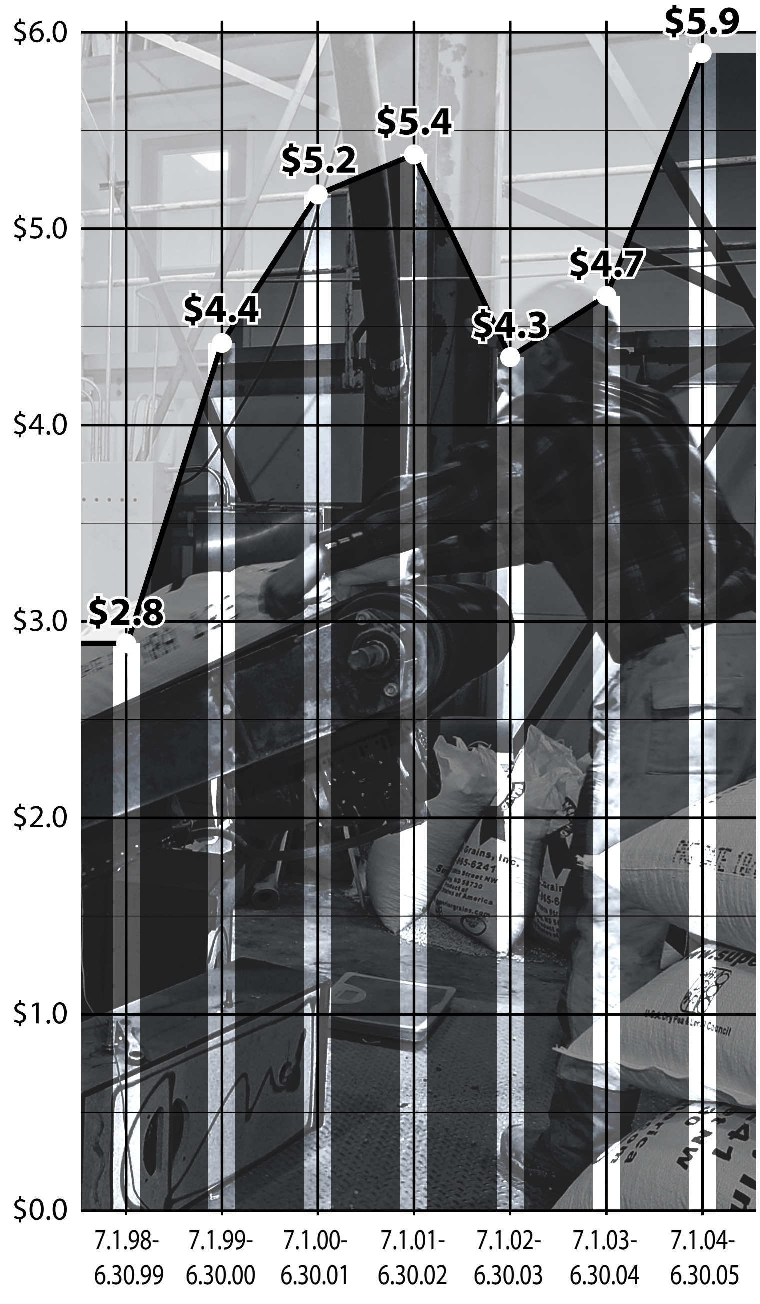
Lee Peterson - Bismarck
commissioner of department of commerce
agency sector

Growth in Development Fund Projects



The North Dakota Development Fund saw increased project activity in 2005. The number of projects funded in 2005 was 50, as compared to 22 in 2004. Since its inception, the North Dakota Development Fund has seen growth in the number of projects funded. Through June 30, 2005, a total of 381 projects have been funded, involving 356 companies which have received Development Fund investments.

Development Fund Cash Flow (Millions)



Cash flow in 2005 hit an all-time high of $5.9 million for the Development Fund. The fund as shown above has truly become a revolving loan fund. The funds collected can be used for future loan and equity investments.

42 businesses benefitted from North Dakota Development Fund Investments, from July 1, 2004, through June 30, 2005

Projects

M&K Welding, Inc.	Beulah	$ 62,500
Erickson's Meat Market, Inc.	Bowman	67,052
Spinal Designs, Inc.	Cavalier	175,000
Metro-Trak, LLC	Cooperstown	50,000
Sheyenne Tooling & Mfg, Inc.	Cooperstown	125,000
SEO Precision, Inc.	Crosby	50,000
Kidco Farms Processing, Inc.	Dawson	145,000
Hensley Aircraft, Inc.	Devils Lake	75,000
Jackalope Conversions, LLC	Devils Lake	41,500
Pugsley's Premium, LLC	Devils Lake	112,500
Mon-Dak Seed & Grain, Inc.	East Fairview	100,000
Dakota Pharmaceutical Pkg, LLC	Fargo	192,000
Glass Blast Media, Inc.	Fargo	60,000
GYG Technologies, Inc.	Fargo	30,000
IMAR Group, LLC	Fargo	275,000
Upstream, LLC	Fargo	675,000
Vtrenz, Inc.	Fargo	140,785
Weather Modification, Inc.	Fargo	206,000
Acrylon Composites, Inc.	Grand Forks	80,000
Valley Specialty Foods, Inc.	Grand Forks	75,000
Central Dakota Beef, LLC	Harvey	112,500
Earth Harvest Mills, Inc.	Harvey	100,000
Harvey Building Development	Harvey	70,000
Hazelton Ind. Dev. Corp.	Hazelton	90,000
Auen World Medical Staffing, Inc.	Hazen	20,000
Creative Industries, Inc.	Kenmare	36,667
City of Lansford (Schepp's Dakota Deli)	Lansford	30,000
Agri Imagis Technology, Inc.	Maddock	50,000
Sheyenne Valley Marketing, LLC	Maddock	38,750
Con Ag Equipment, Inc.	Mandan	100,000
Coffees & Kitchens, Inc.	Mandan	50,000
Northwestern Dairy, LLLP	Parshall	150,000
Antelope Homes & Building Supply	Richardton	38,443
West Dakota Feed & Seed, LLC	Ross	125,000
Heartland Feeds dba Northwest Alfalfa Products	Tioga	25,000
PrimeBoard, LLC	Wahpeton	500,000
Custom Cruisers, Inc.	West Fargo	50,000
Northwest Professional Color, Inc.	West Fargo	211,604
SnoBear Industries, LLC	West Fargo	100,000
Gregory B. Bangert dba L & C Jet Boat Excursions	Williston	10,000
Prairie Packing, Inc.	Williston	161,333
Missouri River Ag Processing, Inc.	Williston	318,750
Total:		**$5,125,384**

IMARgroup, LLC

When water ski professionals say "Hit it!" they could be talking to a driver of a Gekko tow boat, built in Fargo. These well built pieces of craftsmanship have been deemed the best performing ski boat in most categories by the American Water Ski Association and the American Barefoot Association.

In 2006, IMAR Group, LLC will build well over 100 tow boats and over 500 jet boats, all with hand-laid fiberglass cloth to manufacture the hulls. While this process is more expensive and time consuming, it creates the precision that is bringing in accolades from every corner of the world.

President Tom Eide explains, "We will never be the least expensive, but we will continue to build the best product on the market. One that rates higher in safety and overall performance compared to other boats in its category. Our success is directly related to our employees who have taken total ownership in the operation and are influential through the entire manufacturing process."

The North Dakota Development Fund has played an important role in the success of the Gekko Tow Boat. Their funding provided operating capital to expand its market base and share. Currently, IMAR Group, LLC distributes boats through its dealer network in the United States, Australia, Canada, Europe, Mexico, Japan, South Africa, and the Middle East. Their goal is to continue the 30% annual growth rate they are currently touting by outperforming their competition.

dakotapharmaceuticalspkg, LLC

Before a drug is approved for human use by the Food and Drug Administration, it must undergo rigorous testing. A North Dakota firm, Clinical Supplies Management, Inc. (CSM) and its new subsidiary company, Dakota Pharmaceutical Packaging, LLC (Dakota) play an integral part in ensuring the safety and efficacy of drugs by participating in a number of clinical trials.

In 1997, Gerald Finken, RPh, MS, started CSM, a licensed research pharmacy. Though successful, he realized the need for a packaging and labeling facility. Through funds provided by the Development Fund, two pieces of equipment were purchased and two packaging clean rooms were built.

One of the biggest obstacles pharmaceutical companies face in conducting clinical trials is getting the test drugs to the research subjects. When drugs are tested, research protocols must be approved, quality control procedures must be put in place, and drugs must be packaged and labeled with 'user friendly' instructions. These processes are done at CSM, successfully working with pharmaceutical companies to ensure the drug reaches the subjects in a timely manner. CSM also provides a system for tracking drug shipments, along with receipt, returns, reconciliation and destruction of unused supplies.

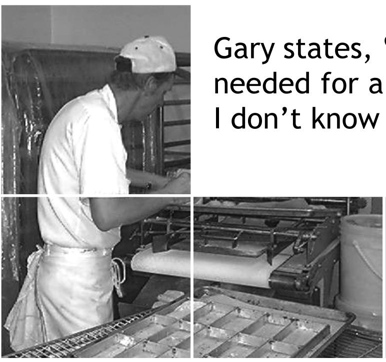
Gerald credits their success to the strong pharmacy background of many of CSM's employees. He clarifies, "As pharmacists we are patient focused. We treat our clients with the patient in mind. It is essential to exceed the expectations of our customers and their patients."

pugsley's premium, LLC

It's probably a good guess that most people have never pondered the science of a good sandwich- from the recipe for the bread and how it is baked to the amount of moisture in the meat, the condiments served with it, and finally the manner in which it is stored. But it's this scientific approach, coupled with sound sales and business experience, that has grown Pugsley's Sandwiches into a nationwide supplier of popular 'ready to eat' sandwiches, and recently muffins, string cheese, and coffee.

On September 26, 1988, Gary opened Pugsley's Sandwiches with four employees – his mom and dad, his wife and himself. They started making four types of sandwiches that would be specifically marketed to the fast growing gas-convenience store market. Today, you can enjoy Pugsley's sandwiches in forty states.

Funding from the ND Development Fund has been a valuable tool for Pugsley's. This year, funding was utilized to expand inventory and equipment to serve a very large national account. This account will help grow the business 35% in 2006.



Gary states, "The Development Fund has been so good to us. They'll advise and help raise the funds needed for a project with a number of financial backers so one person doesn't assume all the risk. I don't know that we'd be here if not for their tremendous support."

missouririveragprocessing, Inc

Dinner tables on every continent except Antarctica enjoy the delicious and nutritious endeavors of Missouri River Ag Processing. Missouri River Ag Processing is the sister company to Superior Grains which buys, sells, and exports peas, lentils and garbonzo beans. Missouri River Ag Processing facilitates the packaging for these products, and soon they will be packaging split peas.

Owner Les Knudson says the North Dakota Economic Development Fund has been a tremendous help, "Their people and funding options guided us in our expansion efforts to include packaging, bagging and bulk packaging. With a modest start in 1997 and three employees in the shop, these two companies are up to 50 employees and will break $20 million in sales this year."

Les recalls learning from his father, Jerome, at a young age how to work hard and be successful in business while selling tractors with him on the road. Jerome now helps Les with the business.

Before Missouri River Ag Processing started, a survey of the region indicated that $1 million of North Dakota crops could not be distributed. Today, Missouri River Ag Processing and Superior Grains proudly claims a competitive return to farmers while ensuring superior food quality to their customers.

sheyennetooling&mfg, Inc

Sheyenne Manufacturing knows their best selling tool is their current customer base. They attribute countless orders and new business growth to them. By providing superior customer service and offering extraordinary, well built products, Sheyenne Manufacturing continues to grow.

Located in Cooperstown, Sheyenne Tooling & Mfg. manufactures agricultural and industrial steel products. They are known as a 'job shop' that makes unique and special use attachments for other well-known companies such as Bobcat. Starting as a tool and die business, 75% of their business is manufacturing components for a final user. These products include the Tele-Boom, Tele-Fork, and Double Quick Tach Grapple.

North Dakota Development loan proceeds allowed Sheyenne Manufacturing to add a powder coat painting system. This high tech powder coat painting system is a major step forward in the industry. This system reduces the amount of hazardous waste produced to nearly zero.

Operations Manager Tim James credits the Development Fund with supporting their growth. "Since 2002, Sheyenne Manufacturing's workforce has nearly doubled, and this is not only good for them, but for the community. Because of the commitment of our employees to build product components that far exceed quality specifications and to provide exceptional customer service, we are positioned for growth."

erickson'smeatmarket, Inc

All parents hope their children will pursue their dreams and succeed in their endeavors. That was so true for the Erickson family. Knowing their four adult sons wanted to live in North Dakota and pursue the meat processing business was all the motivation Leland and JoAnn Erickson needed. They opened a meat processing business in Bowman in December, 2005.

The Ericksons are not new to meat processing. They've been ranchers their entire lives. In their younger years, they worked for Cedar Ridge Meat Service in Rhame, eventually buying that business. They built a meat processing business from the ground up in Baker, Montana, and just opened Erickson's Meat Market in Bowman. North Dakota Development funds were critical in building the new venture.

Erickson's Meat Market earned an inspection accreditation certificate from the North Dakota State Meat and Poultry Inspection Program, and will provide inspection, processing, and the sale of beef, pork, buffalo, lamb and elk. The state accreditation allows the Ericksons to sell products wholesale to other retail establishments in the state. Erickson's Meat Market is one of thirteen North Dakota wholesale facilities.

JoAnn is enthusiastic about their prospects and potential for growth. "Our producers grow some of the best meat in the country and it's time the world hears about it. The community reflected our optimism for the new business with more than 400 of them coming to our open house. We are grateful for the funding from the ND Development Fund and for its assistance."

INDEPENDENT AUDITOR'S REPORT

Governor of North Dakota
The Legislative Assembly

Board of Directors
North Dakota Development Fund, Inc.
Bismarck, North Dakota

We have audited the accompanying basic financial statements of the North Dakota Development Fund, Inc., a component unit of the State of North Dakota, as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Dakota Development Fund, Inc. as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 3, 2005, on our consideration of the North Dakota Development Fund, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information on pages 20 through 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis on pages 3 to 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Eide Bailly LLP

Bismarck, North Dakota
August 3, 2005

The discussion and analysis of the financial performance of the North Dakota Development Fund that follows is meant to provide additional insight into the Development Fund's activities for the year ended June 30, 2005. Please read it in conjunction with the Development Fund's financial statements and footnotes, which are presented within this report.

FINANCIAL HIGHLIGHTS:
Total revenue increased by $61,786 (8%) to $841,088. Operating revenues decreased by $45,646 (7%) to $624,157. Cash flow increased by $1,048,546 (22%) to $5,887,583. The reduction in operating revenues for year ended June 30, 2005 was attributable to the reduction in interest rates charged to the borrowers and a reduction through payouts in the Fund's investment portfolio. The Fund collected $5,046,495 in principal payments in 2005, which was an increase of $986,760 (24%) from 2004.

There was no significant equity investment repayments made either by dividend or principal reduction in 2005.

Operating loss before non-operating revenues (expense) improved by $83,022 from ($141,241) to ($58,219). The NDDF saw a decrease in revenue generated from 2004 to 2005 due to reductions in the interest rate charged, reduction in the investment portfolio outstanding and no significant collection of dividends from the equity investments outstanding with the Fund. The NDDF even with the reduction of revenue was able to show an improvement in their operating loss by controlling their loan loss reserve.

Interest income from deposits increased by $107,432 (98%) to $216,931. The excess cash available prior to investment commitments were invested in long-term certificates of deposit. The long-term investments increased the yield to the Fund.

The change in net assets increased by $1,190,454 from ($531,742) in 2004 to $658,712 in 2005. The increase was attributable to the Fund controlling their general expenses, loan loss reserve, investment of cash funds in longer term maturities, which earned a higher rate of return and a discretionary payment from the Department of Commerce to be used for investment funds.

Net assets increased by $658,712 to $21,378,982. The cash equivalents increased by $201,603 from collection of investments, current portion of loans receivable increased by $876,401, interest receivable on deposits and loans increased by $25,765 and the investment portfolio outstanding decreased by $441,785 and accrued expenses increased by $3,272. The increase in cash equivalents, interest receivable on deposits and loans and current portion of loans receivable contributed to the increase in the net assets for the Development Fund in 2005.

Noncurrent net assets (excluding equipment) decreased by $452,974 to $4,852,502. The noncurrent assets consist of the Fund's loan and equity investments. The equity investments made decreased by $840,643 from 2004 to 2005. The equity investments that were charged off during 2005 were $50,000 as compared to $400,000 in 2004. The loan investments made increased by $387,669 from 2004 to 2005. The loan investments that were charged off during 2005 were $421,879 as compared to $484,763 in 2004. The gross investments made by the Fund increased by $326,663. The decrease in net investments as compared to an increase in gross investments was due to a decrease in the loan and investment loss reserve of ($96,764) and an increase in the current portion of loans receivable of $876,401.

Fifty projects were funded for $5,125,384.

Payments received from management of the Technology Transfer Inc. asset portfolio investments were $12,385.

REQUIRED FINANCIAL STATEMENTS: The discussion and analysis are intended to serve as an introduction to the Development Fund's financial statements. The financial statements of the Development Fund provide accounting information similar to that of many other business entities. The Balance Sheet summarizes the assets and liabilities, with the difference between the two reported as net assets. It also serves as a basis for analysis of the soundness and liquidity of the Development Fund. The statement of Revenues, Expenses and Changes in Net Assets summarize the Development Fund's operating performance for the year. The statements of Cash Flows summarize the flow of cash through the Development Fund as it conducts its business.

CONDENSED BALANCE SHEET *JUNE 30, 2005, AND 2004*

ASSETS	2005	2004
Current assets	$ 16,529,446	$ 15,425,677
Capital assets	15,460	4,271
Other noncurrent assets	4,852,502	5,305,476
Total noncurrent assets	4,867,962	5,309,747
Total assets	$ 21,397,408	$ 20,735,424
NET ASSETS		
Current Liabilities	$ 18,426	$ 15,154
Invested in capital assets, net of related debt	15,460	4,271
Unrestricted	21,363,522	20,715,999
Total net assets	21,378,982	20,720,270
Total liabilities and net assets	$ 21,397,408	$ 20,735,424

Interest receivable on deposit and loans increased by $25,248 (21%) to $147,987. The NDDF saw continued strong collection activity during 2005, but due to additional accounts being put on non-accrual, which the majority was equity investments caused the increase in the receivable account.

Cash and cash equivalents increased by $201,603(2%) to $13,215,986 (cash balance is before loan and investment commitments). Management of the investment portfolio for the year ending June 30, 2005 saw continued strong repayment on the NDDF investment accounts.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash deposits with the Bank of North Dakota and are included in the current assets section of the balance sheet. Additional discussion of cash and cash equivalents can be found in Note 2 to the financial statements.

Equity Investments

Equity investments consist of capital investments in new or expanding primary sector businesses in or relocating to North Dakota and are included in noncurrent assets. Additional discussion of equity investments can be found in Notes 4 and 5 to the financial statements.

Loans Receivable

Loans receivable consist of loans to new or expanding primary sector businesses in or relocating to North Dakota and are included in current and noncurrent assets in the balance sheet. Additional analysis of loans receivable can be found in Notes 6 and 7.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005, AND 2004

	2005	2004
OPERATING REVENUES		
Interest income on loans	$ 582,541	$ 630,389
Dividend income	2,000	8,000
Other	39,616	31,414
	624,157	669,803
NONOPERATING REVENUE		
Interest income on deposits	216,931	109,499
Payments from the Department of Commerce discretionary fund	500,000	-
Payments from the State of North Dakota	-	1,550,000
Payments to State Universities	-	(2,050,000)
	716,931	(390,501)
TOTAL REVENUE	1,341,088	279,302
OPERATING EXPENSES		
General and administrative	300,495	307,199
Depreciation expense	6,765	11,960
Bad debt expense	375,116	491,885
	682,376	811,044
CHANGE IN NET ASSETS	658,712	(531,742)
NET ASSETS, BEGINNING OF YEAR	20,720,270	21,252,012
NET ASSETS, END OF YEAR	$21,378,982	$ 20,720,270

General and Administrative expense decreased by $6,704 (2%) from $307,199 in 2004 to $300,495 in 2005.

Contacting the North Dakota Development Fund's financial management:

The information in this report is intended to provide the reader with an overview of the Development Fund's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Dakota Development Fund, PO Box 2057, Bismarck, ND 58502-2057.

balance sheets
june 30, 2005, and 2004

ASSETS	2005	2004
CURRENT ASSETS		
Cash and cash equivalents - Note 2	$ 1,490,986	$ 1,464,383
Interest receivable on deposits and loans	147,987	122,222
Invetments	11,725,000	11,550,000
Current portion of loans receivable	3,165,473	2,289,072
Total current assets	16,529,446	15,425,677
NONCURRENT ASSETS		
Equity investments, net - Notes 4 and 5	859,898	1,700,541
Loans receivable, net of current portion - Notes 6 and 7	3,992,604	3,604,935
Equipment, net - Note 8	15,460	4,271
Total noncurrent assets	4,867,962	5,309,747
Total assets	$ 21,397,408	$ 20,735,424
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued expenses	$ 18,426	$ 15,154
NET ASSETS		
Invested in capital assets	$ 15,460	$ 4,271
Unrestricted	21,363,522	20,715,999
Total net assets	21,378,982	20,720,270
	$ 21,397,408	$ 20,735,424

statements of revenues, expenses and changes in net assets
years ended june 30, 2005, and 2004

	2005	2004
OPERATING REVENUES		
Interest income on loans	$ 582,541	$ 630,389
Dividend income	2,000	8,000
Other	39,616	31,414
	624,157	669,803
OPERATING EXPENSES		
General and administrative	300,495	307,199
Depreciation expense	6,765	11,960
Bad debt expense	375,116	491,885
	682,376	811,044
OPERATING LOSS	(58,219)	(141,241)
NONOPERATING REVENUE (EXPENSE)		
Interest income on deposits and investments	216,931	109,499
Payments from the Department of Commerce discretionary fund	500,000	-
Payments from the State of North Dakota	-	1,550,000
Payments to state universities	-	(2,050,000)
	716,931	(390,501)
CHANGE IN NET ASSETS	658,712	(531,742)
NET ASSETS, BEGINNING OF YEAR	20,720,270	21,252,012
NET ASSETS, END OF YEAR	$21,378,982	$ 20,720,270

statements of cash flows
years ended june 30, 2005, and 2004

	2005	2004
OPERATING ACTIVITIES		
Other receipts	$ 52,000	$ 39,529
Payments to suppliers	(297,223)	(292,045)
Net cash provided by operating activities	(245,223)	(252,516)
NONCAPITAL FINANCING ACTIVITIES		
Payments to state institutions	-	(2,050,000)
Payments from the Department of Commerce	500,000	-
Payments from the State of North Dakota	-	1,550,000
Net cash provided by (used for) noncapital financing activities	500,000	(500,000)
CAPITAL AND RELATED FINANCING ACTIVITY		
Purchase of equipment	(17,954)	-
INVESTING ACTIVITIES		
Interest received on cash and cash equivalents	775,707	715,614
Purchase of equity investments	(508,443)	(595,142)
Proceeds from sale of equity investments	961,586	42,429
Purchase of investments	(11,725,000)	(11,550,000)
Sale of investments	11,550,000	-
Disbursements of business loans	(6,310,565)	(2,643,699)
Principal payments received on business loans	5,046,495	4,059,735
Net cash used for investing activities	(210,220)	(9,971,063)
NET CHANGE IN CASH AND CASH EQUIVALENTS	26,603	(10,723,579)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,464,383	12,187,962
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,490,986	$ 1,464,383

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	2005	2004
Operating loss	$ (58,219)	$ (141,241)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	6,765	11,960
Allowance for doubtful loan receivables	-	50,000
Allowance for realized loss on investments	387,500	450,000
Reclassification of interest and dividend income	(584,541)	(638,389)
Changes in assets and liabilities		
Accrued exppenses	3,272	15,154
Net cash provided by operating activities	$ (245,223)	$ (252,516)
SUPPLEMENTAL SCHEDULE OF NONCASH ACTIVITIES		
Equity investments written off	$ 50,000	$ 400,000
Loans receivable written off	421,879	484,763

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

The North Dakota Development Fund, Inc. (the Corporation) was established pursuant to Chapter 10-30.3 of the North Dakota Century Code as amended by the passage of Senate Bill 2058 during the 1991 legislative session. The Corporation is 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 primary sector businesses in North Dakota or relocating to North Dakota.

The Corporation uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain corporate functions or activities.

The following activities are used by the Corporation:

Development Fund
The Development Fund is used to account for fund investments, including equity positions, loans, loan guarantees, and other innovative financing mechanisms for new or expanding primary sector businesses in North Dakota or relocating to North Dakota.

Regional Rural Development Revolving Loan Fund
The Regional Rural Development Revolving Loan Fund is used to account for fund investments including equity positions, loans, loan guarantees, or debt financing on a matching basis to new or expanding primary sector businesses in rural areas.

The Corporation may form additional corporations, partnerships or other forms of business associations in order to further its mission.

Reporting Entity

The Director of the Department of Commerce Division of the Economic Development and Finance shall appoint the Chief Executive Officer of the Corporation. All investments, contracts, partnerships, limited liability companies, and business transactions of the Corporation are the responsibility of the Chief Executive Officer and the eight-member Board of Directors, who are appointed by the Governor.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, the Corporation should include all component units over which the Corporation exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific burdens on the Corporation. GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement 14, further defined reporting units as a legally separate, tax exempt affiliated organization that meet all of the following criteria:

- The economic resources of the organization entirely or almost entirely directly benefit the Corporation or its constituents, and
- The Corporation or its component units are entitled to or can otherwise access, a majority of the economic resources of the organization, and
- The economic resources that the Corporation is entitled to, or can otherwise access, are significant to the Corporation.

Based upon criteria set forth in GASB No. 14 and No. 39, no organizations were determined to be part of the reporting entity. The Corporation is included as part of the primary government of the State of North Dakota's reporting entity.

Basis of Accounting

The Corporation is presented in the accompanying financial statements as a proprietary fund type – an enterprise fund.

An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public or other funds on a continuing basis be financed or recovered primarily through user charges. The Corporation operates primarily with appropriations from the general fund.

As a proprietary fund type, the Corporation accounts for its transactions using the accrual basis of accounting. Revenues are recognized for its transactions when they are earned, and expenses are recognized when they are incurred.

The Corporation follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing generally accepted accounting principles for governmental entities. In accordance with Governmental Accounting Standards Board Statement 20, the Corporation follows all applicable GASB Pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Revenue and Expense Recognition

The Corporation presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting. Operating activities are those activities that are necessary and essential to the mission of the Corporation. Operating revenues include all charges to customers, research contracts and grants, dividends earned on equity investments and interest earned on loans. Revenues from nonexchange transactions and state appropriations that represent subsidies or gifts to the Corporation, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital or noncapital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

Concentration of Credit Risk

Loans receivable consist primarily of loans to new or expanding businesses in North Dakota or relocating businesses to North Dakota. The Corporation performs credit evaluations and maintains a security interest until related loans are collected.

Cash Equivalents

The Corporation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Investments

Investments are reported at fair value. All investment income, including changes in the fair value of investments, is recognized in the statement of revenue, expenses, and changes in fund net assets.

Equity Investments

The Corporation records its equity investments at cost adjusted for other than temporary impairment as determined by the Board of Directors. The other than temporary impairment of equity investments is included in fund equity. Realization of the carrying value of these investments is subject to future developments inherent in such investments (see Note 3).

Among the factors considered in determining whether an other than temporary impairment of an investment has occurred are the cost of the investment, development since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Development Fund has relied on financial data of investees and, in many instances, on estimates by the management company and of the investee company as to the potential effect of future developments.

Expense Allocation

The Development Fund pays all expenses of the Corporation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and valuation of equity investments.

Fixed Assets and Depreciation

All fixed assets are recorded in the accompanying financial statements at cost. Donated fixed assets are stated at fair market value at the time of donation. Equipment with a cost greater than $5,000 is capitalized and reported in the accompanying financial statements. The Corporation's fixed assets are being depreciated on a straight-line basis over estimated useful life of 3 years.

Loans

Loans are reported at their outstanding unpaid principal adjusted for charge-offs and the allowance for loan losses.

Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 90 to 120 days delinquent unless the credit is well secured and in process of collection. Loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is doubtful. All current year interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. All prior year interest accrued but not collected is charged-off against the allowance for loan losses. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Corporation has determined that the accounting for nonrefundable fees and costs associated with originating or acquiring loans does not have a material effect on their financial statements. As such, these fees and costs have been recognized during the period they are collected and incurred, respectively.

Allowance For Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to a recovery account. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. The Corporation separately identifies individual loans for impairment disclosures by rating them on a scale of 1 to 6.

NOTE 2 - DEPOSITS AND INVESTMENTS

The Corporation is required to maintain its deposits at the Bank of North Dakota. As of June 30, 2005, the Corporation has bank deposits with a bank balance of $750,310 and a carrying amount of $745,986. The Corporation has certificates of deposits with a bank balance and carrying amount of $745,000 that are classified as cash and cash equivalents. The Corporation considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents. All amounts reported as cash and cash equivalents have a maturity date of less than 1 year.

As of June 30, 2005, the Corporation had investments with a fair value of $11,725,000. These investments are held at the Bank of North Dakota and consist of certificates of deposits with a maturity date of one year or less. The Corporation does not have a formal investment policy.

Custodial and Concentration of Credit Risk

For deposits and investments, the custodial credit risk that, in the event of the failure of a depository financial institution, the Corporation will not be able to recover collateral securities that are in possession of an outside party. The Corporation's deposits are uncollateralized. All of the Corporation's deposits and investments are with the Bank of North Dakota.

NOTE 3 - INTEREST RECEIVABLE

Interest receivable at June 30, 2005, and 2004 are as follows:

	2005	2004
Due from Bank of North Dakota	$ 5,560	$ 9,426
Interest receivable from loans	142,427	112,796
	$ 147,987	$ 122,222

NOTE 4 - EQUITY INVESTMENTS

Equity investments in business concerns as of June 30, 2005, and 2004, are as follows:

	2005	2004
Development Fund	$ 3,118,312	$ 3,888,648
Regional Rural Development Revolving Loan Fund	1,443,943	1,176,750
	4,562,255	5,065,398
Valuation allowance - Other than temporary impairment	(3,702,357)	(3,364,857)
	$ 859,898	$ 1,700,541

Among the factors considered in determining whether an other than temporary impairment of an investment has occurred are the cost of the investment, development since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Development Fund has relied on financial data of investees and, in many instances, on estimates by the management company and of the investee company as to the potential effect of future developments.

The Corporation acquired its investment by direct purchase from the issuer under investment representations, and the Board of Directors valued the securities on the premise that they may not be sold without registration under the Securities Act of 1933. The price of securities purchased was determined by direct negotiation between the Corporation and the seller.

NOTE 5 - EQUITY INVESTMENTS - VALUATION ALLOWANCE

Changes in the valuation allowance for equity investments as of June 30, 2005, and 2004, are as follows:

	2005	2004
Balance, beginning of year	$ 3,364,857	$ 3,314,857
Provision for equity investment losses	387,500	450,000
Equity investments charged off	(50,000)	(400,000)
Balance, end of year	$ 3,702,357	$ 3,364,857

NOTE 6 - LOANS RECEIVABLE

Loans receivable at June 30, 2005, and 2004, are as follows:

	2005	2004
Development Fund	$ 7,192,102	$ 6,667,791
Regional Rural Development Revolving Loan Fund	6,092,531	5,787,036
	13,284,633	12,454,827
Allowance for loan losses	(6,126,556)	(6,560,820)
Loans receivable, net of allowance for loan losses	7,158,077	5,894,007
Less: current portion of loans receivable	3,165,473	2,289,072
Loans receivable, net of current portion	$ 3,992,604	$ 3,604,935

Notes receivable of $1,168,720 and $1,181,104 at June 30, 2005 and 2004, respectively, do not have set repayment dates and are not interest bearing. The receivables will be repaid through royalties based on a set percentage of gross sales. The agreements provide for repayment between 100% to 167% of the outstanding note balance upon the funded product reaching commercialization. If the product does not reach commercialization, generally, the note does not have to be repaid.

NOTE 7 - ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses as of June 30, 2005, and 2004, are as follows:

	2005	2004
Balance, beginning of year	$ 6,560,820	$ 7,003,698
Provision for loan losses	-	50,000
Recovery of loans charged off	(12,385)	(8,115)
Loans charged off	(421,879)	(484,763)
Balance, end of year	$ 6,126,556	$ 6,560,820

NOTE 8 - EQUIPMENT

A statement of changes in fixed assets for the year ended June 30, 2005, and 2004, is as follows:

	Balance 6/30/2004	Additions	Deletions	Balance 6/30/2005
Furniture and equipment	$ 10,095	$ -	$ -	$ 10,095
Computer software	58,625	17,954	-	76,579
Accumulated depreciation	(64,449)	(6,765)	-	(71,214)
	$ 4,271	$ 11,189	$ -	$ 15,460

	Balance 6/30/2003	Additions	Deletions	Balance 6/30/2004
Furniture and equipment	$ 10,095	$ -	$ -	$ 10,095
Computer software	58,625	-	-	58,625
Accumulated depreciation	(52,489)	(11,960)	-	(64,449)
	$ 16,231	$ (11,960)	$ -	$ 4,271

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Management has designated net assets to cover any commitments or guarantees approved by the Board of Directors.

Development Fund

The Board of Directors has approved equity investments, loans, grants and guaranty of collections at June 30, 2005 and 2004, for which funds have not been disbursed or written agreements entered into in the approximate amount of $2,661,000 and $2,123,000.

On June 28, 1992, the Corporation signed a guaranty of collection on a REC loan that Frost Fire Mountain has with Cavalier Rural Electric Cooperative. The amount guaranteed is 35 percent of the unsatisfied balance or $10,807 whichever is less.

Regional Rural Development Revolving Loan Fund

The Board of Directors has approved equity investments, loans, and guaranty of collections at June 30, 2005 and 2004, for which funds have not been disbursed or written agreements entered into in the approximate amount of $3,246,000 and $2,496,000.

NOTE 10 - RISK MANAGEMENT

North Dakota Development Fund, Inc. is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the State for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participate in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of $250,000 per person and $1,000,000 per occurrence.

The Corporation participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund through the policies of the North Dakota Commerce Department. North Dakota Commerce Department pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a twelve-month period. The State Bonding Fund currently provides the Agency with blanket fidelity bond coverage in the amount of $100,000 per employee. The State Bonding Fund does not currently charge any premium for this coverage.

The Corporation participates in the North Dakota Worker's Compensation Bureau, an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

combining balance sheets
years ended june 30, 2005, and 2004

	Development Fund	Regional Rural Development Revolving Loan Fund	Eliminations	2005	2004
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 1,182,592	$ 308,394	$	$ 1,490,986	$ 1,464,383
Interest receivable on deposits and loans	62,559	85,428		147,987	122,222
Investments	8,975,000	2,750,000		11,725,000	11,550,000
Current portion of notes receivable	1,452,066	1,713,407		3,165,473	2,289,072
Intercompany receivable (payable)	33,177	(33,177)		-	-
Total current assets	11,705,394	4,824,052	-	16,529,446	15,425,677
NONCURRENT ASSETS					
Equity investments, net	545,937	313,961		859,898	1,700,541
Loans receivable, net of current portion	1,949,721	2,042,883		3,992,604	3,604,935
Equipment, net	15,460	-		15,460	4,271
Total noncurrent assets	2,511,118	2,356,844	-	4,867,962	5,309,747
Total assets	$ 14,216,512	$ 7,180,896	$ -	$21,397,408	$ 20,735,424
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Acrued expenses	$ 18,426	$ -	$ -	$ 18,426	$ 15,154
Total current liabilities	18,426	-	-	18,426	15,154
NET ASSETS					
Invested in capital assets, net of related debt	15,460	-		15,460	4,271
Unrestricted	14,182,626	7,180,896		21,363,522	20,715,999
Total net assets	14,198,086	7,180,896	-	21,378,982	20,720,270
Total liabilities and net assets	$ 14,216,512	$ 7,180,896	$ -	$ 21,397,408	$ 20,735,424

combining statements of revenue, expenses and changes in net assets
years ended june 30, 2005, and 2004

	Development Fund	Regional Rural Development Revolving Loan Fund	Eliminations	2005	2004
OPERATING REVENUES					
Interest income on loans	$ 280,445	$ 302,096	$	$ 582,541	$ 630,389
Dividend income	-	2,000		2,000	8,000
Other	25,207	14,409		39,616	31,414
	305,652	318,505		624,157	669,803
OPERATING EXPENSES					
General and administrative	298,099	2,396		300,495	307,199
Depreciation expense	6,765	-		6,765	11,960
Bad debt expense	150,116	225,000		375,116	491,885
	454,980	227,396		682,376	811,044
OPERATING LOSS	(149,328)	91,109		(58,219)	(141,241)
NONOPERATING REVENUE (EXPENSE)					
Interest income on deposits and investments	159,295	57,636		216,931	109,499
Payments from the Department of Commerce discretionary fund	500,000	-		500,000	-
Payments from the State of North Dakota	-	-		-	1,550,000
Payments to state universities	-	-		-	(2,050,000)
	659,295	57,636	-	716,931	(390,501)
CHANGE IN NET ASSETS	509,967	148,745		658,712	(531,742)
NET ASSETS, BEGINNING OF YEAR	13,688,119	7,032,151		20,720,270	21,252,012
NET ASSETS, END OF YEAR	$14,198,086	$ 7,180,896	$	$ 21,378,982	$ 20,720,270

combining statements of cash flows
years ended june 30, 2005, and 2004

	Development Fund	Regional Rural Development Revolving Loan Fund	Eliminations	2005	2004
OPERATING ACTIVITIES					
Other receipts	$ 37,591	$ 14,409	$ -	$ 52,000	$ 39,529
Payments to suppliers	(294,827)	(2,396)		(297,223)	(292,045)
NET CASH PROVIDED BY OPERATING ACTIVITIES	(257,236)	12,013	-	(245,223)	(252,516)
NON-CAPITAL FINANCING ACTIVITIES					
Due from Rural Fund	(5,079)	-	5,079	-	-
Due to Development Fund	-	5,079	(5,079)	-	-
Payments to state universities	-	-		-	(2,050,000)
Payments from the Department of Commerce	500,000	-		500,000	-
Payments from the State of North Dakota	-	-		-	1,550,000
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	494,921	5,079	-	500,000	(500,000)
CAPITAL AND RELATED FINANCING ACTIVITY					
Purchase of equipment	(17,954)	-	-	(17,954)	-
INVESTING ACTIVITIES					
Interest and dividends received	434,129	341,578		775,707	715,614
Purchase of equity investments	(175,000)	(333,443)		(508,443)	(595,142)
Proceeds from the sale of equity investments	945,336	16,250		961,586	42,429
Purchase of investments	(8,975,000)	(2,750,000)		(11,725,000)	(11,550,000)
Sale of investments	8,350,000	3,200,000		11,550,000	-
Disbursements of business loans	(3,558,346)	(2,752,219)		(6,310,565)	(2,643,699)
Principal received on business loans	2,994,033	2,052,462		5,046,495	4,059,735
NET CASH USED FOR INVESTING ACTIVITIES	15,152	(225,372)		(210,220)	(9,971,063)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	234,883	(208,280)	-	26,603	(10,723,579)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	947,709	516,674		1,464,383	12,187,962
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,182,592	$ 308,394	$	$ 1,490,986	$ 1,464,383

combining statements of cash flows
years ended june 30, 2005, and 2004

	Development Fund	Regional Rural Development Revolving Loan Fund	Eliminations	2005	2004
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES					
Operating loss	$(149,328)	$ 91,109	$	$ (58,219)	$ (141,241)
Adjustments to reconcile operating loss to net cash from operating activities:					
Depreciation	6,765	-		6,765	11,960
Allowance for doubtful loan receivables	-	-		-	50,000
Allowance for realized loss on investments	162,500	225,000		387,500	450,000
Reclassification of interest and dividend income	(280,445)	(304,096)		(584,541)	(638,389)
Changes in assets and liabilities					
Accrued expenses	3,272		-	3,272	15,154
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	$(257,236)	$ 12,013	$	$ (245,223)	$ (252,516)
SUPPLEMENTAL SCHEDULE OF NONCASH ACTIVITIES					
Equity investments written off	$ -	$ 50,000	$	$ 50,000	$ 400,000
Loan receivable written off	421,879	-		421,879	484,763

A *New* STATE OF BUSINESS
NORTH DAKOTA
Department of Commerce

North Dakota Department of Commerce
Development Fund

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