

**NORTH DAKOTA DEVELOPMENT FUND, INC
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020

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INDEPENDENT AUDITOR'S REPORT

Governor of North Dakota
The Legislative Assembly

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

Report on the Financial Statements

We have audited the accompanying financial statements of the North Dakota Development Fund, Inc (the Corporation), a component unit of the State of North Dakota as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Development Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified and adverse audit opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Business-Type Activities	Unmodified
Remaining Fund Information	Adverse

Basis for Adverse Opinion on Aggregate Remaining Fund Information

Management has not included the New Venture Capital Fund in the Corporation's financial statements. Accounting principles generally accepted in the United States of America require the New Venture Capital Fund to be presented as a custodial fund. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the business-type activities and the omitted fund has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Remaining Fund Information" paragraph, the financial statements referred to above do not present fairly the fiduciary position of the New Venture Capital Program Fund of the North Dakota Development Fund, Inc. as of June 30, 2021 and 2020, or the changes in fiduciary net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the North Dakota Development Fund, Inc. as of June 30, 2021, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of North Dakota Development Fund, Inc as of June 30, 2020 were audited by other auditors whose report dated December 4, 2020 expressed an unmodified opinion on those statements.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the North Dakota Development Fund, Inc. and do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2021, the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining financial statements shown on pages 20 through 22 are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2021 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

December 3, 2021

NORTH DAKOTA DEVELOPMENT FUND, INC
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020

The discussion and analysis of the financial performance of the North Dakota Development Fund, Inc. that follows is meant to provide additional insight into the Development Fund's activities for the year ended June 30, 2021. 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 \$82,556 (9.11%) to \$988,616. Operating revenues increased by \$38,690 (4.50%) to \$898,311. Change in cash and cash equivalents decreased from 2020 by \$7,155,524 (-99.82%) to \$13,161. This large decrease is due to the \$15 million transfer provided for in HB 1014 of the 2019 legislative session. Excluding the transfer from HB 1014, the cash flow increased \$7,844,476 in 2021. The Fund collected \$5,252,145 in principal payments in 2021, which was an increase of \$2,435,416 (86.46%) from 2020. The increase in total and in operating revenue is attributable to an increase in dividend/interest income received from investments/loans and an increase in other income. The NDDF suspended loan payments for 3 months in 2020 due to the COVID-19 pandemic which impacted the repayment of principal on loans.

The Fund received \$40,000 in dividend payments in 2021 from equity investments made, compared to \$105,544 in dividend payments received in 2020. This decrease is attributable to a change in the classification of convertible note interest income. Interest income from convertible notes is now recorded as interest income instead of dividend payments. Dividends recorded is only income associated with accounts for which the NDDF holds stock.

General and Administrative expense decreased by \$62,614 (15.99%) from \$391,698 in 2020 to \$329,084 in 2021. The decrease was attributable to the pandemic which reduced travel, paused in-person board meetings, and reduced other operating expenses.

Operating Income (loss) before non-operating revenues and expenses increased by \$6,185,983 from (\$6,651,973) in 2020 to (\$465,990) in 2021. The increase in the operating income (loss) in 2021 was attributable to a decrease in provision for losses (change in allowance). The large change in 2020 was caused by the purchase of New Venture Capital Program equities from Bank of North Dakota as part of HB 1014. The change in 2021 is attributable to additional investments made by the NDDF throughout the year.

Interest income on deposits decreased by \$42,847 (48.59%) from \$88,177 received in 2020 to \$45,330 received in 2021. The Fund liquidated three of its CDs in 2021 which caused a decrease in interest income.

The Fund does invest their excess funds into longer term deposits for a higher rate of return to coincide with the funding commitments made by the Fund to companies for loans and equity investments, which are not required to be funded in the short-term. As of the end of FY 2021, the Fund had \$2 million in longer term certificates of deposit, which are at a higher rate of return earning more deposit interest which can be used to fund additional loan and equity investments to "Primary Sector" businesses in the State of North Dakota.

Cash and cash equivalents increased by \$13,161 (0.07%) to \$19,653,987 (cash balance is before loan and investment commitments).

NORTH DAKOTA DEVELOPMENT FUND, INC
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2021 AND 2020

The change in net position decreased by \$8,856,864 from \$8,436,204 in 2020 to (\$420,660) in 2021. The large change in 2020 was attributable to the \$15 million transfer from HB 1014.

Net position decreased by \$420,660 from \$31,077,018 at the end of year 2020 to \$30,656,358 at the end of year 2021.

Noncurrent net assets excluding equipment (software) increased by \$633,451 from \$6,877,225 in 2020 to \$7,510,676 in 2021. The noncurrent assets consist of the Fund's net loan and equity investments. The net equity investments remained the same at \$250,000 from 2020 to 2021. The equity investments that were charged off during 2020 and 2021 was \$0. The Fund did not make any equity investments in 2021.

Net loans receivable decreased by \$632,557 from \$11,050,157 in 2020 to \$10,417,600 in 2021. The loan investments made increased by \$104,211 from \$29,855,118 in 2020 to \$29,959,329 in 2021. The loan investments charged off during 2021 were \$370,433 as compared to \$0 in 2020. The increase in net loans receivable in 2020 to 2021 was attributable to an increase in loans funded, net of the regular paydown of loans and the amount of write-offs.

Interest receivable on loans increased by \$15,350 to \$156,210.

Current portion of loans receivable decreased from \$4,422,932 in 2020 to \$3,156,924 in 2021. The decrease is attributable to loans maturing in fiscal year 2021.

9 projects were funded totaling \$1,575,723.

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 Statement of Net Position summarizes the assets and liabilities, with the difference between the two reported as net position. 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 position 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.

NORTH DAKOTA DEVELOPMENT FUND, INC
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2021 AND 2020

CONDENSED STATEMENT OF NET POSITION
JUNE 30, 2021, 2020 AND 2019

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets			
Current assets	\$ 22,967,121	\$ 24,204,618	\$ 19,391,283
Capital assets, net	185,101	1,360	3,738
Noncurrent assets	<u>7,510,676</u>	<u>6,877,225</u>	<u>3,259,629</u>
Total noncurrent assets	<u>7,695,777</u>	<u>6,878,585</u>	<u>3,263,367</u>
Total assets	<u>30,662,898</u>	<u>31,083,203</u>	<u>22,654,650</u>
Liabilities and net position			
Current liabilities	<u>6,540</u>	<u>6,185</u>	<u>13,836</u>
Investment in capital assets	185,101	1,360	3,738
Restricted	11,146,179	-	-
Unrestricted	<u>19,325,078</u>	<u>31,075,658</u>	<u>22,637,076</u>
Total net position	<u>\$ 30,656,358</u>	<u>\$ 31,077,018</u>	<u>\$ 22,640,814</u>

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 statement of net position. Additional discussion of cash and cash equivalents can be found in Note 3 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 Note 4 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 statement of net position. Additional analysis of loans receivable can be found in Note 5.

NORTH DAKOTA DEVELOPMENT FUND, INC
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2021 AND 2020

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2021, 2020 AND 2019

	2021	2020	2019
Operating revenues			
Interest income on loans	\$ 858,311	\$ 754,077	\$ 745,580
Dividend income	40,000	105,544	1,746
Other	90,305	46,445	92,619
	988,616	906,066	839,945
Nonoperating revenue			
Interest income on deposits and investments	45,330	88,177	51,819
Total revenue	1,033,946	994,243	891,764
Operating expenses			
General and administrative	329,084	391,698	402,885
Depreciation expense	18,311	2,378	2,378
Bad debt expense	1,107,211	7,163,963	1,372,740
	1,454,606	7,558,039	1,778,003
Transfers			
Bank of North Dakota	-	15,000,000	-
Change in net position	(420,660)	8,436,204	(886,239)
Net position, beginning of year, originally stated	31,077,018	22,640,814	23,527,053
Prior period adjustment - see note 2	-	-	-
Net position - beginning of year, restated	31,077,018	22,640,814	23,527,053
Net position, end of year	\$ 30,656,358	\$ 31,077,018	\$ 22,640,814

Economic Factors and Future Outlook

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact net interest income and dividend income. Other financial impact could occur though such potential impact is unknown at this time.

On March 19, 2020 the Board of Directors voted to suspend loan payments and interest accrual on all NDDF loans where NDDF was not in a participant decision. On April 9, 2020, the Board of Directors voted to extend the COVID relief for an additional two months.

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.

NORTH DAKOTA DEVELOPMENT FUND, INC
STATEMENTS OF NET POSITION
JUNE 30, 2021 AND 2020

Assets	<u>2021</u>	<u>2020</u>
Current assets		
Cash and cash equivalents	\$ 19,653,987	\$ 19,640,826
Interest receivable on loans	156,210	140,860
Current portion of loans receivable	<u>3,156,924</u>	<u>4,422,932</u>
Total current assets	<u>22,967,121</u>	<u>24,204,618</u>
Noncurrent assets		
Loans receivable, net of current portion and allowance	7,260,676	6,627,225
Equity investments, net	250,000	250,000
Equipment, net	<u>185,101</u>	<u>1,360</u>
Total noncurrent assets	<u>7,695,777</u>	<u>6,878,585</u>
Total assets	<u>30,662,898</u>	<u>31,083,203</u>
Liabilities and net position		
Current liabilities		
Accrued expenses	<u>6,540</u>	<u>6,185</u>
Net position		
Investment in capital assets	185,101	1,360
Restricted for:		
Regional Rural Development	10,664,161	-
Child Care	482,018	-
Unrestricted	<u>19,325,078</u>	<u>31,075,658</u>
Total net position	<u>\$ 30,656,358</u>	<u>\$ 31,077,018</u>

See Notes to Financial Statements

NORTH DAKOTA DEVELOPMENT FUND, INC
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Operating revenues		
Interest income on loans	\$ 858,311	\$ 754,077
Dividend income	40,000	105,544
Other	90,305	46,445
	<u>988,616</u>	<u>906,066</u>
Operating expenses		
General and administrative	329,084	391,698
Depreciation expense	18,311	2,378
Provision for losses (change in allowance)	1,107,211	7,163,963
	<u>1,454,606</u>	<u>7,558,039</u>
Operating income (loss)	<u>(465,990)</u>	<u>(6,651,973)</u>
Nonoperating revenue		
Interest income on deposits and investments	<u>45,330</u>	<u>88,177</u>
Transfers		
Bank of North Dakota	<u>-</u>	<u>15,000,000</u>
Change in net position	(420,660)	8,436,204
Net position, beginning of year	<u>31,077,018</u>	<u>22,640,814</u>
Net position, end of year	<u>\$ 30,656,358</u>	<u>\$ 31,077,018</u>

See Notes to Financial Statements

NORTH DAKOTA DEVELOPMENT FUND, INC
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Operating activities		
Other receipts	\$ 90,305	\$ 46,445
Payments to suppliers	(329,439)	(399,349)
Net cash provided (used) by operating activities	(239,134)	(352,904)
Investing activities		
Interest received on cash and cash equivalents and loans	559,916	887,937
Purchase of capital assets	(203,412)	-
Purchase of equity investments	-	(8,368,206)
Proceeds from the sale of equity investments	-	386,792
Disbursements on business loans	(5,356,354)	(3,201,663)
Principal payments received on business loans	5,252,145	2,816,729
Net cash provided (used) by Investing Activities	252,295	(7,478,411)
Non-Cash financing activity		
Transfer	-	15,000,000
Net change in cash and cash equivalents	13,161	7,168,685
Cash and cash equivalents, beginning of year	19,640,826	12,472,141
Cash and cash equivalents, end of year	\$ 19,653,987	\$ 19,640,826
Reconciliation of operating loss to net cash		
Provided by operating activities		
Operating income (loss)	\$ (465,990)	\$ (6,651,973)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	18,311	2,378
Provision for loan losses	(490,195)	473,415
Provision for equity investment losses	1,597,406	6,690,548
Provision interest receivable losses	-	-
Reclassification of interest and dividend income	(898,311)	(859,621)
Changes in assets and liabilities:		
Accrued expense	(355)	(7,651)
Net cash provided (used) by operating activities	\$ (239,134)	\$ (352,904)

See Notes to Financial Statements

NORTH DAKOTA DEVELOPMENT FUND, INC
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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.

Small Business Technology Investment Fund

The Small Business Technology Fund is used to provide matching investments to startup technology-based businesses.

Child Care Fund

The Child Care Fund is used to account for fund investments including loans and loan guarantees for new or expanding child-care facilities in North Dakota.

Venture Capital Loan Program

The Venture Capital Loan Program is used to provide flexible financing through debt and equity investments for new or expanding businesses in the state of North Dakota.

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

NORTH DAKOTA DEVELOPMENT FUND, INC
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021 AND 2020

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.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statements, 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 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 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 of the State of North Dakota.

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.

Revenue and Expense Recognition

The Corporation presents its revenues and expenses as operating or non-operating based on recognition definitions from GASB. 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 non-exchange transactions and state appropriations that represent subsidies or gifts to the Corporation, as well as investment income, are considered non-operating since these are either investing, capital or noncapital financing activities. Operating expenses are all expense transactions

NORTH DAKOTA DEVELOPMENT FUND, INC
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021 AND 2020

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 non-operating activities and are presented after non-operating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Position.

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 maturity of three months or less to be cash equivalents.

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 4).

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.

Capital Assets and Depreciation

All capital assets are recorded in the accompanying financial statements at cost. Donated capital assets are stated at acquisition 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 capital

NORTH DAKOTA DEVELOPMENT FUND, INC
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021 AND 2020

assets are being depreciated on a straight-line basis over estimated useful life of 8 years.

Loans

Loans are reported at their outstanding unpaid principal adjusted for write-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 collectability 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.

NORTH DAKOTA DEVELOPMENT FUND, INC
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021 AND 2020

Restricted Resources

It is the North Dakota Development Fund, Inc.'s policy to first apply restricted resources when an expense is incurred for which both restricted and unrestricted resources are available.

Change in Accounting Principle

The Corporation implemented GASB Statement No. 84, *Fiduciary Activities* in the fiscal year ended June 30, 2021.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to conform to the current year presentations.

NOTE 2 DEPOSITS

The Corporation is required to maintain its deposits at the Bank of North Dakota (a related party). As of June 30, 2021, the Corporation had the following:

	Bank Balance	Less Than 1 Year
Cash		
Bank of North Dakota	\$ 19,653,987	\$ 19,653,987

As of June 30, 2020, the Corporation had the following:

	Bank Balance	Less Than 1 Year
Cash		
Bank of North Dakota	\$ 19,640,826	\$ 19,640,826

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of the investments.

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 are with the Bank of North Dakota.

NORTH DAKOTA DEVELOPMENT FUND, INC
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021 AND 2020

NOTE 3 EQUITY INVESTMENTS

Equity investments in business concerns as of June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Development fund venture capital	\$ 500,000	\$ 500,000
Valuation allowance - other than temporary impairment	<u>(250,000)</u>	<u>(250,000)</u>
Equity investments, net of allowance	<u>\$ 250,000</u>	<u>\$ 250,000</u>

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.

Changes in the valuation allowance for equity investments as of June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 250,000	\$ 2,871,812
Provision for equity investment losses	-	6,532,233
Transfers	-	<u>(9,154,045)</u>
Balance, end of year	<u>\$ 250,000</u>	<u>\$ 250,000</u>

NORTH DAKOTA DEVELOPMENT FUND, INC
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021 AND 2020

NOTE 4 LOANS RECEIVABLE

Loans receivable at June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Development Fund	\$ 13,709,900	\$ 14,583,491
Regional rural development revolving loan fund	5,921,706	6,142,975
Small business technology fund	50,000	50,000
Child care program	1,790,059	2,009,573
Development fund venture capital	<u>8,487,664</u>	<u>7,069,079</u>
	29,959,329	29,855,118
Allowance for loan losses	<u>(19,541,729)</u>	<u>(18,804,961)</u>
Loans receivable, net of allowance for losses	10,417,600	11,050,157
Less: current portion of loans receivable	<u>3,156,924</u>	<u>4,422,932</u>
Loans receivable, net of current portion	<u><u>\$ 7,260,676</u></u>	<u><u>\$ 6,627,225</u></u>

Changes in the allowance for loan losses as of June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 18,804,961	\$ 9,335,903
Provision for loan losses (reserve decrease)	1,107,211	315,013
Transfers	-	9,154,045
Write-offs	<u>(370,443)</u>	<u>-</u>
Balance, end of year	<u><u>\$ 19,541,729</u></u>	<u><u>\$ 18,804,961</u></u>

NORTH DAKOTA DEVELOPMENT FUND, INC
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021 AND 2020

NOTE 5 EQUIPMENT

A statement of changes in fixed assets for the years ended June 30, 2021 and 2020 are as follows:

	Balance 6/30/20	Additions	Deletions	Balance 6/30/21
Furniture and equipment	\$ 37,539	\$ -	\$ (37,539)	\$ -
Computer software	48,345	203,412	(48,345)	203,412
Accumulated depreciation	(84,524)	(18,311)	84,524	(18,311)
	\$ 1,360	\$ 185,101	\$ (1,360)	\$ 185,101
	Balance 6/30/19	Additions	Deletions	Balance 6/30/20
Furniture and equipment	\$ 37,539	\$ -	\$ -	\$ 37,539
Computer software	48,345	-	-	48,345
Accumulated depreciation	(82,146)	(2,378)	-	(84,524)
	\$ 3,738	\$ (2,378)	\$ -	\$ 1,360

NOTE 6 COMMITMENTS AND CONTINGENCIES

Development Fund

The Board of Directors has approved equity investments, loans, grants and guaranty of collections at June 30, 2021 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$875,054.

Regional Rural Development Revolving Loan Fund

The Board of Directors has approved equity investments, loans, and guaranty of collections at June 30, 2021 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$675,000.

Child Care Loan Fund

The Board of Directors has approved equity investments, loans, and guaranty of collections at June 30, 2021 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$4,484.

Development Fund Venture Capital Fund

The Board of Directors has approved equity investments, loans, and guaranty of collections at June 30, 2021 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$228,824.

NORTH DAKOTA DEVELOPMENT FUND, INC
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021 AND 2020

NOTE 7 RELATED PARTY TRANSACTIONS

The financial statements of the North Dakota Development Fund, Inc. include loans receivables in entities partially owned by members of the Board of Directors. The related party loans receivables have a balance of \$1,514,256 and \$814,906 as of June 30, 2021 and 2020, respectively.

NOTE 8 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 \$2,000,000. The State Bonding Fund does not currently charge any premium for this coverage.

The Corporation participates in the North Dakota Workforce Safety and Insurance, (WSI) an Enterprise Fund of the State of North Dakota. WSI 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 during 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.

NOTE 9 TRANSFERS

During the year ended June 30, 2020, the North Dakota Development Fund received a transfer of \$15,000,000 from the Bank of North Dakota. Per House Bill 1014, the North Dakota Development Fund used a portion of these proceeds to purchase venture capital assets from the Bank of North Dakota.

NOTE 10 SUBSEQUENT EVENTS

The corporation approved three loans after year end totaling \$5,550,000 that have not been fully advanced. Subsequent events have been evaluated through December 3, 2021, which is the date these financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

NORTH DAKOTA DEVELOPMENT FUND, INC
COMBINING STATEMENTS OF NET POSITION
JUNE 30, 2021 AND 2020

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	Development Fund Venture Capital	2021	2020 (Memorandum only)
Assets							
Current assets							
Cash and cash equivalents	\$ 7,928,384	\$ 7,305,767	\$ 438,371	\$ 971,696	\$ 3,009,769	\$ 19,653,987	\$ 19,640,826
Interest receivable on loans	63,932	85,102	4,742	-	2,434	156,210	140,860
Current portion of loans receivable	1,713,344	523,432	6,119	-	914,029	3,156,924	4,422,932
Total current assets	9,705,660	7,914,301	449,232	971,696	3,926,232	22,967,121	24,204,618
Noncurrent assets							
Loans receivable, net of current portion and allowance	3,589,862	2,749,860	906,536	-	14,418	7,260,676	6,627,225
Interfund balances	873,750	-	(873,750)	-	-	-	-
Equity Investments, net	-	-	-	-	250,000	250,000	250,000
Equipment, net	185,101	-	-	-	-	185,101	1,360
Total noncurrent assets	4,648,713	2,749,860	32,786	-	264,418	7,695,777	6,878,585
Total assets	14,354,373	10,664,161	482,018	971,696	4,190,650	30,662,898	31,083,203
Liabilities and net position							
Current liabilities							
Accrued expenses	6,540	-	-	-	-	6,540	6,185
Net position							
Investment in capital assets	185,101	-	-	-	-	185,101	1,360
Restricted	-	10,664,161	482,018	-	-	11,146,179	-
Unrestricted	14,162,732	-	-	971,696	4,190,650	19,325,078	31,075,658
Total net position	\$ 14,347,833	\$ 10,664,161	\$ 482,018	\$ 971,696	\$ 4,190,650	\$ 30,656,358	\$ 31,077,018

NORTH DAKOTA DEVELOPMENT FUND, INC
COMBINING STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	Development Fund Venture Capital	2021	2020 (Memorandum only)
Operating revenues							
Interest income on loans	\$ 446,640	\$ 263,435	\$ 45,490	\$ 2,092	\$ 100,654	\$ 858,311	\$ 754,077
Dividend income	-	-	-	-	40,000	40,000	105,544
Other	55,567	17,811	1,914	-	15,013	90,305	46,445
	<u>502,207</u>	<u>281,246</u>	<u>47,404</u>	<u>2,092</u>	<u>155,667</u>	<u>988,616</u>	<u>906,066</u>
Operating expenses							
General and administrative	327,272	-	1,812	-	-	329,084	391,698
Depreciation expense	18,311	-	-	-	-	18,311	2,378
Provision for losses (change in allowance)	(244,982)	(178,770)	(111,031)	-	1,641,994	1,107,211	7,163,963
	<u>100,601</u>	<u>(178,770)</u>	<u>(109,219)</u>	<u>-</u>	<u>1,641,994</u>	<u>1,454,606</u>	<u>7,558,039</u>
Operating income (loss)	<u>401,606</u>	<u>460,016</u>	<u>156,623</u>	<u>2,092</u>	<u>(1,486,327)</u>	<u>(465,990)</u>	<u>(6,651,973)</u>
Nonoperating revenue							
Interest income on deposits and investments	19,772	21,228	305	129	3,896	45,330	88,177
Transfers							
Bank of North Dakota	-	-	-	-	-	-	15,000,000
Change in net position	421,378	481,244	156,928	2,221	(1,482,431)	(420,660)	8,436,204
Net position - beginning of year	13,926,455	10,182,917	325,090	969,475	5,673,081	31,077,018	22,640,814
Net position - end of year	<u>\$ 14,347,833</u>	<u>\$ 10,664,161</u>	<u>\$ 482,018</u>	<u>\$ 971,696</u>	<u>\$ 4,190,650</u>	<u>\$ 30,656,358</u>	<u>\$ 31,077,018</u>

NORTH DAKOTA DEVELOPMENT FUND, INC
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	Development Fund Venture Capital	2021	2020
Operating activities							
Other receipts	\$ 55,567	\$ 17,811	\$ 1,914	\$ -	\$ 15,013	\$ 90,305	\$ 46,445
Payments to suppliers	(327,627)	-	(1,812)	-	-	(329,439)	(399,349)
Net cash provided (used) by operating activities	<u>(272,060)</u>	<u>17,811</u>	<u>102</u>	<u>-</u>	<u>15,013</u>	<u>(239,134)</u>	<u>(352,904)</u>
Investing activities							
Interest received on cash and cash equivalents and loans	281,478	215,564	43,538	2,221	17,115	559,916	887,937
Purchase of capital assets	(203,412)	-	-	-	-	(203,412)	-
Purchase of equity investments	-	-	-	-	-	-	(8,368,206)
Proceeds from the sale of equity investments	-	-	-	-	-	-	386,792
Disbursements on business loans	(2,145,095)	(590,625)	(713,888)	-	(1,906,746)	(5,356,354)	(3,201,663)
Principal payments received on business loans	3,018,688	811,894	933,402	-	488,161	5,252,145	2,816,729
Net cash provided (used) by Investing Activities	<u>951,659</u>	<u>436,833</u>	<u>263,052</u>	<u>2,221</u>	<u>(1,401,470)</u>	<u>252,295</u>	<u>(7,478,411)</u>
Non-cash financing activity							
Transfer	-	-	-	-	-	-	15,000,000
Net change in cash and cash equivalents	679,599	454,644	263,154	2,221	(1,386,457)	13,161	7,168,685
Cash and cash equivalents, beginning of year	7,248,785	6,851,123	175,217	969,475	4,396,226	19,640,826	12,472,141
Cash and cash equivalents, end of year	<u>\$ 7,928,384</u>	<u>\$ 7,305,767</u>	<u>\$ 438,371</u>	<u>\$ 971,696</u>	<u>\$ 3,009,769</u>	<u>\$ 19,653,987</u>	<u>\$ 19,640,826</u>
Reconciliation of operating loss to net cash							
Provided by operating activities							
Operating income (loss)	\$ 401,606	\$ 460,016	\$ 156,623	\$ 2,092	\$ (1,486,327)	\$ (465,990)	\$ (6,651,973)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities							
Depreciation	18,311	-	-	-	-	18,311	2,378
Provision for loan losses	(316,362)	(61,578)	(111,031)	-	(1,224)	(490,195)	473,415
Provision for equity investment losses	71,380	(117,192)	-	-	1,643,218	1,597,406	6,690,548
Provision for interest receivable loss	-	-	-	-	-	-	-
Reclassification of interest and dividend income	(446,640)	(263,435)	(45,490)	(2,092)	(140,654)	(898,311)	(859,621)
Changes in assets and liabilities:							
Accrued expense	(355)	-	-	-	-	(355)	(7,651)
Net cash provided (used) by operating activities	<u>\$ (272,060)</u>	<u>\$ 17,811</u>	<u>\$ 102</u>	<u>\$ -</u>	<u>\$ 15,013</u>	<u>\$ (239,134)</u>	<u>\$ (352,904)</u>

**INDEPEDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

Governor of North Dakota
The Legislative Assembly

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

We have audited, 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, the financial statements of North Dakota Development Fund, Inc, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Corporation’s basic financial statements, and have issued our report thereon dated December 3, 2021. We expressed an adverse opinion on the remaining fund information, as the fiduciary net position was omitted from the North Dakota Development Fund, Inc.’s financial statements.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and

responses as items 2021-001 and 2021-002 that we consider to be to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

North Dakota Development Fund Inc.'s Response to Findings

North Dakota Development Fund, Inc.'s responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. North Dakota Development Fund, Inc.'s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA**

December 3, 2021

NORTH DAKOTA DEVELOPMENT FUND, INC
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2021

2021-001: Preparation of Financial Statements

Criteria

An appropriate system of internal controls requires the Corporation to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition

The Corporation's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the Corporation does not prepare financial statements, including accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The Corporation has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The Corporation elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatements to the Corporation's financial statements.

Recommendations

We recommend the Corporation consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control the entity should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

Since it is not cost-effective for an organization our size to have staff to prepare audit-ready financial statements, we have chosen to hire Brady, Martz & Associates, P.C., a public accounting firm, to prepare the audit financial statements as part of their annual audit of North Dakota Development Fund, Inc.

2021-002: Proposition of Journal Entries

Criteria

The Corporation is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition

During our audit, adjusting entries to the financial statements were proposed in order to properly reflect the financial statements in accordance with GAAP.

NORTH DAKOTA DEVELOPMENT FUND, INC
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
JUNE 30, 2021

Cause

The Corporation's internal controls have not been designed to address the specific training needs required of its personnel to identify the adjustments necessary to properly reflect the financial statements in accordance with GAAP.

Effect

The Corporation's financial statements were materially misstated prior to adjustments detected as a result of audit procedures.

Recommendation

Accounting personnel will need to determine the proper balance in each general ledger account prior to the audit.

Views of Responsible Officials and Planned Corrective Actions

The material misstatements found this year were a one-time transaction needed to bring an off-balance sheet item on-balance sheet. The NDDF transitioned to a new accounting system and determined it was the adequate time to make key adjusting entries that will streamline processes going forward.

INDEPENDENT AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

Governor of North Dakota
The Legislative Assembly

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

The Legislative Audit and Fiscal Review Committee require that certain items be addressed by independent certified public accountants performing audits of State agencies. The items and our responses regarding the June 30, 2021 audit of the North Dakota Development Fund, Inc are as follows:

Audit Report Communications:

1. What type of opinion was issued on the financial statements?

Unmodified and Adverse. The financial information for the New Venture Capital Program Fund, which is the Fund we expressed an adverse opinion on, was omitted as this information is reported in the Bank of North Dakota's financial statements.

2. Was there compliance with statutes, laws, rules and regulations under which the agency was created and is functioning?

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No.

5. Was action taken on prior audit findings and recommendations?

No, please see findings 2021-001 and 2021-002 noted on the Schedule of Findings and Responses.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

Yes. We recommend management formally document their review process of bank reconciliations.

Audit Committee Communications:

1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.

None

2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.

The most sensitive estimates affecting the financial statements include the allowances for uncollectible loans receivable and valuation allowances for equity investments.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability 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.

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.

Our opinion on the reasonableness of these estimates is based on the testing performed during our audit procedures. Our procedures included assessing the risk assigned by the Development Fund to the loans and equity investments, evaluation of the past history of these amounts, discussion with management, and review of recent information regarding the loans and investments.

3. Identify any significant audit adjustments.

Significant adjustments were made to reconcile beginning equity, to adjust interest receivable and interest income and to adjust the allowance for doubtful accounts.

4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.

None.

5. Identify any serious difficulties encountered in performing the audit.

None.

6. Identify any major issues discussed with management prior to retention.

None.

7. Identify any management consultations with other accountants about auditing and accounting matters.

None.

8. Identify any high-risk technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six report questions to be addressed by auditors are directly related to the operations of an information technology system.

Based on the audit procedures performed, the North Dakota Development Fund, Inc's critical information technology system is SPARAK and iCore. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information and use of the Governor, Legislative Audit and Fiscal Review Committee, Board of Directors, and management, and is not intended to be and should not be used by anyone other than these specified parties



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