

AG PACE FUND

FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

AG PACE FUND

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the accompanying financial statements of the governmental activities of the Ag PACE Fund, a department of the State of North Dakota, as of June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Ag PACE Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 that our audits provide a reasonable basis for our opinion.

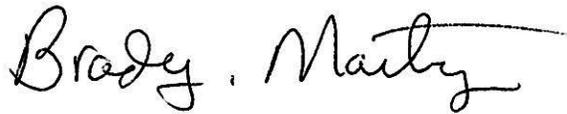
As discussed in Note 1, the financial statements present only the Ag PACE Fund and do not purport to, and do not, present fairly the financial position and results of the operations and cash flows of the State of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ag PACE Fund as of June 30, 2011 and 2010, and the results of its operations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Ag PACE Fund adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Fund Type Definitions*, in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2011, on our consideration of the Ag PACE Fund'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 to 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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.

A handwritten signature in cursive script that reads "Brady, Martz". The signature is written in black ink and is positioned above the company name.

BRADY, MARTZ & ASSOCIATES, P.C.

August 29, 2011

**AG PACE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011 AND 2010**

The management discussion and analysis of the Ag PACE Fund's financial performance provides an overview of the Ag PACE Fund's financial activities for the fiscal year ended June 30, 2011 and 2010. Please read it in conjunction with the financial statements of the Ag PACE Fund.

FINANCIAL HIGHLIGHTS:

The purpose of the Ag PACE (Agriculture Partnership in Assisting Community Expansion) Fund is to buydown the interest rate on loans to on-farm businesses. The program is available to businesses which may include nontraditional agriculture, manufacturing, processing, value-added processing, targeted service industries, or other activities calculated to provide income. Other activities include the purchase of irrigation equipment, the purchase of equity shares issued by a new or expanding value-added processing business, the purchase of capital improvements for retention of livestock, or the purchase of capital improvements for dairy operations.

Ag PACE program recognizes two rates: Yield Rate and Borrowing Rate. The yield rate is the rate charged by the lead lender for the loan. The borrowing rate is the rate charged to the borrower. The interest differential is the difference between the yield rate and the borrowing rate. This difference is paid to the lead lender under an agreement among the lead lender, the borrower, and the Bank of North Dakota on behalf of the Ag PACE Fund.

The Ag PACE fund provides buydown dollars, to the extent available, to reduce the borrower's interest rate by a maximum of five percent (5%) and may not be less than one percent (1%). The maximum buydown amount per borrower may not exceed a biennium cap of \$20,000 with a lifetime cap of \$60,000. In order to receive buydown funds in excess of \$20,000, the applicant must have a net worth of less than \$1,000,000.

Ag PACE loans are made by a lead lender in participation with Bank of North Dakota. Currently there are 254 Ag PACE loans outstanding. The total principal outstanding is \$6,112,233. The remaining amount of buydown interest to be paid by this Fund on these loans is \$1,069,222. Of the total outstanding amount, there were 10 loans totaling \$1,434,550 made during the year ended June 30, 2011 in comparison to 19 loans totaling \$1,593,010 made in the year ended June 30, 2010 and 33 loans totaling \$2,868,055 made in the year ended June 30, 2009. Loans funded in the year ended June 30, 2011 will require \$223,570 in buydown interest during the life of the loans. There are no pending loan commitments as of June 30, 2011.

As of June 30, 2011, interest buydown funds of \$860,134 were remaining from the 2009-2011 biennium. A total of \$1,276,7304 was available for the 2009-2011 biennium as follows:

\$1,400,000	Legislative Appropriation
222,933	Carry Forward from 2007-2009 Biennium
(400,000)	Transfer to Pace Fund on 6/30/2011
<u>53,797</u>	Adjustments on Defaulted or Prepaid Loans
\$1,276,730	

In addition, Senate Bill 2014 provides for a onetime appropriation of \$1,000,000 for the Ag PACE Fund to assist those farmers and livestock producers that suffered extraordinary losses directly as a result of the weather-related events in the winter and spring of 2009. Any Ag PACE disaster program funds not obligated by January 1, 2011 shall be returned to the general fund. Bank of North Dakota may transfer funds available in the PACE and Biofuels PACE programs to the Ag PACE program for providing additional funds for the disaster program for the biennium beginning July 1, 2009, and ending June 30, 2011.

MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED

With the carry forward of \$222,933, an appropriation of \$1,400,000 for the 2009-2011 biennium, the Ag PACE Fund continues to have adequate resources to meet its mission. The statements of revenues, expenditures and changes in fund balance identifies the operating transfers from the general fund which provide sufficient resources to provide for buydown interest on loans.

REQUIRED FINANCIAL STATEMENTS:

The Ag PACE Fund is a special revenue fund and uses the modified accrual basis of accounting. The basic financial statements include the balance sheet and the statement of revenues, expenditures and changes in fund balances. The balance sheet provides readers the assets and liabilities of the Ag PACE Fund, with the differences between the two reported as fund balances. The statement of revenues, expenditures and changes in fund balances identifies the operating performances of the Ag PACE Fund for the year.

**CONDENSED BALANCE SHEETS
JUNE 30, 2011, 2010 AND 2009**

	(In Thousands)		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
ASSETS			
Cash deposits	\$ 860	\$ 1,425	\$ 271
Prepaid Interest	<u>1,069</u>	<u>1,386</u>	<u>1,756</u>
	<u>\$ 1,929</u>	<u>\$ 2,811</u>	<u>\$ 2,027</u>
 LIABILITIES	 \$ -	 \$ -	 \$ -
 FUND BALANCE	 <u>1,929</u>	 <u>2,811</u>	 <u>2,027</u>
Total liabilities and fund balance	<u>\$ 1,929</u>	<u>\$ 2,811</u>	<u>\$ 2,027</u>

Prepaid Interest

Prepaid interest represents reserved funds that have been paid to the Bank of North Dakota to buydown the interest for qualifying loans.

Fund Balance

The Fund Balance represents funds available to the Ag PACE program. The Fund balance decreased by \$882,000 or a 31% decrease from 2010 to 2011. The Fund balance increased \$784,000 or a 39% increase from 2009 to 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

CONDENSED STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 2011, 2010 AND 2009

	(In Thousands)		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
REVENUES - Interest income	\$ -	\$ -	\$ -
EXPENDITURES - Buydown interest	<u>482</u>	<u>616</u>	<u>767</u>
EXCESS OF EXPENDITURES OVER REVENUES	(482)	(616)	(767)
OPERATING TRANSFER IN (OUT)	<u>(400)</u>	<u>1,400</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(882)	784	(767)
FUND BALANCE, BEGINNING OF YEAR	<u>2,811</u>	<u>2,027</u>	<u>2,794</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,929</u>	<u>\$ 2,811</u>	<u>\$ 2,027</u>

Expenses

The monies that are being paid to the Bank of North Dakota to buydown the interest rate for qualifying loans are paid in advance. Prepaid interest is amortized over the life of the loans based upon the repayment terms of the individual qualifying loan.

Operating Transfers Out/In

During the year ended June 30, 2011, \$400,000 was transferred to the PACE fund.

During the year ended June 30, 2010, a legislative appropriation of \$1,400,000 was transferred to the Ag PACE Fund.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Ag PACE Fund's finances and to demonstrate the Ag PACE Fund's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Bank of North Dakota, P.O. Box 5509, Bismarck, North Dakota 58506-5509.

AG PACE FUND
BALANCE SHEETS
JUNE 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash deposits at the Bank of North Dakota	\$ 860,132	\$ 1,424,766
Cash deposits at the Bank of North Dakota for buydowns committed	<u>1,069,222</u>	<u>1,386,409</u>
	<u>\$ 1,929,354</u>	<u>\$ 2,811,174</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCE		
Committed	<u>1,929,354</u>	<u>2,811,174</u>
Total fund balance	<u>1,929,354</u>	<u>2,811,174</u>
Total liabilities and fund balance	<u>\$ 1,929,354</u>	<u>\$ 2,811,174</u>

AG PACE FUND**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
REVENUES		
Interest income	\$ -	\$ -
EXPENDITURES		
Buydown interest	<u>481,820</u>	<u>615,751</u>
EXPENDITURES OVER REVENUES	(481,820)	(615,751)
OTHER FINANCING SOURCES (USES)		
Operating transfer in (out)	<u>(400,000)</u>	<u>1,400,000</u>
NET CHANGE IN FUND BALANCE	(881,820)	784,249
FUND BALANCE, BEGINNING OF YEAR	<u>2,811,174</u>	<u>2,026,925</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,929,354</u>	<u>\$ 2,811,174</u>

AG PACE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Section 6-09.13 of the North Dakota Century Code (NDCC) established the Agriculture Partnership in Assisting Community Expansion (Ag PACE) Fund. The fund is revolving and all moneys transferred into the fund, interest on fund moneys and payments to the fund are appropriated for the purposes of the fund. The Bank of North Dakota supervises and administers the Ag PACE Fund. The purpose of the Ag PACE Fund is to buydown the interest rate on loans made by a lead financial institution in participation with the Bank of North Dakota. The Bank of North Dakota's participation may not exceed 80% nor be less than 50% of the total loan.

Loans eligible for the buydown are loans to on-farm North Dakota businesses that are using the proceeds to purchase real property or equipment, expand their facility, acquire working capital or inventory, purchase of irrigation equipment, equity shares in a value-added, ag-processing business or capital improvements for retention of livestock or dairy operations. The loan funds cannot be used to refinance any existing debt.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the Ag PACE Fund should include all component units over which the Ag PACE Fund 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 financial burdens on, the Ag PACE Fund.

Based on the criteria of GASB Statement No. 14, no organizations were determined to be part of the reporting entity. The Ag PACE Fund is included as part of the primary government of the State of North Dakota's (State) reporting entity.

Accounting Standards and Adoptions of Accounting Policies

The Ag PACE Fund follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting standards for governmental entities.

Fund Accounting

The Ag PACE Fund is a special revenue fund and uses the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. measurable and available). Measurable means the amount of the transaction can be determined. Available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The State has defined available as being collected within one year.

Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Special revenue funds are accounted for using current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements for these funds present increases (e.g., revenues and other financing sources) and decreases (e.g., expenditures and other financing uses) in net current assets.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Fund Balance Classifications

Governmental funds classify fund balance based on the constraints imposed on the uses of these resources. The spendable portion of the fund balance consists of committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by the North Dakota State Legislature – the government’s highest level of decision making authority. These committed amounts cannot be used for any other purpose unless the Legislature removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Implementation of New Accounting Principle

The Ag PACE Fund implemented GASB Statement No. 54, *Fund Balance Reporting and Fund Type Definitions* during the year ending June 30, 2011. GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of fund types are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they chose to report in those funds. Definitions of other governmental fund types also have been modified for clarity and consistency.

Reclassifications

Certain balances in the 2010 financial statements were reclassified for comparative purposes to conform to the presentation of the 2011 financial statements, which implemented GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions. \$44,072 of fund balance reserved for legally contracted interest buydowns, and \$1,380,693 of fund balance designated for interest buydown commitments were both reclassified to committed fund balance. These reclassifications had no effect on the change in fund balance.

NOTE 2 - DEPOSITS

The carrying value and bank balance of the Ag PACE Fund’s cash deposits at June 30, 2011 and 2010 was \$860,132 and \$1,424,766. Of the bank amounts, none were insured or collateralized with securities held by the entity or its agent in the entity’s name; none were collateralized with securities held by the counterparty’s trust department or agent in the entity’s name; and \$860,132 and \$1,424,766 were either collateralized with securities held by the counterparty or by its trust department or agent but not in the entity’s name, or collateralized. These moneys are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Custodial and Concentration of Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Fund does not have a formal policy that limits custodial credit risk for deposits. None of the Fund’s deposits are covered by depository insurance. The Fund’s deposits are uncollateralized and all of the deposits are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 3 - CASH DEPOSITS AT BANK OF NORTH DAKOTA FOR BUYDOWNS COMMITTED

The monies that are being paid to the Bank of North Dakota to buydown the interest rate for qualifying loans are paid in advance. Buydown interest is amortized over the life of the loans based upon the repayment terms of the individual qualifying loan.

NOTE 4 - INTERFUND TRANSACTIONS AND SUBSEQUENT EVENTS

The Ag PACE Fund is supervised and administered by the Bank of North Dakota. All cash accounts are deposited in the Bank of North Dakota. In lieu of an administrative fee, the Bank of North Dakota does not pay interest to the Ag PACE Fund on the cash accounts held at the Bank of North Dakota. Interest buydowns amortized into interest expense totaled \$481,820 and \$615,751 in 2011 and 2010, of which approximately 52% accrued to the Bank of North Dakota.

The 2009 North Dakota Legislature passed Senate Bill 2014 that provides an appropriation of \$1,400,000 from the North Dakota General Fund to the Ag PACE Fund during the biennium beginning July 1, 2009 and ending June 30, 2011. In addition, Senate Bill 2014 provides for a onetime appropriation of \$1,000,000 for the Ag PACE Fund to assist those farmers and livestock producers that suffered extraordinary losses directly as a result of the weather-related events in the winter and spring of 2009. Any Ag PACE disaster program funds not obligated by January 1, 2011 shall be returned to the general fund. Bank of North Dakota may transfer funds available in the PACE and Biofuels PACE programs to the Ag PACE program for providing additional funds for the disaster program for the biennium beginning July 1, 2009, and ending June 30, 2011. No funds were transferred to the Ag PACE program under this appropriation as of June 30, 2011.

NOTE 5 - RISK MANAGEMENT

The Ag PACE Fund is exposed to various risks of loss related to torts and errors and omissions. The Ag PACE Fund is administered by the Bank of North Dakota and, therefore, is eligible to the same funds/pools established by the state for risk management issues. These include:

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 participating 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 State Bonding Fund currently provides the Fund with blanket employee fidelity bond coverage in the amount of \$2,000,000. The State Bonding Fund does not currently charge any premium for this coverage.

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.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the governmental activities of the Ag PACE Fund, as of and for the year ended June 30, 2011, which collectively comprise the Ag PACE Fund's basic financial statements and have issued our report thereon dated August 29, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ag PACE Fund’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ag PACE Fund’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ag PACE Fund’s internal control over financial reporting.

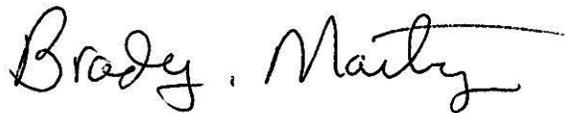
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ag PACE Fund's financial statements are free of 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 determination of financial statement amounts. 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*.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee and management of the Ag PACE Fund, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brady, Martz". The signature is written in a cursive, flowing style with a long horizontal line extending from the end of the name.

BRADY, MARTZ & ASSOCIATES, P.C.

August 29, 2011



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**AG PACE FUND
AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED JUNE 30, 2011**

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

Audit Report Communications:

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

An unqualified opinion was issued on the 2011 financial statements.

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

Yes - A review was made of Chapter 6-09.13 and other pertinent chapters of the North Dakota Century Code and we felt the Agency operated within the statutes, laws, rules and regulations under which it was created.

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. Has action been taken on findings and recommendations included in prior year audit reports?

There were no prior year findings.

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

No

Audit Committee Communications:

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

As described in Note 1 to the financial statements, the Ag PACE Fund changed accounting policies related to fund balance by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 54, Fund Balance Reporting and Fund Type Definitions, in 2011. Accordingly, the June 30, 2010 have been restated to also reflect the implementation of this new standard.

- 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.**

None.

- 3. Identify any significant audit adjustments.**

None.

- 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 Ag PACE Fund's critical information technology system is the Fiserv system. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

August 29, 2011



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S COMMUNICATION
TO THE INDUSTRIAL COMMISSION OF NORTH DAKOTA**

To the Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the Ag PACE Fund for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in January of 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Ag PACE Fund are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Ag PACE Fund changed accounting policies related to fund balance by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 54, *Fund Balance Reporting and Fund Type Definitions*, in 2011. Accordingly, the June 30, 2010 have been restated to also reflect the implementation of this new standard. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Management has corrected all such misstatements.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 29, 2011.

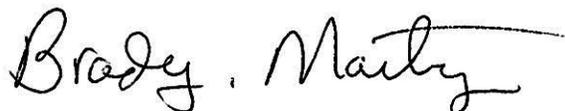
Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Industrial Commission and management of Ag PACE and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Brady, Martz". The signature is written in black ink and is positioned above the printed name of the firm.

BRADY, MARTZ & ASSOCIATES, P.C.

August 29, 2011