



Financial Statements
June 30, 2013 and 2012
Ag Pace Fund

AG PACE FUND

Table of Contents

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT		1
MANAGEMENT’S DISCUSSION AND ANALYSIS		3
FINANCIAL STATEMENTS		
Balance Sheets		7
Statements of Revenues, Expenditures and Changes in Fund Balance		8
Notes to Financial Statements		9
EXHIBITS		
Independent 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 <i>Government Auditing Standards</i>	A-1	12
Independent Auditor’s Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee	A-2	14
Independent Auditor’s Communication to the Industrial Commission of North Dakota	B-1	16



Independent Auditor's Report

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the Ag Pace Fund, a special revenue fund of the State of North Dakota as of and for the year ended June 30, 2013, and the related notes to the 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 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 audit opinion.

Opinion

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, 2013, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Ag Pace Fund are intended to present the financial position and the changes in financial position of only that portion of the governmental activities of the State of North Dakota that is attributable to the transactions of the Ag Pace Fund. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2013 and 2012 and 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

The financial statements of the Ag Pace Fund as of and for the year ended June 30, 2012, were audited by other auditors whose report dated August 27, 2013, expressed an unqualified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2013 on our consideration of the Ag Pace Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 Ag Pace Fund's internal control over financial reporting and compliance.



Aberdeen, South Dakota
October 15, 2013

AG PACE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

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, 2013 and comparative data for 2012 and 2011. 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 buy down 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 financing of subsurface field tiling projects, 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 219 Ag PACE loans outstanding. The total principal outstanding is \$23,220,897, of which Bank of North Dakota participates in \$8,570,825. The remaining amount of buydown interest to be paid by this Fund on these loans is \$1,742,573. Of the total outstanding amount, there were 59 loans totaling \$8,081,882 made during the year ended June 30, 2013 in comparison to 35 loans totaling \$4,126,607 made in the year ended June 30, 2012 and 10 loans totaling \$1,434,550 made in the year ended June 30, 2011. Loans funded in the year ended June 30, 2013 will require \$989,013 in buydown interest during the life of the loans. There are 12 pending loan commitments totaling \$1,513,500 as of June 30, 2013.

As of June 30, 2013, interest buydown funds of \$144,853 were remaining from the 2011-2013 biennium. A total of \$1,892,217 was available for the 2011-2013 biennium as follows:

\$1,000,000	Legislative Appropriation
860,134	Carry Forward from 2009-2011 Biennium
3,000,000	Transfer from Beginning Farmer
(4,000,000)	Transfer to Flex Pace
1,000,000	Transfer from Beginning Farmer
<u>32,082</u>	Adjustments on Defaulted or Prepaid Loans
\$1,892,217	

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 other State of North Dakota funds which provide sufficient resources to provide for buydown interest on loans.

MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED

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 sheets and the statements of revenues, expenditures and changes in fund balance. The balance sheet provides readers the assets and liabilities of the Ag PACE Fund, with the differences between the two reported as fund balance. The statements of revenues, expenditures and changes in fund balance identifies the operating performances of the Ag PACE Fund for the year.

**CONDENSED BALANCE SHEETS
JUNE 30, 2013, 2012 AND 2011**

	(In Thousands)		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
ASSETS			
Cash deposits	\$ 351	\$ 315	\$ 860
Cash deposits for buy downs committed	<u>1,743</u>	<u>1,236</u>	<u>1,069</u>
	<u>\$ 2,094</u>	<u>\$ 1,551</u>	<u>\$ 1,929</u>
LIABILITIES			
	\$ -	\$ -	\$ -
FUND BALANCE			
	<u>2,094</u>	<u>1,551</u>	<u>1,929</u>
Total liabilities and fund balance	<u>\$ 2,094</u>	<u>\$ 1,551</u>	<u>\$ 1,929</u>

Cash Deposits for Buy Downs Committed

Cash deposits for buy downs committed represents reserved funds that are held by the Bank of North Dakota to buydown the interest for qualifying loans. Cash deposits for buy downs committed has increased in 2013 and 2012 by 41% and 15.6%, respectively, primarily due to an increase in committed buydowns.

Fund Balance

Fund balance represents funds available to the Ag PACE program. Fund balance increased by \$543,000 or a 35% increase from 2012 to 2013 primarily due to a \$1,000,000 transfer from the Beginning Farmer Revolving Loan Fund. Fund balance decreased \$378,000 or a 20% decrease from 2011 to 2012 primarily due to a decrease in interest buydown expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

CONDENSED STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEARS ENDED JUNE 30, 2013, 2012 AND 2011

	(In Thousands)		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
REVENUES - Interest income	\$ -	\$ -	\$ -
EXPENDITURES - Buydown interest	<u>457</u>	<u>378</u>	<u>482</u>
EXCESS OF EXPENDITURES OVER REVENUES	(457)	(378)	(482)
OPERATING TRANSFERS IN	1,000	4,000	-
OPERATING TRANSFERS (OUT)	<u>-</u>	<u>(4,000)</u>	<u>(400)</u>
NET CHANGE IN FUND BALANCE	543	(378)	(882)
FUND BALANCE, BEGINNING OF YEAR	<u>1,551</u>	<u>1,929</u>	<u>2,811</u>
FUND BALANCE, END OF YEAR	<u>\$ 2,094</u>	<u>\$ 1,551</u>	<u>\$ 1,929</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 and are amortized over the life of the loans based upon the repayment terms of the individual qualifying loan. Interest expense increased by \$79,000 or a 20.9% increase from 2012 to 2013 primarily due to increased activity. Interest expense decreased by \$104,000 or a 21.6% decrease from 2011 to 2012 primarily due to a decrease in buydown interest expenditures.

Operating Transfers Out/In

During the year ended June 30, 2013, the Beginning Farmer Revolving Loan Fund transferred \$1,000,000 to the Ag PACE Fund.

During the year ended June 30, 2012, \$4,000,000 was transferred to the Flex PACE Fund.

During the year ended June 30, 2012, the Beginning Farmer Revolving Loan Fund transferred \$3,000,000 to the Ag PACE Fund.

During the year ended June 30, 2012, a legislative appropriation of \$1,000,000 was transferred to the Ag PACE Fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

ECONOMIC FACTORS AND FUTURE OUTLOOK

The 2013 North Dakota Legislature passed Senate Bill 2014 that authorizes the Bank of North Dakota to transfer \$2,000,000 from the Bank's current earnings and undivided profits to the Ag PACE fund. The demand for these funds is projected to increase as farmers finance field tiling projects.

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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash deposits at the Bank of North Dakota	\$ 351,210	\$ 314,414
Cash deposits at the Bank of North Dakota for buydowns committed	<u>1,742,573</u>	<u>1,236,404</u>
	<u><u>\$ 2,093,783</u></u>	<u><u>\$ 1,550,818</u></u>
LIABILITIES AND FUND BALANCE		
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCE		
Committed	<u>2,093,783</u>	<u>1,550,818</u>
Total fund balance	<u>2,093,783</u>	<u>1,550,818</u>
Total liabilities and fund balance	<u><u>\$ 2,093,783</u></u>	<u><u>\$ 1,550,818</u></u>

AG PACE FUND**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
REVENUES		
Interest income	\$ -	\$ -
EXPENDITURES		
Buydown interest	<u>457,035</u>	<u>378,536</u>
EXPENDITURES OVER REVENUES	(457,035)	(378,536)
OTHER FINANCING SOURCES (USES)		
Operating transfers in	1,000,000	4,000,000
Operating transfers out	<u>-</u>	<u>(4,000,000)</u>
NET CHANGE IN FUND BALANCE	542,965	(378,536)
FUND BALANCE, BEGINNING OF YEAR	<u>1,550,818</u>	<u>1,929,354</u>
FUND BALANCE, END OF YEAR	<u>\$ 2,093,783</u>	<u>\$ 1,550,818</u>

AG PACE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34*, 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. 61, 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

Credit Related Financial Instruments

In the ordinary course of business, the Ag PACE Fund has entered into commitments to buy-down interest rates on loans. Such financial instruments are recorded when they are funded.

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.

NOTE 2 - DEPOSITS

The carrying value and bank balance of the Ag PACE Fund's cash deposits at June 30, 2013 and 2012 was \$351,210 and \$314,414, respectively. 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 \$351,210 and \$314,414 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.

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

The monies that are being held by 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 - RELATED PARTY 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 \$457,035 and \$378,537 in 2013 and 2012, of which approximately 51% accrued to the Bank of North Dakota.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

The Ag PACE Fund also has on deposit with the Bank of North Dakota monies used to fund the interest buy-downs on qualifying loans, which is included in “cash deposits for buydowns committed” on the balance sheet (see Note 3).

During the year ended June 30, 2013, the Beginning Farmer Revolving Loan Fund transferred \$1,000,000 to the Ag PACE Fund.

During the year ended June 30, 2012, \$4,000,000 was transferred from the Ag PACE Fund to the Flex PACE Fund and the Beginning Farmer Revolving Loan Fund transferred \$3,000,000 to the Ag PACE fund.

The 2011 North Dakota Legislature passed House Bill 1014 that provides an appropriation of \$1,000,000 from the North Dakota General Fund to the Ag PACE Fund during the biennium beginning July 1, 2011 and ending June 30, 2013, which was paid during the year ended June 30, 2012.

The 2013 North Dakota Legislature passed Senate Bill 2014 that authorizes the Bank of North Dakota to transfer \$2,000,000 from the Bank’s current earnings and undivided profits to the Ag PACE fund during the biennium beginning July 1, 2013, and ending June 30, 2015. The demand for these funds is projected to increase as farmers finance field tiling projects. Subsequent to June 30, 2013 and through the report date, \$300,000 has been received from the Bank of North Dakota.

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.



Independent 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*

The Industrial Commission
State of North Dakota
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 Ag Pace Fund, a special revenue fund of the State of North Dakota, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Ag Pace Fund's basic financial statements, and have issued our report thereon dated October 15, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ag Pace Fund's internal control over financial reporting (internal control) to determine the 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 Ag Pace Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Ag Pace Fund'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 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ag Pace Fund'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 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*.

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 results 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota
October 15, 2013



**Independent Auditor's Comments Requested by the North Dakota
Legislative Audit and Fiscal Review Committee**

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 regarding the June 30, 2013 audit of the Ag Pace Fund are as follows:

Audit Report Communications:

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

Unmodified

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

There were no prior year findings or recommendations.

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

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.

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 these 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 financial accounting, reporting, or auditing matter that could be significant to the financial statements.

None

5. Identify any significant 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 information 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 audit report questions addressed above 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, Bank of North Dakota Advisory Board, management, and the federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.



Aberdeen, South Dakota
October 15, 2013



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

We have audited the financial statements of the Ag Pace Fund, a special revenue fund of the State of North Dakota, for the year ended June 30, 2013. 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 in our letter to you dated August 12, 2013. 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 Ag PACE Fund are described in Note 1 to the financial statements. During 2013, the PACE Fund implemented GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus* and GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which did not have a significant effect on financial reporting. No new accounting policies were adopted and the application of existing policies was not changed during 2013. 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. There were no significant estimates in the financial statements.

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. There were no corrected or uncorrected misstatements.

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 October 15, 2013.

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 North Dakota Industrial Commission, Bank of North Dakota Advisory Board 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.



Aberdeen, South Dakota
October 15, 2013