DEVELOPMENTALLY DISABLED
FACILITY LOAN PROGRAM

FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

DEVELOPMENTALLY DISABLED FACILITY LOAN PROGRAM

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BRADY MARTZ
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 business-type activities of the Developmentally Disabled Facility Loan Program as of and for the years ended December 31, 2010 and 2009, which collectively comprise the Developmentally Disabled Facility Loan Program's basic financial statements as listed in the table of contents.These financial statements are the responsibility of the Developmentally Disabled Facility Loan Program's management. Our responsibility is to express opinions 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 Developmentally Disabled Facility Loan Program 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 respective financial position of the business-type activities of the Developmentally Disabled Facility Loan Program, as of December 31, 2010 and 2009, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America .

In accordance with *Government Auditing Standards*, we have also issued our report, dated February 28, 2011, on our consideration of the Developmentally Disabled Facility Loan Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Developmentally Disabled Facility Loan Program's financial statements as a whole. The combining financial statements 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

February 28, 2011

The management discussion and analysis of the Developmentally Disabled Facility Loan Program (Program) financial performance provides an overview of the financial activities for the fiscal years ended December 31, 2010 and 2009. Please read it in conjunction with the financial statements of the Program.

FINANCIAL HIGHLIGHTS:

There are two funds in this Program. See Note 1 to the financial statements for a description of the Programs. The purpose of this Program is to provide financing to nonprofit corporations, organized in the locality in which a facility is proposed to be located, for project costs related to the establishment of facilities for developmentally disabled, chronically mentally ill, and physically disabled persons. All applications under this Program must be approved by the North Dakota Department of Human Services.

The loans shall not exceed three-fourths of project costs and are secured by a second mortgage against the facility. The period of repayment of a loan shall not exceed 25 years. The loans bear interest at a rate of 10.50% for loans relating to facilities for developmentally disabled persons, and 5% for loans relating to facilities for physically disabled persons and chronically mentally ill persons. The Common School Trust Fund of the State Board of University and School Lands is the funding source for the Programs.

Program No. 2

Program No. 2 is not a revolving fund. There have been no loans made out of Program No. 2 since 1996. Principal and interest collections are paid back to the State Board of University and School Lands as collected. All loans were paid off in 2010. This program is now closed.

Program No. 3

Program No. 3 is the only active program available for new loans and is not a revolving fund. There were no loans made by Program No. 3 in 2010, 2009 and 2008. The total appropriation for Program No. 3 is $4,951,145. With originated loans totaling $4,352,774, a balance of $598,371 remains for potential new loans in Program No. 3.

REQUIRED FINANCIAL STATEMENTS:

The Program is an enterprise fund and uses the accrual basis of accounting. The basic financial statements include the balance sheet, statement of revenues, expenses, and changes in fund net assets, and statement of cash flows. The balance sheet provides readers the assets and liabilities of the Program, with the differences between the two reported as net assets. The statement of revenues, expenses, and changes in fund net assets identifies the operating performance of the Program for the calendar year. The statement of cash flows identifies cash flows from operating activities and investing activities and provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

CONDENSED BALANCE SHEETS
DECEMBER 31, 2010, 2009 AND 2008

		(In Thousands)	
	2010	2009	2008
ASSETS			
CURRENT ASSETS			
Cash deposits	**$ 22**	$ 11	$ 32
Loans, current portion	**141**	191	306
Interest receivable	**2**	4	7
Total current assets	**165**	206	345
NONCURRENT LOANS, NET	**484**	626	804
Total assets	**$ 649**	$ 832	$ 1,149
LIABILITIES			
CURRENT LIABILITIES	**$ 143**	$ 195	$ 310
NONCURRENT LIABILITIES	**506**	637	839
Total liabilities	**649**	832	1,149
NET ASSETS - UNRESTRICTED	**-**	-	-
Total liabilities and net assets	**$ 649**	$ 832	$ 1,149

Loans

On an aggregate basis, the net loan portfolio decreased by $192,000. There were no new loans funded during 2010, 2009 and 2008. All Program No. 2 loans were paid off during 2010. There are no loans on nonaccrual status and no loans 90 days or more past due as of December 31, 2010, 2009 and 2008. There were no loan charge-offs during 2010, 2009 and 2008.

Net Assets

Loans are funded directly by advances from the State Board of University and School Lands. The Program is directed by the North Dakota Industrial Commission. The Bank of North Dakota supervises and administers the Program and the loans made by the Program.

CONDENSED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND EQUITY YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	(In Thousands)		
	2010	2009	2008
OPERATING REVENUES	**$ 38**	$ 50	**$ 69**
OPERATING EXPENSES	**38**	(51)	**(70)**
OPERATING LOSS	-	(1)	**(1)**
NONOPERATING REVENUES		1	**1**
CHANGE IN NET ASSETS	-	-	-
TOTAL NET ASSETS, BEGINNING OF YEAR	-	-	-
TOTAL NET ASSETS, END OF YEAR	**$ -**	$ -	**$ -**

Revenue

Revenue is from interest accrued on loans outstanding. The interest rates earned on these loans range from 5% to 10.5%.

Expenses

Operating expenses represent the interest earnings on the loans in Program No. 2 and Program No. 3, net of the operating expenses paid by these Programs. The operating expenses are paid to the State Board of University and School Lands for providing the funding source for making the loans. Bank of North Dakota is paid 1/2% on the outstanding loan balances as an administrative fee. Other expenses are for the independent audit of the financial records.

Nonoperating Revenue

Nonoperating revenue represents interest earned on the cash balance.

Changes in Net Assets

There was no change in net assets for the years ended December 31, 2010 and 2009.

CONTACTING THE PROGRAM'S FINANCIAL MANAGEMENT:

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

DEVELOPMENTALLY DISABLED FACILITY LOAN PROGRAM
BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash deposits at the Bank of North Dakota	$ 22,447	$ 11,138
Loans, current portion	140,698	191,104
Interest receivable	1,962	3,750
Total current assets	165,107	205,992
NONCURRENT ASSETS		
Loans (net of allowance for loan losses of $23,000 in 2010 and 2009)	483,839	626,139
Total assets	$ 648,946	$ 832,131
LIABILITIES		
CURRENT LIABILITIES		
Due to the Bank of North Dakota	$ 844	$ 1,080
Advances from State Board of University and School Lands, current portion	142,277	194,483
Total current liabilities	143,121	195,563
NONCURRENT LIABILITIES		
Advances from State Board of University and School Lands	505,825	636,568
Total liabilities	648,946	832,131
NET ASSETS		
Unrestricted	-	-
Total liabilities and net assets	$ 648,946	$ 832,131

DEVELOPMENTALLY DISABLED FACILITY LOAN PROGRAM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
OPERATING REVENUES		
Interest on loans	$ 37,566	$ 50,801
OPERATING EXPENSES		
Interest expense	29,667	42,015
Administrative fees	3,732	4,874
Other expenses	4,200	4,000
	37,599	50,889
OPERATING LOSS	(33)	(88)
NONOPERATING REVENUES		
Investment income	33	88
CHANGE IN NET ASSETS	-	-
TOTAL NET ASSETS, BEGINNING OF YEAR	-	-
TOTAL NET ASSETS, END OF YEAR	$ -	$ -

See Notes to Financial Statements

DEVELOPMENTALLY DISABLED FACILITY LOAN PROGRAM
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
OPERATING ACTIVITIES		
Payment of administrative fees to the Bank of North Dakota	$ (3,968)	$ (5,291)
Payment of other expenses	(4,200)	(4,000)
NET CASH USED FOR OPERATING ACTIVITIES	(8,168)	(9,291)
NON-CAPITAL FINANCING ACTIVITIES		
Payments to State Board of University and School Lands		
Principal	(182,148)	(334,916)
Interest	(30,469)	(41,905)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(212,617)	(376,821)
INVESTING ACTIVITIES		
Proceeds from principal collections on loans	192,706	312,467
Loan interest received	39,355	52,771
Investment income received from the Bank of North Dakota	33	88
NET CASH FROM INVESTING ACTIVITIES	232,094	365,326
NET CHANGE IN CASH	11,309	(20,786)
CASH, BEGINNING OF YEAR	11,138	31,924
CASH, END OF YEAR	$ 22,447	$ 11,138

	2010	2009
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	$ (33)	$ (88)
Adjustments to reconcile operating income to net cash used for operating activities		
Reclassification of interest income and expense to other activities	(7,899)	(8,786)
Decrease in due to the Bank of North Dakota	(236)	(417)
NET CASH USED FOR OPERATING ACTIVITIES	$ (8,168)	$ (9,291)

See Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Developmentally Disabled Facility Loan Program No. 2 (Program No. 2) was established by the 1983 Legislature, as provided by Chapter 6-09.6-01.1 of the NDCC. Program No. 2 was established for the purpose of making loans to nonprofit corporations, organized in the locality in which a facility is proposed to be located, for project costs related to the establishment of facilities for developmentally disabled, chronically mentally ill, and physically disabled persons. Program No. 2 is authorized to borrow up to $5,000,000 from the common school trust fund of the State Board of University and School Lands to finance the program. All collections of principal and interest on Program No. 2 assets must be credited to the land and minerals trust fund of the State Board of University and School Lands after deducting an administrative fee and other expenditures incurred in connection with loan servicing.

The Developmentally Disabled Facility Loan Program No. 3 (Program No. 3) was established by the 1985 Legislature, as provided by Chapter 6-09.6-01.2 of the NDCC. Program No. 3 was established for the purpose of making loans to nonprofit corporations, organized in the locality in which a facility is proposed to be located, for project costs related to the establishment of facilities for developmentally disabled, chronically mentally ill, and physically disabled persons. Program No. 3 is authorized to borrow up to $4,951,145 from the common school trust fund of the State Board of University and School Lands to finance the program. All collections of principal and interest on Program No. 3 assets must be credited to the land and minerals trust fund of the State Board of University and School Lands after deducting an administrative fee and other expenditures incurred in connection with loan servicing.

The Bank of North Dakota supervises and administers Program No. 2 and Program No. 3 (collectively the Program) and the loans made by the Program. All applications for loans under this Program must be approved by the North Dakota Department of Human Services before being funded. Applications approved by the department, in consultation with the State Department of Health, are forwarded to the Bank of North Dakota.

The loans shall not exceed three-fourths of project costs and are secured by a second mortgage against the facility. The period of repayment of a loan shall not exceed 25 years. The loans bear interest at a rate of 10.50% for loans relating to facilities for developmentally disabled persons, and 5% for loans relating to facilities for physically disabled persons and chronically mentally ill persons. Each nonprofit corporation shall execute a contract with the state to operate the facility in accordance with the standards prescribed for the licensing of the facility by the North Dakota Department of Human Services. The contract shall also provide that if the use of the facility is discontinued or diverted to purposes other than those proposed in the loan application without the express consent of the Department of Human Services, the full amount of the loan provided under this chapter immediately becomes due and payable.

Reporting Entity

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

Based on the criteria of GASB Statement No. 14, no organizations were determined to be part of the reporting entity. The Program is included as part of the primary government in the State of North Dakota’s reporting entity.

Accounting Standards and Adoptions of Accounting Policies

The Program follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing generally accepted accounting standards for governmental entities. In accordance with GASB Statement No. 20, the Program follows all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with GASB pronouncements.

Fund Accounting

The Program is an enterprise fund and uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Net assets is segregated into invested or capital assets, net of related debt, and unrestricted components. The statements of revenues, expenses and changes in fund net assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statements of cash flows presents the cash flows for operating activities, non-capital financing activities, and investing activities.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet 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.

Significant Group Concentrations of Credit Risk

All of the Program's business is with customers within the State of North Dakota. Concentrations of credit risk are present in the construction and operation of developmentally disabled facilities.

Cash and Cash Equivalents

The Fund considers all cash and time deposits with original maturities of three months or less to be cash and cash equivalents for the purpose of reporting cash flows.

Loans

Loans are stated at their outstanding unpaid principal balance. Interest income on loans is accrued at the specific rate on the unpaid principal balance.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

Allowance for Loan Losses

The Program uses the allowance method in providing for loan losses. Accordingly, the allowance is increased or reduced by the current year's provision for loan losses charged to operations and reduced by net charge-offs.

The adequacy of the allowance for loan losses and the provisions for loan losses charged to operations are based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. Loans are charged to the allowance when management believes the collection of the principal is doubtful.

A loan is considered impaired when, based on current information and events, it is probable that the Program 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. 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.

Operating and Non-operating Revenues

Operating revenues consist of sales of goods and services, quasi-external operating transactions with other funds, grant revenue for specific activities that are considered to be operating activities of the grantor, receipts from other agencies for reimbursement of operating transactions and other miscellaneous revenue. Grants that would qualify as an operating activity are those that do not subsidize an existing program, rather they finance a program the agency would not otherwise undertake.

All other revenues that do not meet the above criteria are classified as non-operating.

NOTE 2 - DEPOSITS

The carrying value and bank balances of the Program's cash deposits at December 31, 2010 and 2009, was $22,447 and $11,138, respectively. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies 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 Program 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 Program does not have a formal policy that limits custodial credit risk for deposits. None of the Program's deposits are covered by depository insurance. The Program'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).

NOTE 3 - LOANS

A description of Program loans is included under "Nature of Operations" in Note 1. A summary of the balances of loans follows:

	2010	2009
Loans, current portion	**$ 140,698**	$ 191,104
Loans, noncurrent portion	**506,839**	649,139
Total loans	**647,537**	840,243
Allowance for loan losses	**23,000**	23,000
Total loans, net	**$ 624,537**	$ 817,243

Changes in the balances of loans follows:

	Program No. 2		Program No. 3		Total	
	Number	Amount	Number	Amount	Number	Amount
Balance, December 31, 2008	6	$ 147,095	6	$ 1,005,615	12	$ 1,152,710
Principal collections	5	(141,021)	-	(171,446)	5	(312,467)
Balance, December 31, 2009	1	6,074	6	834,169	7	840,243
Principal collections	1	(6,074)	-	(186,632)	1	(192,706)
Balance, December 31, 2010	-	$ -	6	$ 647,537	6	$ 647,537

There were no impaired loans for the years ended December 31, 2010 and 2009. There were no loans on nonaccrual status and no loans 90 days or more past due as of December 31, 2010 and 2009. The allowance for loan loss for Program 2 was eliminated in 2009 because of minimal outstanding loan balances. There were no changes in the allowance for loans losses for Program 3 for the years ended December 31, 2010 and 2009. Balances in the allowance for loan losses as of December 31, 2010 and 2009, are summarized as follows:

	2010	2009
Program No. 3	**$ 23,000**	**$ 23,000**

NOTE 4 - RELATED PARTY TRANSACTIONS

The Program is supervised and administered by the Bank of North Dakota. All cash accounts are deposited in the Bank of North Dakota. The annual administrative fees charged by the Bank are equivalent to one-half percent of the outstanding loans. Administrative fee expense charged by the Bank totaled $3,732 and $4,874 for the years ended December 31, 2010 and 2009, respectively. The Program owed the Bank $844 and $1,080 as of December 31, 2010 and 2009, respectively.

Program No. 2 and Program No. 3 are authorized to borrow monies from the common school trust fund of the State Board of University and School Lands to finance Program No. 2 and Program No. 3. All collections of principal and interest on Program No. 2 and Program No. 3 assets must be credited to the land and minerals trust fund of the State Board of University and School Lands after deducting an administrative fee and other expenditures incurred in connection with loan servicing.

Transactions and changes in the payable with the State Board of University and School Lands during 2010 and 2009 are as follows:

	2010		2009	
	Program No. 2	**Program No. 3**	Program No. 2	Program No. 3
Payable to State Board of University and School Lands, beginning of year	**$ 7,164**	**$ 823,888**	$ 146,456	$ 1,000,827
Interest income, net of fees	**64**	**29,603**	(176)	40,765
Reversal of allowance for loan losses		**-**	20,000	-
Principal repayments to the Board	**(7,139)**	**(175,009)**	(158,711)	(176,204)
Interest transferred to the Board	**(89)**	**(30,380)**	(405)	(41,500)
Payable to State Board of University and School Lands, end of year	**$ -**	**$ 648,102**	$ 7,164	$ 823,888
Amounts due within one year	**$ -**	**$ 142,277**	$ 7,164	$ 187,319

A summary, by years, of the future principal and interest requirements for the payable to the State Board of University and School Lands is as follows:

	Program No. 3		
	Principal	Interest	Total
2011	$ 140,698	$ 29,010	$ 169,708
2012	137,102	22,035	159,137
2013	131,175	15,300	146,475
2014	111,318	9,212	120,530
2015	30,797	5,644	36,441
2016-2020	68,896	3,141	72,037
2021 +	27,551	706	28,257
	$ 647,537	$ 85,048	$ 732,585

NOTE 5 - RISK MANAGEMENT

The Program is exposed to various risks of loss related to torts and errors and omissions. The Program loans are approved by the State Department of Human Services and Department of Health and the Program is administered by the Bank of North Dakota. Therefore, the Program 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 Program 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.

SUPPLEMENTARY INFORMATION

DEVELOPMENTALLY DISABLED FACILITY LOAN PROGRAM
COMBINING BALANCE SHEETS
DECEMBER 31, 2010
(With Comparative Totals for 2009)

	Program No. 2	Program No. 3	Totals **2010**	Totals 2009
ASSETS				
CURRENT ASSETS				
Cash deposits at the Bank of North Dakota	$ -	$ 22,447	**$ 22,447**	$ 11,138
Loans, current portion	-	140,698	**140,698**	191,104
Interest receivable	-	1,962	**1,962**	3,750
Total current assets	-	165,107	**165,107**	205,992
NONCURRENT ASSETS				
Loans, net of allowance for loan losses	-	483,839	**483,839**	626,139
Total assets	$ -	$ 648,946	**$ 648,946**	$ 832,131
LIABILITIES				
CURRENT LIABILITIES				
Due to the Bank of North Dakota	$ -	$ 844	**$ 844**	$ 1,080
Advances from State Board of University and School Lands, current portion	-	142,277	**142,277**	194,483
Total current liabilities	-	143,121	**143,121**	195,563
NONCURRENT LIABILITIES				
Advances from State Board of University and School Lands	-	505,825	**505,825**	636,568
Total liabilities	-	648,946	**648,946**	832,131
NET ASSETS				
Unrestricted	-	-	-	-
Total liabilities and net assets	$ -	$ 648,946	**$ 648,946**	$ 832,131

DEVELOPMENTALLY DISABLED FACILITY LOAN PROGRAM
COMBINING STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEAR ENDED DECEMBER 31, 2010
(With Comparative Totals for 2009)

	Program No. 2	Program No. 3	Totals 2010	Totals 2009
OPERATING REVENUES				
Interest on loans	$ 70	$ 37,496	**$ 37,566**	$ 50,801
OPERATING EXPENSES				
Interest expense	64	29,603	**29,667**	42,015
Administrative fees	7	3,725	**3,732**	4,874
Other expenses	-	4,200	**4,200**	4,000
	71	37,528	**37,599**	50,889
OPERATING LOSS	(1)	(32)	**(33)**	(88)
NONOPERATING INCOME				
Investment income	1	32	**33**	88
CHANGE IN NET ASSETS	-	-	-	-
TOTAL NET ASSETS, BEGINNING OF YEAR	-	-	-	-
TOTAL NET ASSETS, END OF YEAR	$ -	$ -	**$ -**	$ -

DEVELOPMENTALLY DISABLED FACILITY LOAN PROGRAM
COMBINING STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2010
(With Comparative Totals for 2009)

	Program No. 2	Program No. 3	Totals 2010	Totals 2009
OPERATING ACTIVITIES				
Payment of administrative fees to the Bank of North Dakota	$ (18)	$ (3,950)	**$ (3,968)**	$ (5,291)
Payment of other expenses	-	(4,200)	**(4,200)**	(4,000)
NET CASH USED FOR OPERATING ACTIVITIES	(18)	(8,150)	**(8,168)**	(9,291)
NON-CAPITAL FINANCING ACTIVITIES				
Payments to State Board of University and School Lands				
Principal	(7,139)	(175,009)	**(182,148)**	(334,916)
Interest	(89)	(30,380)	**(30,469)**	(41,905)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(7,228)	(205,389)	**(212,617)**	(376,821)
INVESTING ACTIVITIES				
Proceeds from principal collections on loans	6,074	186,632	**192,706**	312,467
Loan interest received	86	39,269	**39,355**	52,771
Investment income received from the Bank of North Dakota	1	32	**33**	88
NET CASH FROM INVESTING ACTIVITIES	6,161	225,933	**232,094**	365,326
NET CHANGE IN CASH	(1,085)	12,394	**11,309**	(20,786)
CASH, BEGINNING OF YEAR	1,085	10,053	**11,138**	31,924
CASH, END OF YEAR	$ -	$ 22,447	**$ 22,447**	$ 11,138

(continued on next page)

DEVELOPMENTALLY DISABLED FACILITY LOAN PROGRAM
COMBINING STATEMENTS OF CASH FLOWS - CONTINUED
YEAR ENDED DECEMBER 31, 2010
(With Comparative Totals for 2009)

	Program No. 2	Program No. 3	Totals **2010**	Totals 2009
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES				
Operating loss	$ (1)	$ (32)	**$ (33)**	$ (88)
Adjustments to reconcile operating income to net cash used for operating activities				
Reclassification of interest income and expense to other activities	(6)	(7,893)	**(7,899)**	(8,786)
Decrease in due to the Bank of North Dakota	(11)	(225)	**(236)**	(417)
NET CASH USED FOR OPERATING ACTIVITIES	$ (18)	$ (8,150)	**$ (8,168)**	$ (9,291)

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Exhibit A-1

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 the financial statements of the business-type activities of the Developmentally Disabled Facility Loan Program, as of and for the year ended December 31, 2010, which collectively comprise Developmentally Disabled Facility Loan Program's basic financial statements and have issued our report thereon dated February 28, 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 Developmentally Disabled Facility Loan Program'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 Developmentally Disabled Facility Loan Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Developmentally Disabled Facility Loan Program'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 Developmentally Disabled Facility Loan Program'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*.

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This report is intended solely for the information and use of management, the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee 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.

February 28, 2011

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

DEVELOPMENTALLY DISABLED FACILITY LOAN PROGRAM
AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED DECEMBER 31, 2010

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:

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

   An unqualified opinion was issued on the 2010 financial statements.

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

   Yes - A review was made of Chapter 6-09.6 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.**

   None

2. **Identify any significant accounting estimates, the process used by management conflicts of interest, any contingent liabilities, or any significant unusual transactions.**

   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 Program'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.

February 28, 2011

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

February 28, 2011

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

We have audited the financial statements of the Developmentally Disabled Facility Loan Program for the year ended December 31, 2010. 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. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Findings</u>

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Developmentally Disabled Facility Loan Program are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. 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. The most sensitive estimate affecting the Fund's financial statements was:

> Management's estimate of allowance for loan losses is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. We evaluated the key factors and assumptions used to develop the allowance for loan losses in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

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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 February 28, 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 North Dakota Industrial Commission and management of the Developmentally Disabled Facility Loan Program, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Brady . Martz

BRADY, MARTZ & ASSOCIATES, P.C.