



Financial Statements
June 30, 2012

Housing Incentive Fund

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	3
Financial Statements	
Balance Sheet.....	6
Statements of Revenues, Expenditures and Changes in Fund Balance.....	7
Notes to Financial Statements.....	8
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>	11
Independent Auditor’s Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee.....	13



Independent Auditor's Report

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the accompanying financial statements of the Housing Incentive Fund, a special revenue fund of the State of North Dakota, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Housing Incentive Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Housing Incentive Fund and do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2012, or the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Housing Incentive Fund of the State of North Dakota as of June 30, 2012, and the changes in financial position thereof for the year 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 a report dated November 1, 2012, on our consideration of the Housing Incentive Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

Eide Bailly LLP

Bismarck, North Dakota
November 1, 2012

The discussion and analysis of the financial performance of the Housing Incentive Fund (Fund) that follows is meant to provide additional insight into the Fund's activities for the year ended June 30, 2012. Please read it in conjunction with the Fund's financial statements and footnotes, which are presented within this report.

Financial Highlights

The financial statements for the year ended June 30, 2012 are the first financial statements for the Fund. Therefore, all the financial highlights will pertain only to the first year of the Fund.

The Fund's current assets consist only of cash deposited at the Bank of North Dakota.

Current liabilities contain \$113,035 which is payable to North Dakota Housing Finance Agency and \$10,000 payables to other entities.

The Fund's fund balance is a result of the contributions received of \$6,818,329 less administration expenses of \$137,035 and the Grant Expense of \$240,000. The fund balance is considered restricted.

Overview of the Financial Statements

**Condensed Balance Sheets
June 30, 2012**

	2012
Assets	
Restricted current assets	\$ 6,564,329
Total assets	\$ 6,564,329
Liabilities	
Current liabilities	\$ 123,035
	123,035
Fund Balance	
Restricted for affordable multifamily housing	6,441,294
Total Liabilities and Fund Balance	\$ 6,564,329

**Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets
Years Ended June 30, 2012**

	2012
Revenues	
Contributions	\$ 6,818,329
Total revenues	6,818,329
Expenditures	
Administrative and operating expenses	137,035
Grant expense	240,000
Total expenditures	377,035
Revenue over Expenditures	6,441,294
Net change in fund balance	6,441,294
Fund balance, beginning of year	-
Fund balance, end of year	\$ 6,441,294

Budgetary Information

As discussed in Note 1 to the financial statements, the Housing Incentive Funds was funded under a biennial appropriation approved by the state legislature. The biennial appropriation does not provide any state General Fund dollars. Hence, total Fund appropriation is funded from Fund operations.

Governmental Activities

Because this is the first year to report governmental activities of the Fund, a comparison to the prior year is not possible. However, in next year's discussion this section will show a condensed financial comparison of revenues and expenses and provide explanations for significant differences.

Outlook

North Dakota Housing Incentive Fund was established by the North Dakota Sixty-second Legislative Assembly under chapter 54-17 of the North Dakota Century Code. The Fund was created to receive contributions for the tax years of 2011 and 2012 up to \$15,000,000. The Fund expects to be fully funded by the December 31, 2012 deadline. The Fund will then continue to meet commitments made to affordable housing projects throughout the state.

The continuation of the Fund will be determined by the North Dakota Sixty-third Legislative Assembly.

Contacting the Housing Incentive Fund's Financial Management

The information in this report is intended to provide the reader with an overview of the Fund's operations along with the Fund's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Housing Incentive Fund, PO Box 1535, Bismarck, ND 58502-1535.

Housing Incentive Fund
Balance Sheet
June 30, 2012

	<u>2012</u>
Assets	
Cash deposits at the Bank of North Dakota	<u>\$ 6,564,329</u>
Total Assets	<u><u>\$ 6,564,329</u></u>
Liabilities	
Due to state agencies	\$ 113,035
Other liabilities	<u>10,000</u>
Total Liabilities	<u>123,035</u>
Fund Balance	
Restricted for:	
Affordable multifamily housing	<u>6,441,294</u>
Total Fund Balance	<u>6,441,294</u>
Total Liabilities and Fund Balance	<u><u>\$ 6,564,329</u></u>

Housing Incentive Fund
Statements of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2012

	<u>2012</u>
Revenues	
Contributions	<u>\$ 6,818,329</u>
Total Revenues	<u>6,818,329</u>
Expenditures	
Administrative	137,035
Grant expenses	<u>240,000</u>
Total Expenditures	<u>377,035</u>
Revenues over expenditures	<u>6,441,294</u>
Net change in fund balance	6,441,294
Fund Balance, Beginning of Year	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 6,441,294</u></u>

Note 1 - Principal Business Activity and Significant Accounting Policies

Nature of Operations

The Housing Incentive Fund (Fund) was created in 2011 by an initiated measure. The Fund was created as a special revolving fund at the Bank of North Dakota. The Fund is to be used to address unmet housing needs in North Dakota which includes new construction, rehabilitation, or acquisition of multifamily housing projects; gap assistance, matching funds, and accessibility improvements; assistance that does not exceed the amount necessary to qualify for a loan using underwriting standards acceptable for secondary market financing or to make the project feasible; and rental assistance, emergency assistance, or targeted supportive services designated to prevent homelessness.

Reporting Entity

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

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

Budgetary Process

The Fund is considered a continuing appropriation and only prepares a budget detailing the expected expenditures of the Fund. Those expenditures encompass the funds already appropriated to the Fund.

The State's budgeting system does not include revenues and thus, a Statement of Revenues and Expenses - Budget and Actual cannot be prepared as required by generally accepted accounting principles. A statement of appropriations cannot be presented because the Fund is a continuing appropriation and therefore no specific appropriation has been made to compare to.

Accounting Standards

The Fund follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard-setting body for establishing generally accepted accounting principles for governmental entities. In accordance with GASB Statement No. 20, the Fund follows all applicable GASB Pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with GASB pronouncements. Funding is derived from individual, business, and financial institution tax payers who receive a dollar-for-dollar tax credit in exchange for their contributions to the Fund.

Fund Accounting

The Fund is accounted for by a set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. The Fund accounts for the flow of resources of carrying on specific activities in accordance with laws, regulations, or debt restrictions. The Fund is operated as a special revenue fund. Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specific purposes other than debt service or capital projects. The Fund is used to account for contributions from state income and financial institution taxpayers.

Basis of Accounting and Measurement Focus

The Fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. Expenditures are recorded when the related fund liability is incurred.

Fund Balance Classification Policies and Procedures

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Fund classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by upper management.
- Unassigned – includes fund balance which has not been classified within the above mentioned categories.

The Fund uses *restricted/committed* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Fund would first use *committed, then assigned, and lastly unassigned amounts* of unrestricted fund balance when expenditures are made.

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 reported amounts of assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Contributions

The Fund recognizes contribution revenue when taxpayer donations are received.

Subsequent Events

The Fund has evaluated subsequent events through November 1, 2012, the date which the financial statements were available to be issued.

Note 2 - Deposits

Custodial Credit Risk

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, “all state funds...must be deposited in the Bank of North Dakota” or must be deposited in accordance with constitutional and statutory provisions.

The bank balance of deposits of the Fund at June 30, 2012 was \$6,564,329, consisting of non-interest-bearing operating cash deposited at the Bank of North Dakota.

The deposits at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10. The carrying amounts of the deposits of the Fund at the Bank of North Dakota at June 30, 2012 were \$6,564,329.

Note 3 - Related Party Transactions

The Fund had the following transactions with related parties as of June 30, 2012.

	2012
Due to state agencies	
North Dakota Housing Finance Agency	\$ 113,035
Administrative expenditures	
North Dakota Housing Finance Agency	\$ 137,035

Note 4 - Commitments

The Fund makes various commitments relating to construction projects to meet unmet housing needs across North Dakota. The Fund had \$1,651,437 of signed commitments for construction projects as of June 30, 2012. The Fund had an additional \$7,874,661 of conditional commitments for construction projects as of June 30, 2012. These commitments are dependent on the Fund receiving enough contributions from taxpayers to fund the projects and the projects meeting the final construction requirements to receive those funds.



CPAs & BUSINESS ADVISORS

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 Housing Incentive Fund, a special revenue fund of the State of North Dakota, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 1, 2012. 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

Management of the Housing Incentive Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Housing Incentive Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Incentive Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Housing Incentive 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 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 the Housing Incentive 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, Advisory Board, management and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

The image shows a handwritten signature in black ink that reads "Eide Sallee LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
November 1, 2012



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, 2012 audit of the Fund are as follows:

Audit Report Communications

What type of opinion was issued on the financial statements?

Unqualified

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

Yes

Was internal control adequate and functioning effectively?

Yes

Were there any indications of lack of efficiency in financial operations and management of the Authority?

No

Was action taken on prior audit findings and recommendations?

Not applicable – first year audit

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

Yes, a separate management letter has been issued and is attached following page 14. Please refer to this document for all recommendations and Fund responses.

Audit Committee Communications

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

None

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

Identify any significant audit adjustments.

None

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

Identify any significant difficulties encountered in performing the audit.

None

Identify any major issues discussed with management prior to retention.

None

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

The Fund does not consult with any other accountants regarding auditing or accounting matters.

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 Fund 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.

None

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

Eide Bailly LLP

Bismarck, North Dakota
November 1, 2012



CPAs & BUSINESS ADVISORS

Karlene Fine, Executive Director
The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the Housing Incentive Fund for the year ended June 30, 2012. 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 November 1, 2012. 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 Housing Incentive Fund 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 2012. 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 are no significant estimates affecting 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. We did not identify any known or likely misstatements during the audit.

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 November 1, 2012.

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, Legislative Audit and Fiscal Review Committee, Advisory Board and management of the Housing Incentive Fund and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Bismarck, North Dakota
November 1, 2012